

OPM Research Summit Washington, DC, March 8, 2016



Employees' Financial Wellness: New Strategies

Annamaria Lusardi

The George Washington University School of Business

Academic Director, Global Financial Literacy Excellence Center (GFLEC)

The growing importance of financial literacy

A new economic landscape

Major changes that increase individuals' responsibility for their financial well-being

➤ **Changes in the pension landscape**

- More individual accounts and DC pensions

➤ **Changes in labor markets**

- Divergence in wages – skills are critical
- More flexibility – workers change job often

➤ **Changes in financial markets**

- More opportunities to borrow & in large amounts
- Greater complexity



Changes in the pension landscape

Individuals make many decisions

- **How much to save for retirement**
 - Incentivized by employer matches and tax benefits of pensions
- **How to invest retirement wealth**
 - Returns and fees matter a great deal over a long horizon
- **Whether and how much to borrow from pension accounts**
 - It is possible to tap into pension wealth
- **How to transfer pensions from job to job**
 - Labor mobility; people change jobs often



Changes in the pension landscape (cont.)

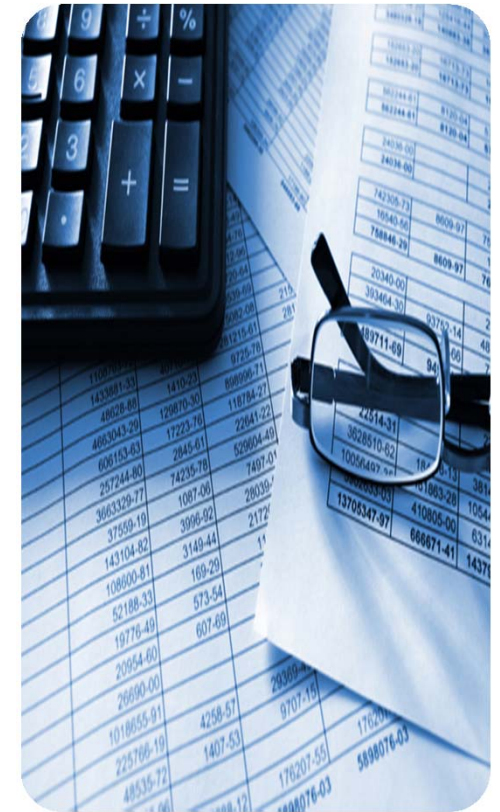
Individuals make many decisions

➤ How and when to withdraw retirement wealth

- Including when to withdraw Social Security
- Make sure wealth lasts a lifetime

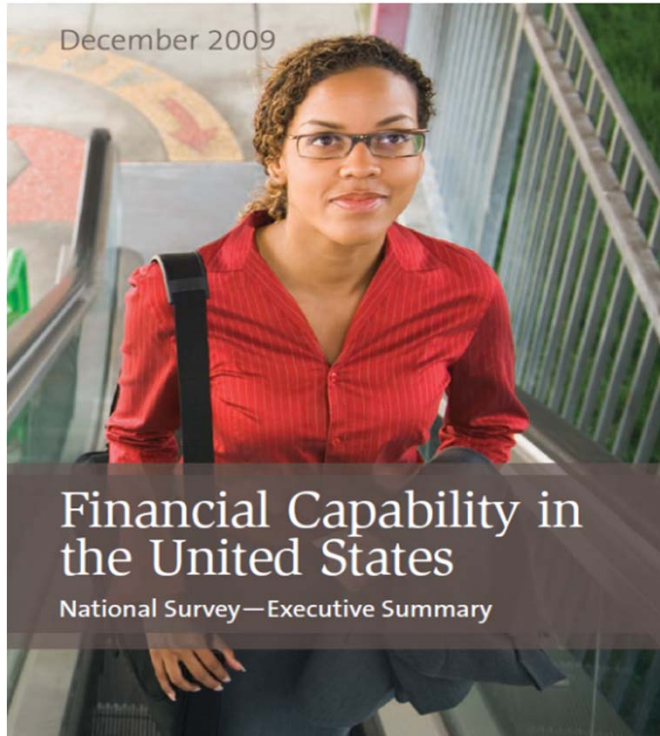
➤ How to meet other needs

- Saving for emergencies
- Saving for children's education
- Repay student loans and other debt



