JOIM Conference Series: Challenges and Opportunities in Retirement and Other Long-Horizon Investing.

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Policy Issues for Retirement Investing

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A new economic landscape

Two major changes

Major changes that shift decisions to the individual

- **Shift from DB to DC pensions**
  - Workers are in charge of making decisions about their pensions

- **Changes in consumer credit**
  - More opportunities to borrow & in large amounts
  - Individuals are in charge of deciding how much to borrow

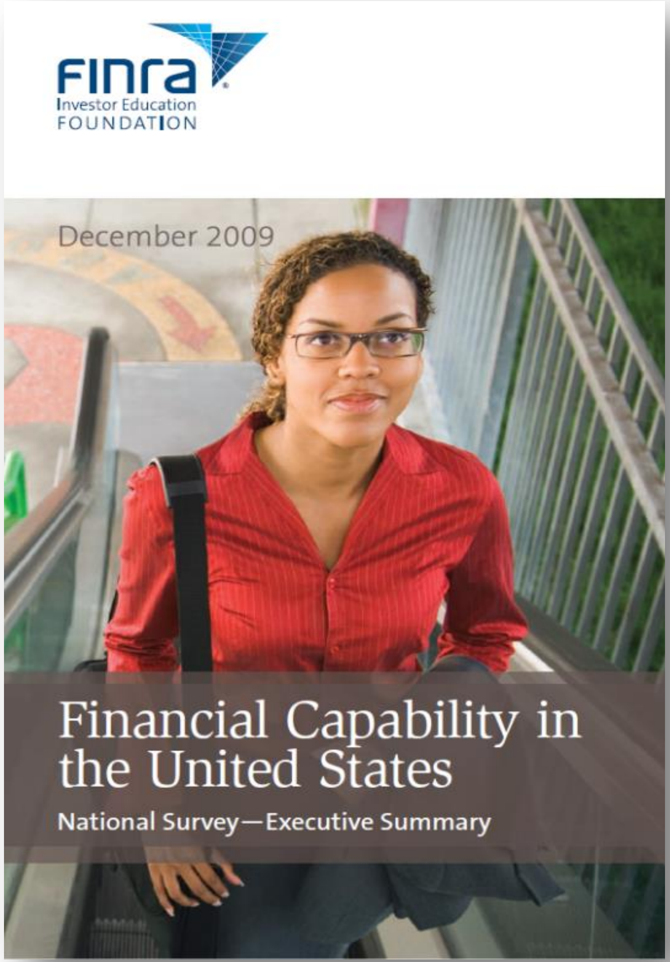
Some important features of DC pensions

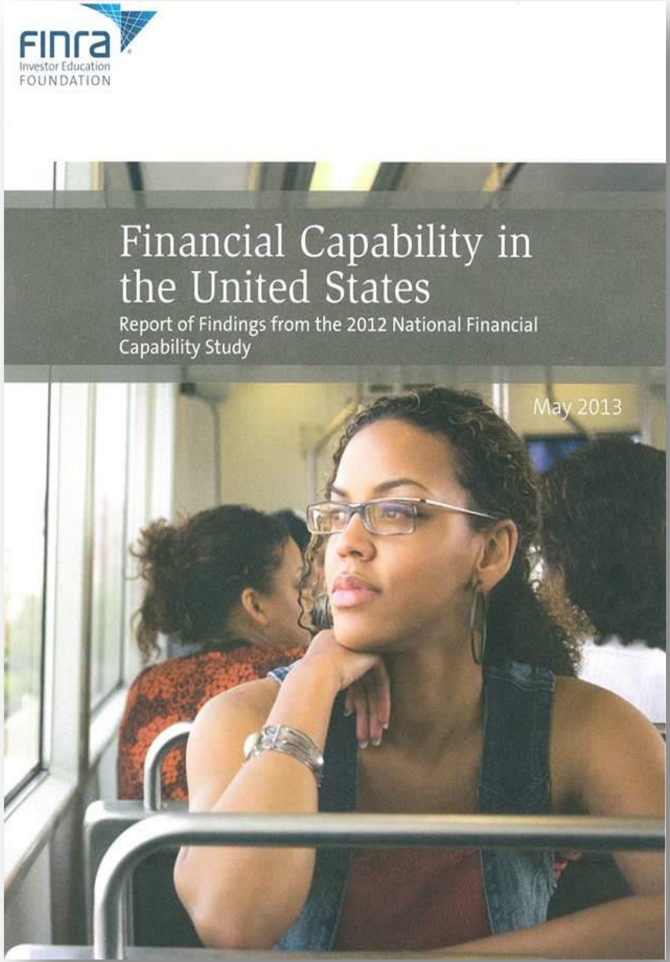
Workers have to make many decisions

- **Voluntary contributions**
  - Sometimes incentivized by employer matches
- **Investment decisions**
  - Menu of options
- **Borrowing opportunities**
  - Loans and hardship withdrawals
- **Withdrawals after retirement**
  - Can take pensions as lump sums

New data to understand decisions about pensions

The 2009 & 2012 National Financial Capability Study (NFCS)





How well-equipped are individuals to make decisions about pensions?

These decisions are very complex

- **Very low levels of financial literacy**
  - Individuals lack knowledge of basic financial concepts
- **Risk and risk diversification are what people know the least**
  - Prevalence of “do not know” responses
- **Lack of financial literacy is particularly severe among some demographic groups**
  - Young, old, women
- **Very limited use of financial advisors**
  - Those who consult advisors have high financial literacy

Household finances

The financial fragility of American families

- **Little or no precautionary savings and liquidity**
  - 40% of families cannot come up with $2,000 in 30 days
