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November 2014

Employer-offered Financial Literacy Could Provide Boon in Employee Productivity

By Nick Otto, ebn- Employee Benefit News, September 19, 2014

Offering financial education can provide a big boost to employee productivity, allowing employees to solve financial dilemmas and refocus on work.

"Many employers offer some sort of retirement savings account but don't go the extra step in providing education and alternatives to borrowing against a 401(k) in times of need," says Jennifer Creech, director of FinFit — a financial wellness and benefits company.
Of those with the help of a financial wellness program, 66% percent of employees say they have been able to increase their monthly savings. Thirty-one percent increased savings between $1 and $50, 25% by $51 to $200, 7% by $200 to $400, and 3% by more than $400, according to FinFit.

Creech says trends are pointing to an increase in these educational tools. "We currently see a 30% – 40% utilization of the financial program once an organization enrolls and yes, that number is steadily increasing, so it's definitely growing in popularity among employees," she says.

She adds that educational programs, such as those offered at FinFit, offer a full array of educational and financial tools employers can offer, including budget calculators, retirement and financial planning tips, assessment of personal finance situations, and so on.

According to a FinFit survey, 85% of employers say employees participating in financial wellness programs showed more productivity at work.

"It's incredibly validating to learn that financial wellness programs are delivering such positive results for employers and employees alike," says David Kilby, president of FinFit. "It's our mission to advocate for greater financial literacy among working Americans and to help organizations assist their employees in reducing costly debt through financial education and lending solutions."

In addition, the survey revealed that nearly half of the employers polled indicated a significant reduction in employee requests for 401(k) loans since implementing the program.

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Why Retirement Plan Fiduciaries Need To Be More Engaged

By Michael Giardina, ebn- Employee Benefit News, October 2, 2014

With more confusion swirling in the employer 401(k) market – not to mention an American workforce with staggeringly low retirement confidence – advisers and consultants recommend employers play a bigger role as a fiduciary when considering administration fees and investment education.

The aging workforce, coupled with a disengaged population of younger workers, may be the root of the problem. Right now, there are over 60 million plan participants in 401(k) plans with a total of $3 trillion in account balances. Meanwhile, $30 billion in administrative and investment fees are being spent on an annual basis – costs that plan sponsors still may not understand, or be able to quantify. That presents a need for fiduciary intervention, according to Trent Grinkmeyer, a financial consultant with Grinkmeyer and Leonard Wealth Management. "You [the fiduciary or plan sponsor] are working for the employees and their beneficiaries. Your main focus is them, not the company," Grinkmeyer said during this year's Benefits Forum & Expo. "You want to make sure that you are paying reasonable costs for the plan, [and] you need to make sure the investment selection has a wide variety of investments."

Citing the Employee Retirement Income Security Act of 1974 and the subsequent Pension Protection Act of 2006, Grinkmeyer told conference attendees that plan sponsors are responsible for the decision participants make when it comes investments and the forthcoming fees from retirement vendor relationships with mutual fund companies and other financial services companies.

He noted all the liability is on the fiduciary of the defined contribution plan, in the eyes of the Department of Labor. Grinkmeyer said this is evident in the surge of fee litigation since 2007, cases which have included some of the largest Fortune 500 companies.

"The Department of Labor does not care what the performance of that large cap growth fund was, or if Bill Gross left PIMCO on Friday. What they care about is your process in analyzing fees, your investments overall," Grinkmeyer said. "If you can demonstrate process, you are 80% of the way there."

Because there are three types of fee arrangements in the DC plan, including investment management fees, administrative fees and consultant and advisory fees, Grinkmeyer suggested that company benefit managers instill a benchmarking process every three years with vendors to ensure plan sponsors and participants are not getting overcharged when it comes to fee arrangements.

Meanwhile, lack of confidence in the fiduciary decision-making process may also be causing this disconnect among employee plan participants and their employers. Steve Branham, co-founder of 3ethos, a firm that helps to engage key decision-makers in leadership roles, explained to BFE attendees that more can be done to ease plan participant angst.

“Things have become more sophisticated with financial instruments,” said Branham, a retired rear admiral from the U.S. Coast Guard, where he served as chief financial officer of the military arm. “Participants need greater education and guidance because of that, and more trust is expected as a result.”

Recent studies show that the message is not getting across to plan participants, as 36% keep their 401(k) money in a liquid, cash state and 20% in target date funds. According to Branham, this indicates a need for more education because these safer vehicles may not be getting the best bang for their buck.

While only one-in-three workers feel they are inspired by the work they are doing, Branham noted that poor leadership is the top reason for disengagement. “Trust and confidence is really what leadership is all about,” said Branham. He recommends that retirement plan fiduciaries and employers incorporate better leadership qualities into their plans and workplaces.

“It’s not enough to just have a process, it’s not enough to have good stewardship … they want people that demonstrate leadership,” Branham said. “Why? Because you need somebody you can trust and be able to confide in with your hard-earned resources.”

How to Teach Wealthy Kids About Money

Kimberly Foss, Financial Planning, Oct, 1, 2014

As a teenager reading F. Scott Fitzgerald’s *The Great Gatsby*, I was struck by the scene where Gatsby flings his expensive tailor-made silk shirts from the closet, one by one, bringing Daisy to tears. At the time, that seemed romantic: I saw the shirts as a symbol of how hard Gatsby had worked to win Daisy’s love. But why did Daisy cry?