Household finances: Evidence from the NFCS

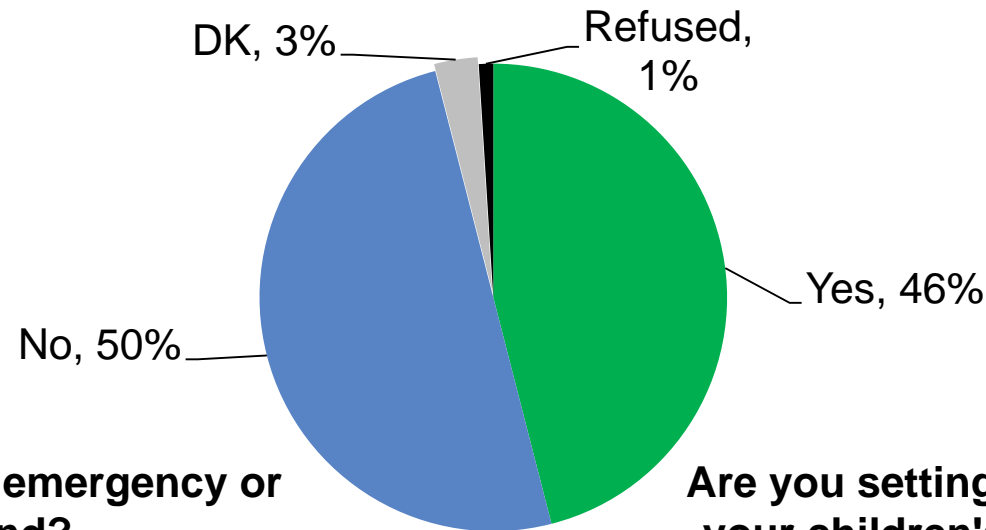
The 2009 & 2012 National Financial Capability Study (NFCS) - 2015 data will be released in summer 2016



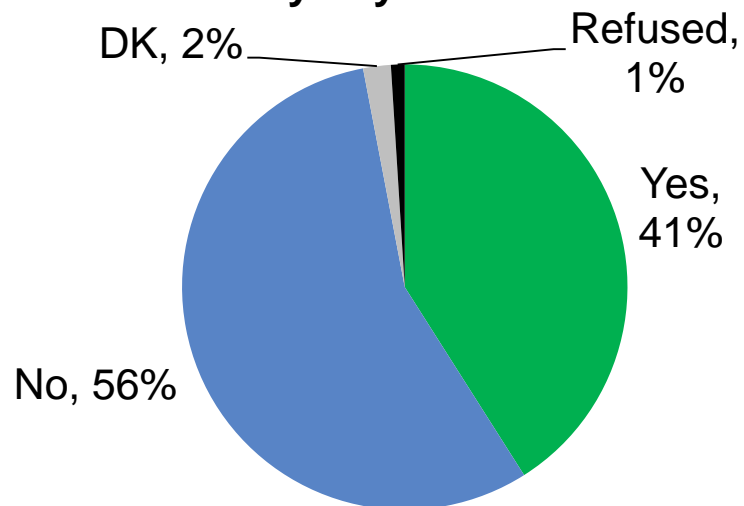
- **Very low levels of financial literacy**
- **Some groups are particularly vulnerable: Millennials, women**
- **Very limited use of financial advisors**

