NEWS REVIEW

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Financial Wellness at Work

A review of promising practices and policies

Richard Corday, Director of The Consumer Financial Protection Bureau, Sept. 2014

The Consumer Financial Protection Bureau is the nation's first federal agency whose sole focus is protecting consumers in the financial marketplace. The Dodd-Frank Wall Street Reform and Consumer Protection Act also authorizes us to develop and implement initiatives to educate and empower consumers so they can make better and more informed financial decisions. Our job is not only to make the marketplace safer but also to help people build the skills they want and need to improve their financial lives.

Financial education is central to this mission. If we expect consumers to be responsible for the choices they make, we must support them in developing the skills and knowledge they need. Our strategy to increase people's financial literacy and financial capability includes providing tools and information to help people navigate these decisions, collaborative initiatives with our partners to help us reach consumers, and foundational research to identify, highlight, and spread effective approaches to financial education.

This leads us to focus on financial education in the workplace, where people make some very important financial decisions. At work, we may decide how much to save for retirement, whether and how to secure health and life insurance, and whether to set aside funds to meet child care and medical expenses through specialized savings accounts. As more employers give employees the ability to split their paychecks automatically into savings, investments, and checking accounts. The workplace is also helping us set aside money for college, a new car, or a rainy day.

Given this natural connection between the workplace and certain key financial decisions, some employers are already playing a critical educational role for their employees. We are pleased to be reporting here on some of their promising practices and policies. The evidence is preliminary as yet, but some of the initial research on financial education in the workplace already suggests that a financially capable workforce is more satisfied, more engaged, and more productive for their employers.

In their struggle to achieve self-sufficiency, young adults are redefining expectations which were long thought of as traditional goals. Many participants (28 percent) reported that marriage and having children (27 percent) were not important life goals; 19 percent feel home ownership is unimportant, and 16 percent rate living on their own as irrelevant.

In this report, we specifically describe financial wellness efforts at five companies: Nebraska Furniture Mart, health care provider QLI, Staples, Goodwill of Central Texas, and Pacific Market Research.

Each of these companies is innovating in financial wellness efforts and finding value in reducing and addressing the negative effects of financial stress on employees. They all took the time to share with us their best practices, and we appreciate their input and believe other employers could adapt and learn from their ongoing initiatives. We also highlight one particular public-private partnership that is operating effectively at scale to support employers and help them take action: Delaware's "Stand by Me" program. State and local officials would do well to consider how they can adapt or replicate the benefits of this program in their own jurisdictions.

Forward-looking employers are already playing an important role in shaping a better future for their employees and our country. We intend this report to spark important discussions about how we can help American workers improve their financial security by developing the financial skills they need to build a better life for themselves and their families.

For the complete report copy and paste the following into your browser:

http://files.consumerfinance.gov/f/201408_cfpb_report_financial-wellness-at-work.pdf

How Dying Rich Can Hurt You And Your Estate

Everyone knows that you can't take it with you, but there are financial perils to leaving it behind.

Charlie Gordon, MarketWatch, 9/19/2014

If you are wealthy, there may be a serious risk that you may not be focused on nearly enough: The risk of dying and leaving a lot of money on the table.

Yes, this may hardly sound like a problem, but for many affluent people, it really is. Especially when those funds could be put to use for good in the world.

Here's an example:

Jane is a widow in her mid-60s with two grown children and four grandchildren. As she approaches retirement, she feels she is in a precarious situation. She has a net worth in excess of $6 million, is nearly cash-flow positive between her deceased husband's pension and Social Security, and has a top-notch long-term care policy.

Jane's risk of running out of money is obviously remote, yet her fear of running out of money influences her decisions on a daily basis. In fact, she’s scared to death.

She would love to help her grandchildren — some of them are struggling. But she is afraid to spend money.

In investing and estate planning, we all talk about risks. The risk of running out of money is always a primary focus. But there is another great risk — which your financial advisor may not focus on nearly enough — the risk of dying too rich and not using wealth to live life to the fullest.

The messages that shape us

Children of The Depression taught their kids to save and live frugally because you never know what might happen. During the global financial crisis, even the wealthiest people tasted a fear of losing it all.

