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Financial Education and Retirement Planning Programs (FE&RPP) A Needed and Inexpensive Employee Benefit

Summary

One of the most useful and best-received employee benefits is a Financial Education and Retirement Planning Program (FE&RPP). It is also a relatively inexpensive benefit. Studies show that the need for FE&RPP training for employees at most age levels has never been greater. These studies also show that most employees are unprepared to assume responsibility for retirement needs as companies shift to defined-contribution retirement plans, and point out serious potential adverse impacts to companies without such programs. Although growing in popularity, too few companies provide a sound FE&RPP to employees. This *Management Insight* discusses these issues and makes the case for instituting such programs on an ongoing basis, not just prior to forced early retirements as is common. It also presents the elements that should be considered when customizing the FE&RPP for your company.

The Market Continues to Roll

When the champagne corks popped at midnight on December 31st last year, they marked the end of another amazing year for equity investing. Large-capitalization stocks (S&P 500 Index) showed a total return of 21.04% for 1999, and annualized returns of 27.55%, 28.54%, and 18.20% respectively for the 3-year, 5-year, and 10-year periods ending as of 12/31/99. And, as most observers would suspect, shares of

technology companies did even better. This run of stock market gains is unprecedented. Euphoria and optimism seem to be in order as we look to a bright future for America and Americans.

Some Disconcerting Statistics and Trends

This euphoria and optimism are masking some rather disconcerting statistics and trends, however, as shown in Table 1.

**Table 1:
A Variety of Employee Survey Results Show:**

- 30% of respondents do not save for retirement or contribute to their 401K plans.
- 50% who do save have \$15K or less in their portfolios.
- "Boomers" only save 38% of what is needed to maintain their standard of living in retirement.
- Front end "Boomers" (76 million born between 1946-1964) turn 54 years old this year.
- More employees are job-hopping, resulting in less retirement security.
- Increased life expectancies and other factors result in uncertain futures for Social Security and Medicare.
- Decreasing national savings rates (June, 1999: *Negative* 1.2%).
- Employers are shifting retirement investment risks to employees (i.e., from defined benefit pensions to defined contribution plans).
- Employers are shifting some benefit costs to employees, while requiring greater productivity and motivation.

A recent survey of corporate human resources executives found that “financial illiteracy of workers” was the most critical, unaddressed workplace issue. Indeed, financial illiteracy, ignorance, and malpractice are rampant in our society. Consider:

- High levels of credit card debt with exorbitant interest charges that destroy the financial plans of many would-be savers.
- Speculation is glorified. A primary message from many state governments to their citizens is “play the lottery.”
- Most investors don’t consider or understand mutual fund fees or other investment costs associated with most types of investments.
- Many providers exploit consumer ignorance.

Significant Negative Impact on Employers

Employers need to be concerned about the implications of these trends and statistics with respect to their workers:

- **Reduced employee productivity.** Research at Virginia Tech’s National Institute for Personal Finance Employee Education (NIPFEE) suggests that about 15% of American workers are so stressed by their poor financial behaviors that their job productivity is negatively affected. In some workplaces it may approach 40% or 50%.
- **Poor employee morale.** Shifting benefit costs and retirement investment risks from employer to employee is creating uncertainty and insecurity for many employees.

Want an Average Workforce Age of 75?

The impact of reduced employee productivity and poor morale on employers is obvious. Perhaps less obvious is the impact of worker apprehension, reluctance to retire, and lack of preparation for retirement. These can impede an

employer’s efforts to create opportunities for younger employees and maintain a vibrant, empowered workforce.

What’s an Employer to Do?

Employers who have recognized the importance of these issues are beginning to offer **Financial Education and Retirement Planning Programs** to their employees, because workers of all age groups need to have some basic knowledge about budgeting, saving, and investing. These programs are tailored to the specific needs and goals of the employer, and the employee group being addressed, e.g.:

- **New hires** need to learn about their benefit choices and the importance of starting a savings program early and sticking with it.
- **Mid-career employees** need to be aware of a range of financial and retirement planning concepts in order to maximize the value of the benefit program and their personal savings.
- **Employees nearing retirement** need to become aware of: specific employer policies, processes, and procedures regarding retirement; the types, timing, and taxation of retirement plan benefits, Social Security and Medicare; the employer’s retiree health care program; issues affecting their retirement lifestyle.

Designing a FE&RPP

A tailored financial education and retirement planning program would consider and address many or all of these topics, although each company’s program will vary.

- **Employer Business Economics.** Includes industry and key competitors, income and expense statements, key success factors, measures of company performance, business prospects and plans, compensation and benefit costs, etc. The goal is to foster a

sense of partnership with employees through increased business knowledge.