- **Large amount of debt, even close to retirement**
  - Both short-term and long-term debt
- **Lack of financial planning**
  - A minority (37%) has ever tried to calculate how much they need to save for retirement
- **Borrowing against retirement accounts**
  - Many, including the young, borrow against their pensions

The increase in debt across older cohorts
(age 56-61). Source: Health and Retirement Study (HRS)

Total debt/Total assets > 0.5	
First HRS cohort (1992)	9.6%
War Babies (2002)	16.0%
Baby Boomers (2008)	22.9%
Home loans/home value > 0.5	
First HRS cohort (1992)	17.0%
War Babies (2002)	26.4%
Baby Boomers (2008)	29.3%
Respondents with < $25,000 in savings (in $2012)	
First HRS cohort (1992)	18.0%
War Babies (2002)	16.4%
Baby Boomers (2008)	24.3%

Most relevant initiatives for DC pensions

Workers have to make many decisions
Simplify some of these decisions

- **Voluntary contributions. Automatic enrollment**
  - Very low contribution rates. One size fits all approach
- **Investment decisions. Life-cycle funds**
  - No-one knows the composition of their portfolios. Fees?
- **Possibility to borrow. Try to limit that?**
  - Workers will rely on other (expensive) borrowing
- **Withdrawals after retirement. Automatic enrollment into annuities?**
  - It is costly to un-enroll

Some questions

Problems with the current system

- **Should individuals be pushed into long-term investments when they have little or no liquidity?**
  - When shocks occur, they borrow against pensions
- **How about Millennials?**
  - They start their economic life in debt.
  - Problems with debt will translate into poor FICO scores
- **Preparing for the future (and future decisions)**
  - How can we explain annuities?
  - Doing calculations about how much is needed for retirement
  - How to support a 30-year retirement with a 40-year career?

