NEWS REVIEW

Heartland Institute of FINANCIAL EDUCATION

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Study Finds Link between Financial Planning and Happiness

Michael Cohn, Editor in Chief, Accounting Today.Com April, 2014

The more discipline an individual brings to their finances, the more financially secure he or she feels in the present and the greater likelihood they'll be happy in the future, according to a new study.

The study, by Northwestern Mutual, also explores who the most disciplined planners are among American adults and finds they come from opposite ends of the age spectrum (18-39 and 60+). Meanwhile, young Baby Boomers (aged 50-59) seem particularly disinterested in planning even though they acknowledge a strong need to improving their saving and investing discipline.

Over one-third (36 percent) consider themselves disciplined; that is, they know their exact goals and have developed specific plans to meet them, but those plans can deviate at times because they don't always stay on top of them.

Nearly half of adults (46 percent) are either informal planners or don't do any planning at all.
In addition, 60 percent of all respondents in the study believe their financial planning could use improvement; and, the number one roadblock, cited by more than one in four (27 percent), is lack of time.

Younger adults (18-39) and more senior adults (60+) represent the most disciplined financial planners in the U.S. Meanwhile, adults who fall between the ages 40 and 59 are the most financially unprepared and most likely to identify themselves as informal or non-planners.

The study also found that 59 percent of younger adults (18-39) and 54 percent of more senior adults (60+) identify themselves as disciplined financial planners, while less than half of adults aged 40-50 believe they are disciplined.

More than half (51 percent) of adults aged 40-59 identify themselves as informal or non-planners, while that number drops to 41 percent in younger adults (18-39) and 46 percent in senior adults (60+).

“It’s interesting to see the differences in discipline among age groups and whether they signal a pronounced shift in attitudes toward financial security in America,” said Oberland. “It’s worth noting that both young adults and seniors have experienced tough economic cycles during formative periods of their financial lives. Regardless of the explanation, we see the return to realistic expectations, prudent decision making and disciplined patience as a very positive trend.”

The study found that 60 percent of the youngest Baby Boomers (50-59) acknowledged the need to improve their savings and investing discipline, yet they have the least appetite for doing so.

To explain the reason for that finding, Oberland said that for 25 percent of Americans aged 50-59. The biggest barrier is simply a lack of interest (25 percent), while 13 percent cite lack of money.

Among these younger Boomers, 70 percent don’t use a financial advisor. 40 percent said they take an “informal” approach to financial planning, and 12 percent said they wouldn’t call themselves planners at all—the highest percentage of any age bracket surveyed.

“Becoming financially disciplined is often a matter of priorities,” said Oberland. “We work with young Boomers all the time, helping them juggle what can sometimes feel like financial overload. That’s why the most critical piece is to address the issues head on rather than putting one’s head in the sand.”

Auto-Enrolling Employees in 401(k) Plans Leads to Higher Contribution Levels, According to a New Study From Bank of America Merrill Lynch

Andrew Welsh, Financial Planning Invested in Advisors, April 2014

Streamlining the enrollment process and setting employees up with a gradually increasing contribution rate further boosts employees’ savings levels and improves the likelihood that they will meet their retirement goals, the study finds.

“The more you can implement automation, the more employees will engage,” says Kevin Crain, senior relationship executive for Bank of America Merrill Lynch.

The 401(k) Wellness Scorecard, a quarterly study, looked at the behavior of participants in the bank's retirement and benefit plan services business. That unit had about $120 billion in client plan assets and 2.5 million plan participants as of the end of last year.

More than 500,000 401(k) plan participants either started making or increased their contributions during the fourth quarter of 2013, a 10% jump from the same period a year earlier. The study attributes the increase to auto-enrollment, noting that plans that automatically enrolled employees had much greater participation than those that didn't and that auto-enrolled employees were more likely to up their contribution rate.

Crain says that auto-enrollment has proven enormously helpful in getting employees to begin saving for retirement. "It's not that they were not saving because they didn't want to, they were busy and didn't think about it," he says.

Bruce Gsell, a Merrill Lynch advisor based in Edison, N.J., says it's significantly easier to convince plan participants to raise their savings rate to meet their retirement goals if they are already contributing.
"When they are already auto-saving at 3%, and you say they need to be at 5%, they're okay with it because they already don't miss the money. They get it," Bruce says. "It's clearly a lot easier than telling someone who is at 0% that they need to be saving 6%."

Bank of America Merrill Lynch has also seen increasing adoption of its advisory service, Advice Access, a compliment to its 401(k) plans that provides participants saving and investment advice, via online, telephone and in-person. Nearly 600 employers offer the service, up 14% last year.

This is in line with another Merrill study, conducted nationally last year, in which 60% of employees surveyed indicated that they wanted help managing their retirement savings.

Gsell says that he has seen an uptick in demand for advisory services related to 401(k) plans and that employees increasingly expect employers to offer these kinds of retirement and financial planning services.

"Employees have a need: they don't feel they are saving enough, and they want help and tools to get there," he says.

The study also revealed that employees were availing themselves of health savings accounts to an even greater degree. The number of employees with HSA accounts at Merill jumped 56% last year to 290,000.
Crain said this was an encouraging trend but that it will take time to see whether people continue to invest in HSAs for their medical care over the long-term.

Tips for Women to Take Control of Their Retirement

Employee Benefit Advisor Website

Lower salaries and longer life expectancies are two of several factors that put women at a greater risk for not achieving a financially secure retirement. In fact, only 7% of women are "very confident" in their ability to retire comfortably, according to the 14th annual Transamerica Retirement Survey of Workers.

The report includes seven tips for advisors to help female employees get ready for retirement. Tips include the same things any pre-retirement saver should know, such as having a backup plan if unable to work and considering retirement benefits as part of the total benefits package. Historically, women have been excluded from making these types of decisions, and advisors are urged to encourage women to think and behave proactively when planning for retirement.

1. Develop a retirement strategy and write it down.

Envision your future retirement. The Transamerica Center for Retirement Studies, or TCRS, suggests you formulate a goal for how much you will need to save each year, including in an employer-sponsored retirement plan and outside savings. Remember to factor in living expenses, health care needs, long-term care and government benefits. When facing a decision to reduce work hours or take time out of the workforce to be a parent or a caregiver, consider the financial trade-offs and options to help mitigate the impact on long-term security.

2. Calculate your retirement savings needs and save at a level to achieve those needs.

3. Consider retirement benefits as part of your total compensation.

If your employer doesn’t offer you a retirement plan, ask for one, TCRS suggests.

4. If your employer offers a retirement plan, participate.

Be sure that your annual salary deferral takes full advantage of employer matching contribution, if available. Contribute as much as you can. If you decide against maximizing annual salary deferrals in the plan, TCRS suggests women save for retirement outside of work.

5. Get educated about retirement investing.

Seek professional assistance if needed, TCRS suggests. Learn about Social Security and Medicare. Learn about possible ways to help make savings last longer, including when to take withdrawals from retirement accounts to minimize taxes and penalties.

6. Have a backup plan.

Be sure to have a Plan B, in case you're unable to work before your planned retirement, TCRS suggests. Identify potential cost-cutting lifestyle changes such as moving to a smaller home or taking on a roommate. Also, consider insurance products such as disability insurance and life insurance.

7. Talk about retirement with family and close friends.

An open dialogue with trusted loved ones about expectations of either needing to provide or receive financial support should be part of every woman's retirement strategy.