



Educate, Automate, Delegate

3 Simple Steps to Better Outcomes
for Retirement Plan Participants



How did we get here?
Transition from DB to DC
Limited Financial Literacy
Individual Investor Underperformance

Where are we now?
Average Account Balances and Savings Rates
Human Behavioral Challenges

Why does it matter?
Morale
Healthcare Costs
Lost Productivity
Workforce Management

What can we do?
Educate
Automate
Delegate

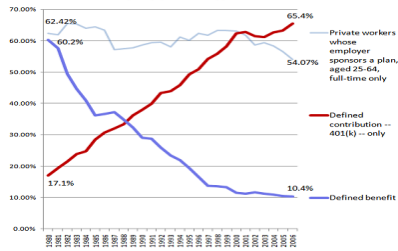


How Did We Get Here?



Responsibility Shift

Figure 3: Percentage of private sector workers with pension coverage by pension type, 1980-2006



Source: Center for Retirement Research, 2009.

Unknown Unknowns

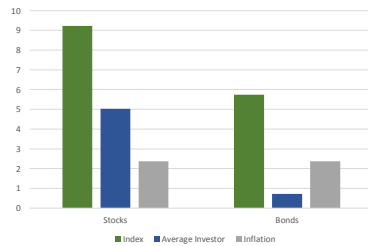
- Suppose you have \$100 in a savings account earning 2% interest a year. After 5 years, how much would you have?
 - ☒ > \$102
 - ☐ \$102
 - ☐ < \$102
- Imagine the interest rate on your savings account is 1% a year, and inflation is 2% a year. After one year, would the money in the account buy more than today, the same, or less?
 - ☐ More
 - ☐ Same
 - ☒ Less
- If interest rates rise, what will typically happen to bond prices? Rise, fall, stay the same, or is there no relationship?
 - ☐ Rise
 - ☒ Fall
 - ☐ Stay Same
 - ☐ Not related
- A 15 year mortgage typically requires higher monthly payments than a 30 year mortgage, but the total interest over the life of the loan will be less?
 - ☒ True
 - ☐ False
- Buying a single company's stock usually provides a safer return than a stock mutual fund?
 - ☐ True
 - ☒ False

61% got 3 or fewer of the financial literacy questions correct!

<http://www.affordablequality.org/>

Emotion v Logic

Average Investor returns compared to index 1994 - 2013



DALBAR 2014 Q4R

Emotion v Logic



COMPASS
FINANCIAL PARTNERS

Where Are We Now?



Current State

Average Savings of a 50 year old - \$43,797

% of people ages 30-54 who don't think they'll have enough to retire: 80%

% of Americans who don't save anything for retirement: 36%

*US Census Bureau, Superannuation Companies, Bankrate

Inertia

Behavioral Principle 1: Inertia



12%

☒ donate organs

12% Donors



1%

☒ don't donate

99% Donors

Source: Johnson and Goldstein (2003)

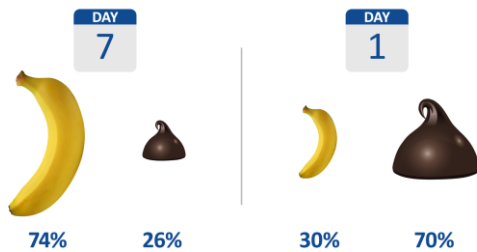
Loss Aversion

Behavioral Principle 2: Loss Aversion



Myopia

Behavioral Principle 3: Present Bias (Myopia)



Source: Read and van Leeuwen (1998)

Optimism Bias

Healthy and Genetic:

When we think we're going to do better, we tend to do better

Downside:

Perception that potential negative outcomes only affect others

2/3 of you will not have enough to retire the way you want

(hint: it might not be the person to your left and the person to your right...)

COMPASS
FINANCIAL PARTNERS

Why Does It Matter?



Morale



65% of workers consider themselves something less than 'highly engaged'¹

There are 22 million actively disengaged employees costing the economy as much as \$350 billion dollars per year in lost productivity including absenteeism, presenteeism, illness and other low morale issues²

¹Thomas Watson, 2012 Global Workforce Study, Engagement at Risk: Driving Strong Performance in a Global Volatile Environment, p. 2.
²Forst, Morale: The High Cost of Low Morale: How to Address Low Morale in the Workplace through Servant Leadership

Healthcare Costs

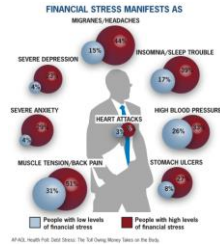
One of the Biggest Costs to Employers is the Cost of Financially Stressed Employees

Employees Stress About Money

- Financial stress is the #1 cause of stress-related illnesses¹
- 24% higher healthcare costs in people who are stressed about finances²

Impact to Your Institution

- Recurring financial education helps reduce stress and healthcare costs among employees in a 2009 study¹



¹ Research Workplace Partnership for Workplace Mental Health report, Feb 2009. More recent data may alter this assessment.
² Higher Health Care Costs for Metabolic Syndrome Risk, Disabled World, September 2009. More recent data may alter this assessment.

Productivity

83% of HR professionals said employees' personal financial challenges had at least some impact on their overall work performance

44% of employees worry about personal finances during work ours

29% said they spend time dealing with personal finances during work hours, with nearly half of them spending 2-3 hours per week

That's roughly 3 full weeks every year!

www.shrm.org/research
 Harris Interactive and Purchasing Power Survey, June 20-26, 2013

Workforce Management

Additional Cost to employers is between \$10,000 and \$50,000 per year, per employee for every year a participant delays retirement beyond normal retirement age¹

100 participants delaying retirement by 5 years could cost

\$5 to \$25 million dollars

¹ "Impact of Employee Financial Stress on Health Care Costs" Financial Future Reports, 2013

What Can We Do?