Planning ahead: Most workers don't

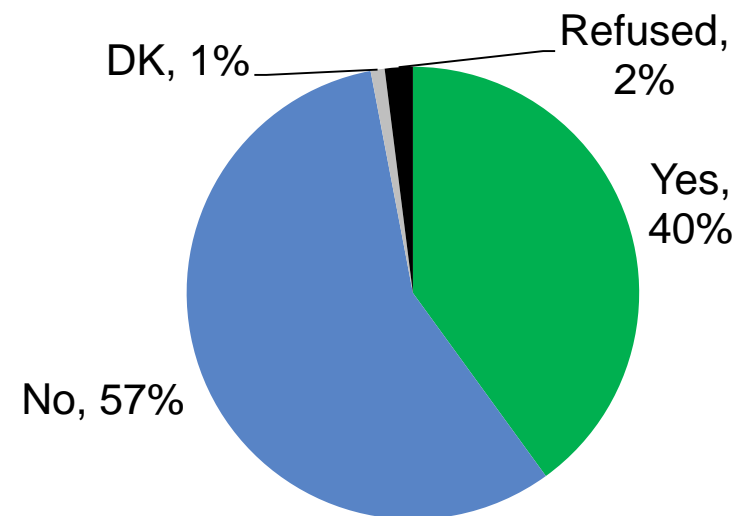
Have you ever tried to figure out how much you need to save for retirement?



Have you set aside an emergency or rainy day fund?



Are you setting aside any money for your children's college education?



Note: Respondents age 23 to 61 and employed at the time of the survey. 2012 NFCS

Why no long-run vision? Dealing with short run

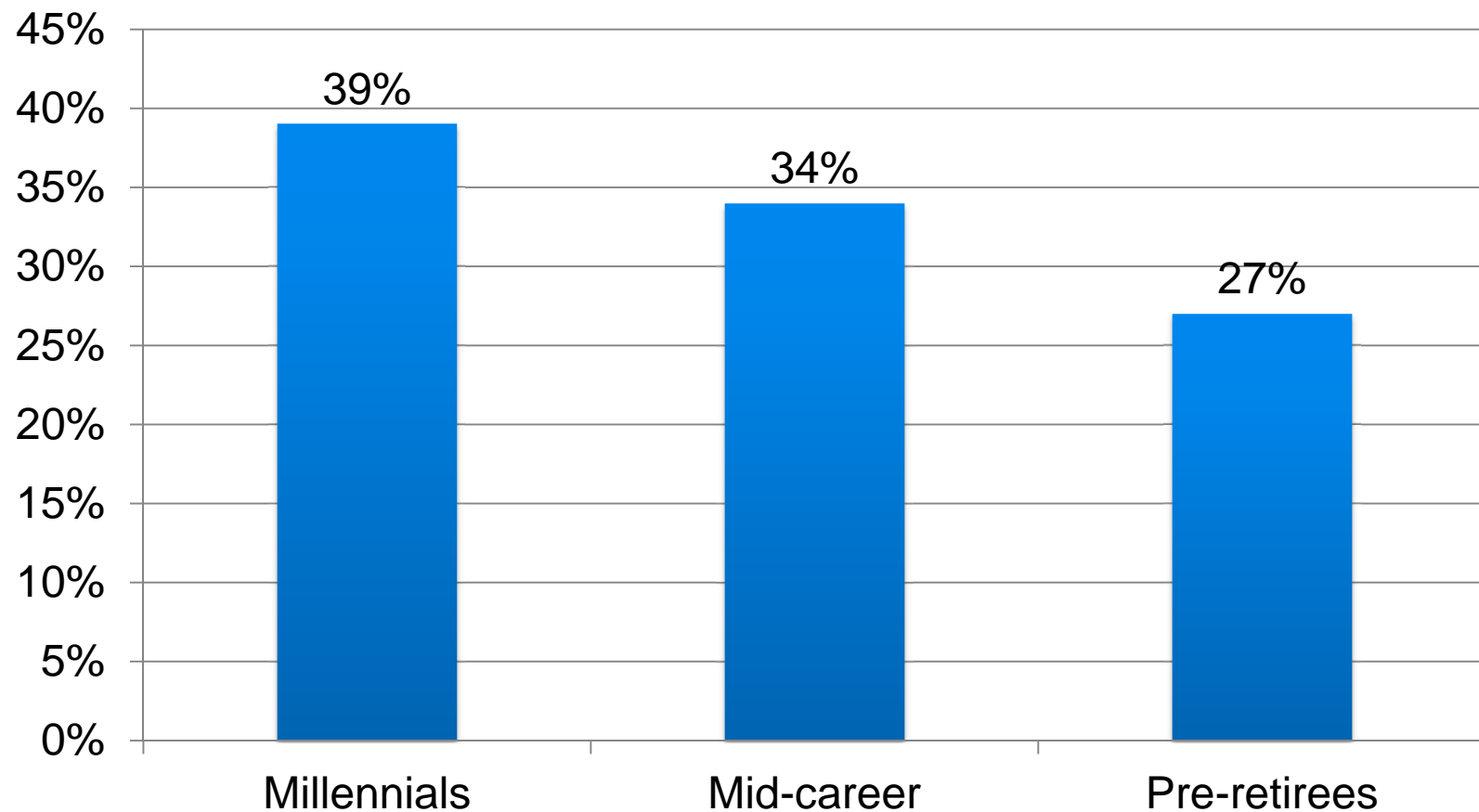
A simple measure of financial fragility developed by Lusardi, Schneider, and Tufano (2011):