Of course, as an older reader, the scene seems sad — a horribly misguided display of wealth that underscores how Gatsby believed wrongly that his fortune would win him the girl of his dreams. Perhaps Daisy cries because she knows it’s not that simple, and that a man’s love can’t be measured by the quality of his shirts, or the size of his bank account.

I think of the tragic distance between Gatsby and Daisy when I counsel clients who have worked hard to build their wealth and enjoy great happiness. They want to share their success with their loved ones, but many worry that their children won’t learn to be effective stewards of the family’s wealth — that they, like Gatsby, will confuse spending with happiness.

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Plenty of books offer advice on raising financially responsible children; But I think there's also room here for a trusted advisor to help. I encourage you to try some of the following strategies with your clients.

WHAT WEALTH SAYS

First, ask clients — particularly those who didn't grow up wealthy themselves — about the ways their wealth defines them. Being conscious of their own relationship with wealth can help them assist their children.

It's also important that parents understand that their children are growing up in a different economic culture than they did, and may see themselves as subject to different rules. The wealth-builder parent may have walked a mile to the local public school, while the child drives a Ranger Rover to private school. While the parent had few luxuries growing up, the child may feel entitled to the best — from first-class flights and five-star resorts to using the family name for prestigious jobs or club memberships.

I urge clients to be careful about judging their children's behavior or attitudes on the basis of their own upbringing. Entrepreneurs, for example, may expect that their children appreciate the stories of how the family business was built — but they must take the time to listen to their children's experiences (and struggles) with wealth.

HELP BUILD A FOUNDATION

Many parents ignore the difficult, but effective, process of teaching their young children to handle wealth — but are baffled when the kids reach their 20s and begin to struggle with their finances. If a teen was indulged and not taught to budget, she may simply not know how to avoid burning through a year's worth of college funds in one semester. And if a work ethic has not been established early on, it can be difficult for a young graduate to develop the discipline to succeed in the corporate world.

To avoid family wealth management crises, advisors can help parents build strong financial and emotional foundations for their children — providing basic education and fostering a connection to wealth.

In working with parents across all levels of net worth, I've found that early contact with money helps children develop a connection to it.

Encourage your clients to set up allowances for even younger kids. In the elementary-school years, children can pay for their own small purchases and save up for larger ones. As they become teenagers, the allowance can increase, but children should pay for their own personal expenses, such as movie tickets or back-to-school clothes.

One important issue that's difficult for helicopter parents: Let children make mistakes and learn from them. If a teen feels the pain of overpaying for a pair of sneakers because he refused to wait for a store's upcoming sale, encourage clients to resist supplementing his weekly funds; perhaps the teen will be more motivated to shop around next time.

PUT THEM TO WORK

Because problems arise when children view money as totally unconnected to work, I encourage clients to insist that their children get jobs. I also suggest that parents introduce the concept of dividing their earnings into three pots: save, spend and share.

I also counsel parents on helping their kids separate needs from wants. This is particularly important for kids with ample resources who must learn to become more conscientious consumers.

I suggest they tell children to ponder these two questions: Do they really need it? And how many hours will they have to work to pay for it? Clothing is a need — but there is a difference between a $12.99 cotton T-shirt from Target and a $500 Chanel T-shirt.

When I wanted a pair of designer jeans at the age of 11, my parents allowed the luxury — but only, they said, if I paid for the jeans with money I had earned. That's a practice I continue with my own children.

SCHEDULE CHECKUPS

The next generation needs to be instructed in three main areas: values, finances and family communication. Advisors should focus on the latter two, appreciating that teaching children to manage wealth is a process.

In addition to regular office meetings — or the occasional house call — I suggest hosting family meetings that have an educational element. As a presenter on family retreats, I've addressed diverse topics, from "What is a bond?" (because a grandchild asked) to managing your first paycheck, paying for college and applying for a mortgage. This summer, I even added an etiquette class.

The classes are generally 30 minutes long; in many cases I can cull at least an outline from the newsletters I write during the year. And although the topics hold universal appeal, I tend to keep these events family affairs due to privacy concerns. My clients' response to the highly personalized service has been overwhelmingly positive.

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TALK ABOUT GIVING

Whether you frame this as paying it forward or giving back to the community, I find that encouraging children to help others is the most effective teaching method.

I tell my clients a story about my own daughter, who attended a church retreat in Mexicali, Mexico: She helped build homes for village residents and returned home a more humble and grateful teenager. It’s so easy to find a way to give back to the community. Local soup kitchens and homeless shelters always need volunteers — especially over the holidays, when the entire family can get involved.

Finally, counsel clients not to be afraid of having the “Money Talk”. Wealthy parents understandably wonder how much detail to share; they may worry that children will share information with friends. Yet many parents find themselves in a paralyzing Catch-22: Reveal too much, and kids may think the sky’s the limit; but, keep too much secret, and kids may worry unnecessarily.

I believe trouble brews when children are kept totally in the dark about family wealth. So help clients decide on the appropriate level of detail to share. Many of my clients wind up revealing the extent of their wealth in stages, as the children get older.

I make myself available to facilitate these discussions, but I also spend a lot of time helping clients prepare for the disclosures. These conversations establish the foundation necessary for clients to help their children develop a healthy relationship with money.