The financial media have, repeatedly and correctly, pointed out the retirement savings crisis in our country and are diligent in their delivery of bad news and letting you know what you should be worried about.

Financial advisors often focus their clients on the risk they'll run out of money and be unable to maintain their lifestyle. This risk — this fear of not having enough — is the bread and butter of the wealth management industry. We work relentlessly, educating clients about this risk and protecting them against it.

For affluent investors, however, there's a commensurate — and much more likely — risk that goes almost unrecognized: The risk they'll leave substantial resources untapped, and the risk they'll leave a substantial inheritance, perhaps even to the detriment of their heirs. In Jane's case, her most significant risk isn't running out of money. It's a different sort of impoverishment: Missing the opportunity to live a life of consequence and joy through her material possessions.

The hierarchy of needs

There is a natural hierarchy of needs for most people: Caring for myself first, my family second and others, third. Financial advisors have done a robust job of addressing the first need. This is the heart of retirement planning. Through detailed analysis, your advisor can determine how much you need in assets to provide you with sufficient income to last through you're your lifetime. Advisors can do this with a high level of confidence, if your withdrawal rate remains in a certain range. We as advisors are careful and conservative about it.

Part of an advisor's role should also be to help wealthy clients understand the risks on both sides of the equation — the risk of outliving your money and leaving too much on the table. Leaving an inheritance isn't a bad thing, but many families are recognizing the hazards of leaving too much money to those who are unprepared to receive it. It's not uncommon now to see parents limit the amount of money they plan to leave to their heirs. They fear encouraging entitlement and laziness in their young and even adult children. Yet, without proactive planning, most people will end up leaving the vast majority of their wealth directly to their children, whether they intend to or not.

It's natural to focus on ourselves and our families, but most people recognize the fulfillment they get when they turn their attention outward. Much of that outward focus happens in the form of philanthropy, or even caring for the extended family. While charitable giving is often at the bottom of this list of priorities, it can serve a significant role in the satisfaction of an investor's life — particularly in retirement.

Latest court documents reveal that Philip Seymour Hoffman left his entire estate to his girlfriend — because he didn't want his children to be "trust fund kids." Unfortunately, his plan to leave all of his estate to his non-spouse partner, who was the mother of his children, will result in the government becoming the heir of approximately half his estate.

I do not know if he, or his partner, was charitably-inclined or not. If so, a tremendous opportunity was missed to make philanthropic work an heir of his estate in place of some or all of that of the government's share. Had he left a considerable amount to a donor-advised fund, he could have named his partner, or children, as the advisors on the fund giving them the ability to make grants on his behalf.

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The role of the advisor

The voice of your advisor is a powerful one. He or she likely does a lot to help you process through both the logistical and emotional components of your financial life. Your advisor should include in his or her work the process of helping you define your values, decide how to leave legacies and establish giving plans. If not, you aren't only missing out on potential tax benefits, you might be missing out on a deep level of satisfaction that only giving can accomplish. Advisors who focus on clients' philanthropic goals and passions can be somewhat rare. A 2013 study conducted by U.S. Trust found that less than half of high-net-worth individuals, 47%, thought their financial advisors were good at discussing their personal or charitable goals with them.

It isn't that financial advisors aren't having this conversation with clients. But if they do, it's usually around the margins. In fact, some two-thirds of high net worth respondents in the same study who said they had discussed philanthropy with their financial advisor felt their advisor only touched on the technical aspects, with many of the clients wanting to discuss their giving in terms of their values and passions. Wealthy investors often have more charitable intent than advisors realize.

Wasted potential

As a society, we are quick to point out wasted potential. We see young people fail to measure up to the expectations, or we see a professional athlete's career end through injury or poor decisions and lament about how much was talent was never fully used. When it comes to financial resources, however, we typically think, "the more the better," and leave it at that.

Mahatma Gandhi once said: "The difference between what we do and what we are capable of doing would suffice to solve most of the world's problems." The financial resources to do work for good in the world are sitting in the surplus wealth of affluent individuals. The general messages of financial planning have created a scarcity mind-set among wealthy families.

Together with your financial advisor, you have the opportunity to effect a change that not only addresses significant needs in our world but does so while adding great value and meaning to your life.