➤ *How confident are you that you could come up with \$2,000 if an unexpected need arose within the next month?*

- ☐ I am certain I could come up with the full \$2,000
- ☐ I could probably come up with \$2,000
- ☐ I could probably not come up with \$2,000
- ☐ I am certain I could not come up with \$2,000
- ☐ Don't know / Prefer not to say

Financial fragility by career stage

% of respondents certainly or probably unable to come up with \$2,000 in case of unexpected emergency

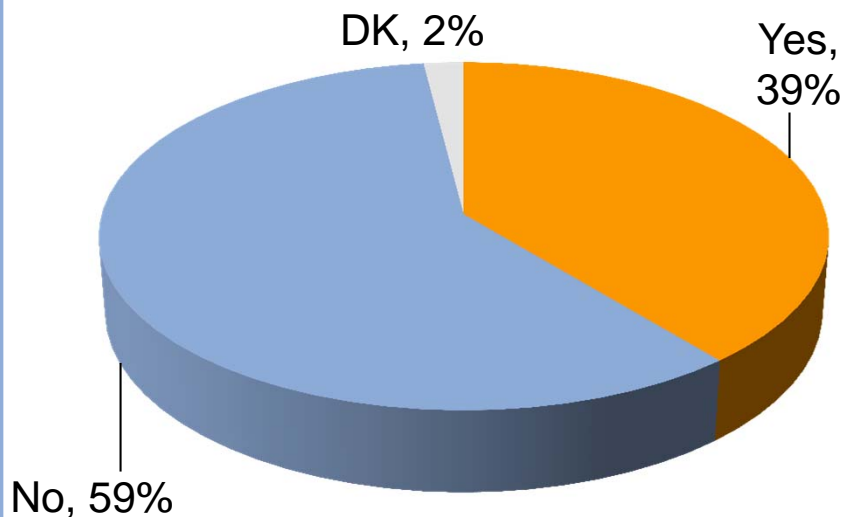


Note: Respondents age 23 to 61 and employed at the time of the survey.