Building a more robust pension system

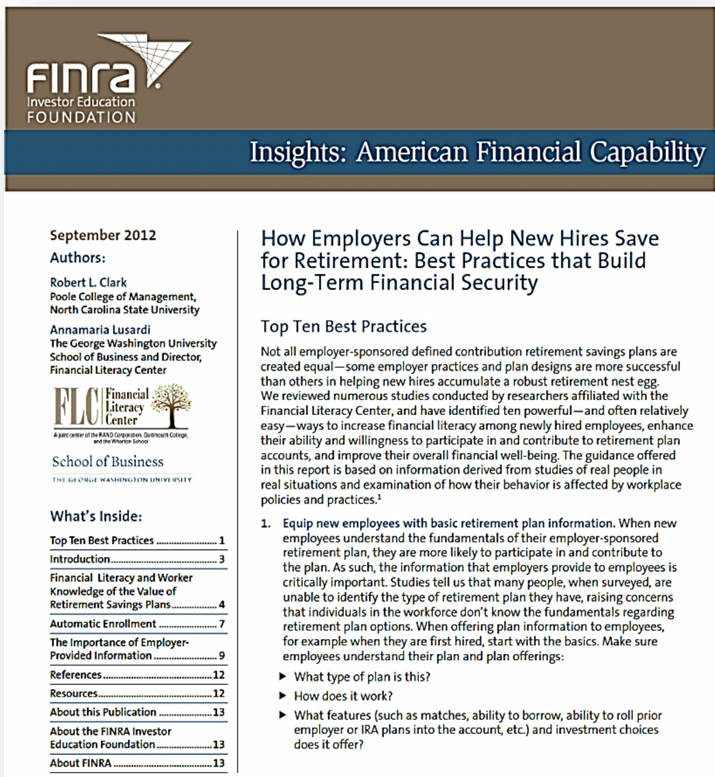
New directions for policy

- **Equip people to make financial decisions**
  - More financial education programs in the workplace
  - Need financial education programs in school
- **More targeted programs**
  - One size does **not** fit all
- **Holistic approach**
  - Not only saving and investing but also debt management
  - Precautionary savings in addition to retirement savings

Building long-term financial security

Best practices

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


FINRA Investor Education FOUNDATION

Insights: American Financial Capability

September 2012

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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


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NYSE Workplace Financial Fitness Toolkit

A program for any company

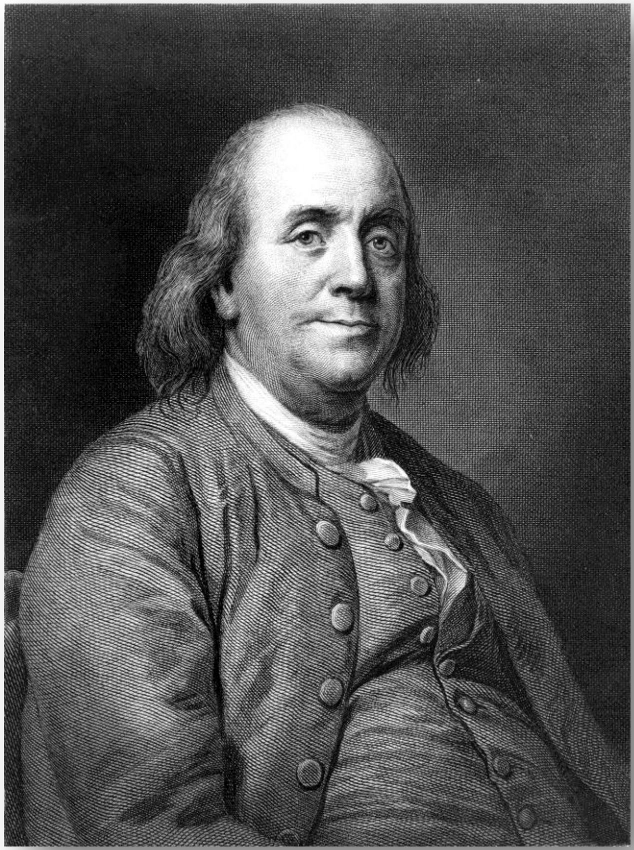
- Ten steps divided into 3 stages: Basic, Intermediate, and Advanced

- Customize the program for employees
  One size does not fit all

- The Employee Checklist
  Ten guidelines with implementation tips to improve employees' financial fitness

Final Quote

"An investment in knowledge pays the best interest."



Benjamin Franklin, *The Way to Wealth*, 1758

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