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Getting Employees to Improve Their Financial Management: An Interview with Liz Davidson

INTRODUCTION FROM ANNA RAPPAPORT

One of the featured topics at the 2016 Plan Sponsor Council of America annual meeting was Financial Wellness. This is also a topic being studied by the SOA Committee on Post-Retirement Needs and Risks. Liz Davidson, Founder and CEO of Financial Finesse was a featured speaker. She shared her book What Your Financial Advisor Isn't Telling You. *The book ends with a Financial Independence Day Checklist. It is often not very difficult to figure out what people should do, but it can be extremely difficult to motivate them to do it. This article shares some of her insights.*

Tell us a little about yourself.

I'm a California native, who's traveled the world, worked in the financial capital of the world, NYC, and found myself back home to push forward an issue that I think is hugely critical to our society: the need for every American to have access to unbiased financial guidance. I started Financial Finesse in 1999 after running a hedge fund for several years and finding that even high net worth individuals had very little knowledge around basic money management. I thought to myself, these individuals have access to all the financial planning guidance and advice they could desire. If they don't understand these concepts, how much worse off are people without access to this kind of guidance, which is so critical to making sound financial decisions?

It was an aha moment for me and I've been passionate about financial wellness since that day. My company, my book and my entire mission are to help everyday people from all walks of life have access to the kind of financial guidance that helps them achieve financial security.

It is commonly identified that people need to plan more and save more. What can be done to make that happen? What role can the employer play?

We often find in tracking employee financial wellness through our research think tank, that employees of all ages, ethnicities, income levels and generations are behind the curve in saving; only 19 percent, according to our research on employee retirement preparedness, said they were confident they could achieve their retirement goals. What's interesting when you pull back the curtain on the saving issue, however, is that the reason most employees aren't saving enough is actually related to money management problems—simple things like sticking to a budget, or managing how much credit card debt you carry, for example—are the core issues holding employees back from saving more.

Employers that have this understanding can better help employees save by first providing guidance or education that helps them get a handle on basic money management. The most effective workplace financial wellness programs focus on the total financial wellness of employees, offering different ways for employees to access guidance around their pressing financial questions and issues. This, coupled with good plan design that incorporates automatic features, is moving the needle much more in the direction of employees' savings rather than just retirement and investing advice alone.

What financial mistakes do you see average people making? What remedies are there for these mistakes?

The biggest mistake we see is not saving enough. The most effective programs start by encouraging employees to run a retirement calculator, so they can get a sense of how much they need to save in the first place to achieve a comfortable retirement.

The second biggest mistake we see is employees not understanding the impact that saving (or not) has on their retirement picture. It's amazing when you show an employee the effects of compound interest; saving as early as possible and making incremental increases to their contributions as they're able are small but powerful ways employees can be educated about the importance of saving. We often suggest that programs implement a contribution rate escalator, so employees can save what they can now, then slowly increases their contributions.

The third biggest mistake is not being properly diversified. The best way to remedy this is to choose an asset allocation fund such as a target date fund to make investing simpler.

The SOA Retirement Risk Research indicates little formal risk management by many people. Favored risk management strategies include reducing expenses and saving

more. Financial products other than health insurance are not favored. What risk management should be considered as part of retirement strategies? Do you have ideas for getting people more engaged with this topic?

The biggest risk management strategy we advocate at Financial Finesse, is ensuring employees have long term care insurance in place. An employee could plan perfectly and do everything right when it comes to saving, but without LTC insurance, one medical issue could wipe out their entire retirement savings!

These are the most tragic situations; we've seen it time and time again, and it can easily be avoided with help from employers, who are at the forefront of helping employees plan for retirement. The programs we see that have an impact on this particular issue educate on the need for LTC insurance; most employees simply don't think about it. They also educate employees on Medicare and the fact that they can't qualify for it unless they've spent down all of their retirement assets.

The second biggest risk is running out of money. With so many employees not on track for retirement, this is an issue nearly every employer can address to help employees save more for retirement. A well designed plan and good payout options for retirement income are key here—the best plans usually offer immediate income annuities for example, so employees have less risk of running out of money in retirement.

The SOA Committee on Post-Retirement Needs and Risks has identified debt as an increasing concern when we think about retirement security. What steps do you suggest to motivate employees to manage debt? Which are most effective?