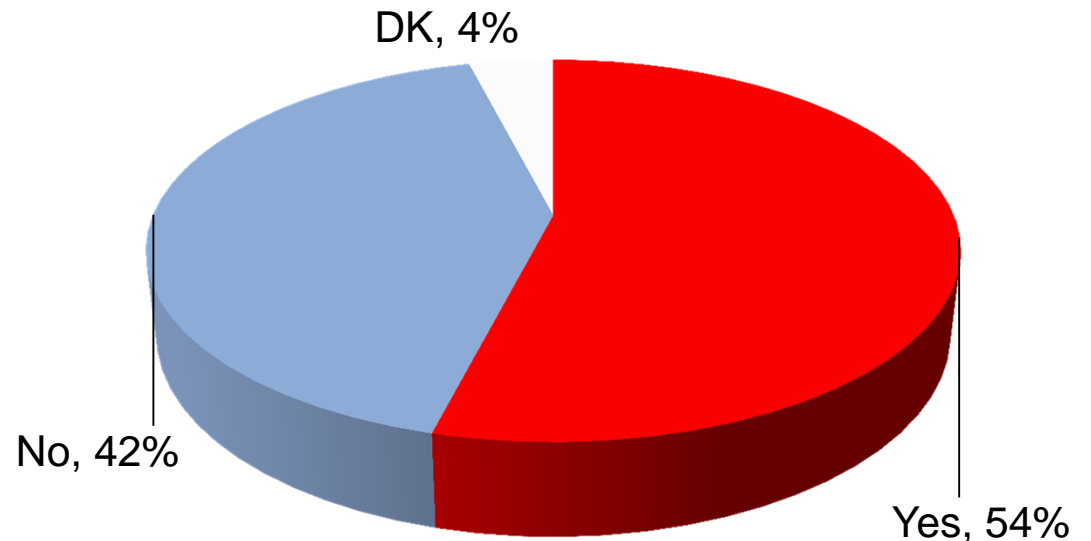
Dealing with student loans

- **38% of Millennials have a college degree**
- **Many Millennials are worried about paying off student loans**

Have a student loan



Concerned they might not be able to pay off student loan



Note: The statistics relative to ability to repay student loans is conditional on having a student loan.

How to help employees make financial decisions

The Dartmouth Project

- Simplify financial decisions
- Provide information when needed by individuals
- Target specific groups (women)
- Use communication that does not rely on figures and numeracy



A planning aid

Together with a marketing professor, I designed a planning aid intended to help Dartmouth College employees enroll in supplementary retirement accounts (SRA)

We have outlined 7 simple steps to help you complete the application.

1. **Select a 30 minute time slot** right now to complete the online contribution to your Supplemental Retirement Account (SRA) during the next week.
2. 3 minutes. **Check to see if you have the following materials:** a) worksheet in your benefits packet ☒, and b) the name and social security number of a beneficiary ☒.
3. **Select the amount you want to invest for 2006** (minimum: \$16/month, maximum: \$1,666.67/month), even if you don't know your take-home pay in your first month. If you want, you can change this amount at a later date. This voluntary contribution is tax-deferred, you will not pay taxes on it until you withdraw the funds.
4. 5 minutes. **Select a carrier.** if you do not select a carrier, Dartmouth will invest the non-voluntary portion of your college funds in a Fidelity Freedom Fund, a fund that automatically changes asset allocation as people age.
5. 5 minutes. Now you are **ready to complete your worksheet.** Complete the worksheet even though you may be unsure of some options. You can change the options in the future.
6. **Take your completed worksheet to a computer** that is available for 20 minutes. If you like, you can use the one in the Human Resources office at 7 Lebanon Street, Suite 203.
7. 15-20 minutes. **Log on to Flex Online and complete your online SRA registration** within the 20 assigned minutes. Be sure to click on the investment company (TIAA-CREF, Fidelity, or Calvert) to complete the application. You need to set up your account – otherwise your savings will not reach the carrier.



Fidelity.com



Calvert



A Planning aid

Don't give up! Contact the Benefits Office (6-3588) if for any reason you could not complete the online application.



It takes no time to prepare for your lifetime!