Segmentation

Passive / Disengaged	48%
Interested	30%
Active	22%

Source: J.P. Morgan participant data, 2012.

Educate

HR Issue	Impact to Employer	How Financial Wellness Programs can Address the Issue
Health Care Costs	Financial stress is the number one stressor for employees, and one of the most damaging on the body. See page 3 for the correlation between financial stress and serious medical conditions.	Financial wellness programs have been proven to reduce employees' financial stress and save health care costs.
Delayed Retirement Costs	Employees today are inadequately prepared for retirement, with only 18% indicating they are on track to replace 80% of their income in retirement according to recent research from Financial Fitness. For every year an employee delays retirement, an employer faces costs between \$10,000 and \$50,000 according to industry research.	Financial education can dramatically improve employees' retirement preparedness by helping them better manage their money so they can save more for retirement, and by helping them develop a sound investment strategy for retirement.
Turnover	SHRM, the Society for Human Resource Management, estimates that it costs \$1,500 to replace one \$8.00 per hour employee. Costs for replacing highly trained professionals can exceed a full year's salary.	Financial education drives benefits satisfaction. Employees who are satisfied with their compensation and benefits are less likely to leave the company for a higher paying job elsewhere.
Employee Engagement	Employee engagement is highly associated with corporate performance. Towers Watson found that in companies with high levels of employee engagement, operating income improved by 19% over 12 months, while in companies with low levels of engagement it declined by 33%.	Financial wellness programs can improve employee engagement by demonstrating an employer's commitment to employees' financial security.

Educate

HR Issue	Impact to Employer	How Financial Wellness Programs can Address the Issue
Performance	Employees with high levels of financial stress fall victim to the "Inverted U" phenomenon of low performance as stress levels increase.	Financial wellness programs significantly lower employee financial stress and can increase performance as a result.
Productivity	Employees dealing with financial stress are spending company time dealing with their financial woes at work—as much as 20 hours per month per employee, according to the Personal Finance Employee Education Foundation.	Financial wellness programs can help employees resolve their most pressing financial issues, so they are no longer operating in a state of financial emergency and can be more productive at work.
Morale	Companies facing low employee morale risk higher costs associated with turnover, lower productivity and performance, lower appreciation for pay and benefits, and lower participation in benefits overall.	Financial wellness programs can boost employee morale by showing the employer's commitment to its employees, and by showing employees the true value of their benefits.
Loyalty to Employer	Employees who are not satisfied with their pay and benefits are less likely to be loyal to their employer. According to MetLife's 10th Annual Study of Employee Benefits Trends report, 61% of employees who are very satisfied with their benefits also feel a very strong sense of loyalty to their employer, compared to 24% of employees who are very dissatisfied with their benefits.	Financial education can improve employee loyalty by increasing their satisfaction with pay and benefits.

Educate



Securities and Advisory Services offered through LPL Financial, a Registered Investment Advisor Member FINRA/SIPC

Educate



Automate

Auto-Enroll¹

59% of plans utilize auto-enrollment
84.6% participation with auto enroll
62.4% participation without auto-enroll

Auto-Escalate²

12% of plans utilizing now
40% of deferral increases were driven by auto-programs
Only 7% of defaulted participants opted out

Re-Enroll

None?
Some?
All?

¹Aon Hewitt's 2013 Universe Benchmark Survey
²Fidelity 2013

Automate



Delegate

Balanced Fund

Managed Account

Target Risk Funds

Target Date Funds

¹86% of plans offer Target Date Funds – up from 13% 10 years ago

¹ Vanguard 2014

Target Date funds

To v Through

Steep v Flat Glidepath

Active v Passive v Blend

Custom v Off-The-Shelf

Proprietary v Open Architecture

Department of Labor, Employee Benefits Security Administration
Target Date Retirement Funds – Tips for ERISA Plan Fiduciaries

DOL Tips

- 1- Establish a process for comparing and selecting TDFs
- 2- Establish a process for periodic review of selected TDFs
- 3- Understand the funds investments
Allocation
 Investments
 How they'll change over time
- 4- Review the fund fees and investment expenses
- 5- Inquire about whether a custom or non-proprietary target date fund would be a better fit for your plan
- 6- Develop effective employee communications
- 7- Take advantage of available sources of information to evaluate the TDF and recommendations you received regarding the TDF selection
- 8- Document the process

<http://www.dol.gov/ebsa/newsroom/ftTDF.html>

Delegate





What's Next?



Decumulate

In Plan Guaranteed Income Solutions

More than 80% of employers doubt that once their employees retire, they will be able to manage their incomes.¹

Three out of four participants felt it was important that their workplace retirement plan include a guaranteed income feature.²

Areas for consideration:

Insurance Provider Suitability

Financial Strength, Ratings, Industry Commitment, Business Line Diversification, etc

Cost

Available Investment Options

Portability

¹ "Aon Hewitt Survey Finds Employers Doubtful About Workers Ability to Adequately Prepare for Retirement," Aon Hewitt, 2012.
² "Prudential Retirement Plan Participant Survey, 2012."
2012 PRUDENTIAL RETIREMENT PLAN PARTICIPANT SURVEY. A COLLECTION OF ANNUITY PROVIDERS SAFE HARBOR FOR INDIVIDUAL ACCOUNT PLANS.

Summary

Retirement Readiness is a challenge

Altruism v Business Management – either way, it MATTERS

We can solve it:

Educate

Automate

Delegate

Decumulate (To Be Continued...)



Questions?