The first step would be to identify how bad the situation is. Employers who are implementing successful financial wellness programs are making people aware of the huge impact debt has on their finances by showing them the cost of interest specifically. It's amazing how much of a lightbulb moment this is for people; seeing for example that interest alone will cost you another $10,000 over the course of 10 years definitely acts as a wakeup call for people carrying large amounts of debt.

The second step is seeing the impact that even a small amount of extra money toward one's debt can have on their budget and savings. A program might provide them with something like our 'debt blaster' calculator, which allows them to input different amounts paid toward interest and see its impact on the total amount.

The next is providing employees with a strong sense of accomplishment. They can do this by focusing on small steps they can take now to see impact. If an employee is having trouble with self-motivation, employers can help by providing education that encourages paying down their debt on the smallest card first,

rather than on the highest interest rate. This helps the employee see quicker results, and continue to stay motivated.

The SOA has identified the family as an important part of retirement security, but the wrong family actions can be a barrier to security. And many couples are no longer together by the time of retirement. What ideas do you have to encourage families to work together? What should people do to ensure that they will not have nasty surprises because of actions taken by other family members?

This is a big issue that I also cover in my book, which isn't often taken into account in planning for retirement. Families need to understand that retirement security isn't just the breadwinner's responsibility.

First and foremost, both spouses need to be on same page with the big-picture. A common problem we see is one member of the household managing all of the financial decisions, and not involving the other in decisions that have a major lifelong impact on the family. This can be detrimental when for example, the breadwinner of the family passes away with no will, or life insurance policy to sustain their family once they are gone. The family suffers greatly and had their spouse been involved in the financial decision making, this may have been avoided.

Employers can help by encouraging "money dates" once a month, or however often a couple can arrange for. This opens the line of communication around the household's money and encourages families to work together because everyone's actions and attitudes about money affect the outcome.

This also leads to your point about many couples not being together by the time of retirement. It's even more critical than ever for women, who face significantly higher health care costs in retirement due to increased longevity, to be an active participant in the retirement planning decisions.

Lastly, families who compromise their retirement savings to fund their children's college education, for example, often find their retirement taking a huge hit. Our planners often tell people that "you can get a loan for college, you can't get a loan for retirement," so for one, parents can have this discussion early with their children, providing them with the circumstances whatever they may be—and allowing their children to make education decisions based on what the family can help with (if anything) and what they're willing to take on from a cost perspective. In general, when parents prioritize any of the family members' needs over their own, it leads to reverse situations in the future.

What tools and activities work for average people?

Plan design is the best place to start if employers want to help people save more for retirement. Setting up automatic enrollment leads to more people saving, and automatic escalation, even set at just 1 percent per year, helps employees make small progress toward saving more, without feeling a significant impact in their paychecks. Simplified investment options are also useful for hands-off investors.

Tools that show employees their retirement picture and make it easy for them to increase their deferral rate or change their allocations are taking away the stigma of having to go to HR for every minor retirement related decision.

Also, financial wellness tools and coaching can help employees make progress in all areas of their finances, and helps them grow more confident in their decisions. The employers we work with offer our Financial Wellness Assessment that helps employees start off on the right foot by determining areas of vulnerability and the steps they need to take to improve those areas. It also provides employers with valuable data around the state of their employees' retirement preparedness and most pressing financial issues so they can design programs to best meet their needs. There are also some very useful tools out there that help employees manage their retirement benefits—assessments of whether they are saving enough, but then from there, making it easy for them to make a quick change to change their outcome.

Last, employers who create a culture of wellness seem to be having the most impact in helping employees save more and improve their financial picture. For example, one company we work with shut down all company operations for 30 minutes so that every single employee could take their Financial Wellness Assessment. Another houses a special room dedicated to financial one-on-one sessions which employees can book during work hours. Showing employees that you care about their financial wellbeing, and ability to retire the way they want to and when they want to, can play a major role in their success.

What else would you like to tell us?

Oftentimes, the biggest barrier people face to saving for retirement is that they get overwhelmed by the big picture. They read articles in the news or hear from coworkers that they'll need to save an outrageous amount of money to be able to afford retirement and think, "forget it!"

For employers, it's really all about offering guidance that helps employees take small steps that will add up over time, bringing them back to paying small amounts toward debt, making small increases to what they can save, and translating all that they do with their money into the day-to-day rather than big picture.

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