PRUDENT PROCESS™

Open Architecture Advisory Services

Financial Wellness Vs. Investment Education and

Retirement Readiness in the Workplace

For the past 50 years defined contribution plan providers and sponsors have tried to "educate" the employees of America into better participation and investment decisions in the 401(k), 403(b) and other offered retirement plans. We created colorful charts and graphs in our quest to make employees investment gurus. **What resulted was an entire generation of employees who were uninterested, unengaged and underprepared for retirement.**

Ironically the most impactful changes that have been made in helping participants reach their goals are: 1) Extreme simplification of investment selection through default Allocation Portfolios or Managed Accounts and 2) Automatic participation features such as Auto-enrollment into the plan and Auto-increase of contributions.

In other words, we took the often overwhelming decisions to participate and invest effectively away from the humans whose natural response is putting off getting started and not wanting to know the details of the investments.

This move toward "paternalism" on the part of plan sponsors has not only been accepted by the Department of Labor, but also encouraged. Default participation and investment have resulted in getting employees started in the plan when they otherwise might have continued to ignore the invitation to participate. This "default to yes" model has moved more employees closer to "retirement readiness", which is the likelihood that they will be able to sustain themselves with a reasonable income support in retirement. **We used inertia as a force for good in the lives of employees.**

That is a really good first step. This step only took 30 years to begin and another 10 years to gain traction.

We can't wait that long for the next step.

Plan sponsors of employee directed retirement programs now need to move to the bigger challenge of more fully engaging participants in their broader financial lives so that they can actually retire. We have seen how physical health wellness engagement and rewards can positively impact healthy behavior and, as an added benefit, healthcare program utilization and cost may decline. In this same way, financial wellness programs are being creatively designed and communicated to impact people where they are…whether living paycheck to paycheck, drowning in debt, hindered by a consumer mentality, or digging out of a student loan hole. These programs also must provide encouragement and a clear path to continue improving even if the person is on the positive end of the financial spectrum.

These programs, if designed correctly should speak objectively to the participants. However, the steps outlined for participants based on their financial position should be able to be shown to be effective (not simply theory) and provide a clearly marked path that if walked intentionally could lead to an improved financial wellness position. These programs must deal with both the income and "outgo". They must address both the saving and the spending habits of employees to make sure any short term improvement is sustained and can yield meaningful long term goals. **Ultimately, engaging programs, which knock employees off of their inertia stool, will increasingly play an important part in more employees enjoying the possibility of a successful retirement.**

Participants need to understand the importance of behavior change. The steps for this change need to be specific and achievable (not pie in the sky). Often when an employee sees the compounding positive effect from cash flow that is opened up from paying off debt and not continuing to borrow, and how this same money can become a compounding asset and not liability, they are motivated to take action to improve.

This is financial common sense that is not at all common in practice. We didn't talk about financial wellness and how the pieces fit together in schools, we didn't learn it at home from our parents (because they were probably making financial mistakes as well) and we are constantly bombarded with ads for "shiny objects" that can be bought with easily accessible credit.

My children in college regularly receive credit card invitations even while they are still in school and have very little income. These invitations often entice young people with the promise of "building their credit". What's wrong with that? Plenty. Young people start down the road of overspending which over time becomes a habit of dependence on credit. As income builds, access to "leverage" (debt) increases. Society often encourages us to confuse what should be considered a tool, which is useful but most often depreciates (cars, clothes, electronics, etc.) with what is considered an asset, which is intended to appreciate over time (savings, retirement account, home). **It is a counterintuitive message that the latest Apple product will not necessarily make your life that much better than the one before, and its cost may take money that perhaps should go to better causes.**

Financial wellness is a different message than simple investment education or even "retirement readiness". The right program can engage a workforce and meet them where they are. It can help deal with the epidemic problem of overspending and under-saving. **It is the proverbial "horse" that should be put before the cart in your employee's financial lives.** It can put the other workplace savings benefits in context and help them confidently prepare for a brighter future.