- **Retirement Planning.** Includes employer-provided retirement benefits, Social Security and Medicare, retirement cash flow and budgeting, plan distributions, tax rules, personal investing, estate planning, etc. The goal is to present the “big picture” of retirement benefits, important retirement issues, and key decision areas.
- **Personal Financial Planning.** Includes budgeting, spending, saving, investing, setting and prioritizing goals, minimizing taxes, assessing employer-provided and government-provided resources, and providing for any shortfalls. The goal is to encourage employees to develop a personal financial plan to identify their needs and determine how best to meet them.
- **Personal Investing.** Includes investment vehicles, asset allocation and diversification, investment choices in employer plans, IRAs, the importance of starting early on a regular investment plan, risk tolerance, investment time horizons, investment fees and costs, sources of information and assistance. The goal is to help employees implement their financial plans through more effective utilization of employer-provided and personal investment vehicles.
- **Lifestyle/Life Management.** Primarily non-financial issues are covered here including health, nutrition, exercise, outside interests, travel tips, volunteering, preparing for an active and involved retirement lifestyle, wellness, attitudes, etc. The goal of this program segment is to encourage a healthy, active, and involved lifestyle - both on the job and in retirement.

Details, Details.....

A number of logistical issues need to be addressed in FE & RPP implementation.

Examples include whom to invite, time and place, presenters, audio-visual materials, handouts, and follow-up activities. The inclusion of spouses/significant others greatly enhances the value of these programs. An employer should carefully select a presenter and base the selection on integrity, objectivity, professional credentials, experience and expertise, and program costs. Many potential presenters are in the financial services business, and while they may present programs at low or no cost to the employer, their main goal is to sell products to the employer or its employees.

Why Bother?

NIPFEE research efforts suggest that “the potential return on investment for workplace financial education is *at least 3 to 1.*” Their research also shows:

- Reduced rates of absenteeism.
- Less time spent by employees dealing with financial matters.
- Increased productivity.

Our experience in presenting over 100 retirement and financial planning programs shows unbridled employee enthusiasm and appreciation. A brief sampling of actual employee comments from program evaluation sheets includes:

- “Thank you for such an informative and productive meeting.”
- “A special thank-you for including spouses and significant others.”
- “What a positive step from Human Resources!!!”
- “This is the best program that I’ve ever been to in my 20-year career. Hopefully, it will make my next 20 years more profitable. Very informative.”
- “This is the best employee program sponsored by (the Company) that I have attended.”

- “I’m going to suggest a similar program at (University) where I teach!”

In Conclusion

Workforce demographics and our economic and financial environments suggest that employee Financial Education and Retirement Planning Programs will become “the employee benefit of the new millennium.” Enlightened employers will reap the rewards of implementing such programs for years to come, as will their employees and their families. Demographics suggest that now is the time for employers to act. Time can be a friend or a mortal enemy in this matter.

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The Wass Consulting Group

The Wass Consulting Group (WCG) consists of a unique group of skilled and mature general management consultants to a variety of industries. We provide our clients with the proven ability to bring practical and actionable solutions to difficult management concerns faced by senior managers. Our services address the challenges that senior executives and Board members must face in their regulated and non-regulated operations. This includes matters of mission, governance, strategy implementation, organization structure, business process transformation and re-engineering, operational improvement, benchmarking, competitive analysis, merger integration, and market entry. We combine a base of exceptionally experienced partners with an extensive and expert network of professional consulting staff and affiliated firms. Therefore, our clients receive the full capability of a large, diversified consulting firm with the flexibility and cost-efficiency of a smaller one. Our clients obtain personal attention, participation, and oversight of each engagement by at least one experienced partner and, if the assignment requires, more than one partner participates to achieve the needed results.

Employee Financial Education Associates

Employee Financial Education Associates (EFEA) is a joint venture between WCG and GLM Associates, a leading firm in the preparation and delivery of Financial Education and Retirement Planning Programs (FE&RPP) to employees of large corporations and non-profit organizations. The Principal of GLM Associates has personally delivered more than 100 of these seminars for major corporate employers over the last five years.

EFEA’s goal in serving clients is to “Effect Positive Change through Employee Education.” The mission of EFEA is to help employers and employees partner to:

- More effectively meet the challenges of changing markets, business, financial, and personal investing environments.
- Effect positive change in organizational culture and employee attitudes through employee education, thereby strengthening the employee/employer relationship.
- Motivate employee actions to address key financial and retirement planning issues through more effective utilization of employer programs and personal resources.

We carry out this mission by conducting a variety of customized employee education programs including:

- Investing and Financial Education Programs for employees recently hired
- Investing, Financial Education, and Retirement Planning Programs for mid-career and late-career employees
- Programs for employees about to retire (voluntarily or involuntarily).

We preserve the integrity and focus of our mission by utilizing a professional and unbiased staff who is compensated exclusively on a fee basis (i.e., not by selling financial products or receiving investment-related commissions or fees).