Most people plan on electing a supplemental retirement account, but feel they don't have the time or information right now. We have outlined 7 simple steps to help you complete the election process. It will take between 15 – 30 minutes, from start to finish. It will take less time for you to start to insure your future than it takes you to unload your dishwasher!

Program effectiveness

There was a large increase in savings enrollment within 30 and 60 days of hiring among participants who received the brochure.

	30 days After Hire	60 days After Hire	Number of Observations
Control Group	7.3%	28.9%	210
Planning aid	21.7%	44.7%	166

Targeting Millennials

Five steps to planning success

- Program targeted to young workers
- Used new methods of communication
- Kept the message free of economic/finance jargon
- Covered concepts that people know the least, such as risk diversification, in a simple story



Short video about risk: don't put all your eggs in one basket



- After being exposed to videos, the performance on financial literacy questions improved
- While young were targeted, the videos affected all age groups

Building long-term financial security

Best practices

How employers can help new hires save for retirement: *Best practices that build long-term financial security*



September 2012

Authors:

Robert L. Clark
Poole College of Management,
North Carolina State University

Annamaria Lusardi
The George Washington University
School of Business and Director,
Financial Literacy Center



School of Business
THE GEORGE WASHINGTON UNIVERSITY

What's Inside:

Top Ten Best Practices	1
Introduction	3
Financial Literacy and Worker Knowledge of the Value of Retirement Savings Plans	4
Automatic Enrollment	7
The Importance of Employer-Provided Information	9
References	12
Resources	12
About this Publication	13
About the FINRA Investor Education Foundation	13
About FINRA	13

How Employers Can Help New Hires Save for Retirement: Best Practices that Build Long-Term Financial Security

Top Ten Best Practices

Not all employer-sponsored defined contribution retirement savings plans are created equal—some employer practices and plan designs are more successful than others in helping new hires accumulate a robust retirement nest egg. We reviewed numerous studies conducted by researchers affiliated with the Financial Literacy Center, and have identified ten powerful—and often relatively easy—ways to increase financial literacy among newly hired employees, enhance their ability and willingness to participate in and contribute to retirement plan accounts, and improve their overall financial well-being. The guidance offered in this report is based on information derived from studies of real people in real situations and examination of how their behavior is affected by workplace policies and practices.¹

1. Equip new employees with basic retirement plan information. When new employees understand the fundamentals of their employer-sponsored retirement plan, they are more likely to participate in and contribute to the plan. As such, the information that employers provide to employees is critically important. Studies tell us that many people, when surveyed, are unable to identify the type of retirement plan they have, raising concerns that individuals in the workforce don't know the fundamentals regarding retirement plan options. When offering plan information to employees, for example when they are first hired, start with the basics. Make sure employees understand their plan and plan offerings:
 - ▶ What type of plan is this?
 - ▶ How does it work?
 - ▶ What features (such as matches, ability to borrow, ability to roll prior employer or IRA plans into the account, etc.) and investment choices does it offer?

We prepared a report documenting best practices for improving financial decision making in the workplace.

- Based on studies of many employer-provided financial education programs
- Goal of the report is to help employers improve retirement saving choices of newly hired workers

Concluding remarks

Shifting paradigm

- **Equipping people to make saving and retirement decisions**
 - People are not equipped to make these decisions
 - Employers need to be pro-active
- **Cannot focus on retirement savings only**
 - Other decisions are important and affect retirement security
- **Life cycle perspective**
 - Cannot support a 30-year retirement with a 40-year career if employees do not contribute right away
- **Need targeted approach**
 - Workers are very different

Contact and sources of information

Annamaria Lusardi

Global Financial Literacy Excellence Center (GFLEC)

E-mail: alusardi@gwu.edu

Blog: <http://annalusardi.blogspot.com/>

Twitter: [@A_Lusardi](https://twitter.com/A_Lusardi)

Facebook: <https://www.facebook.com/gflec>

All research papers are posted on our web page : <http://www.gflec.org/>

