Heartland Institute of FINANCIAL EDUCATION

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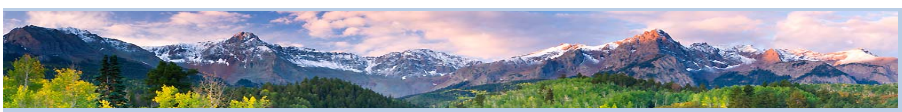
Instructor's Tutelage

When we consider our children (and grandchildren!) regarding financial literacy and how we can better prepare them for the future, be aware that those "little ones" are watching us closely!

Above all else, the best thing parents can do to help their kids learn about money is to lead by example. If you already have children, you know they will often emulate everything you do. In fact, they will also emulate things you never knew they were paying attention to and may wish they didn't pick up on. The same thing happens when your children watch how you treat money. Be conscious of how you're treating your own money. If your child only ever sees you getting money out of the magic money machine (ATM) or swipe plastic when making a purchase, they may think that we can get money whenever we want or that the little plastic card is just a way to buy things without using real money. Obviously, you can teach them what's going on behind the scenes with these transactions, but you have to make the effort to explain it. Otherwise, they will have no concept of what it means to withdraw money from an ATM or to pay for things with plastic.

Keep in mind the wise words of James Baldwin who said, "Children have never been very good at listening to their elders, but they have never failed to imitate them."



Why Our Children Need Financial Literacy

By John Hoffmire & Jerald Adam Long, PFEEF, August 2015

This article is intended for the parents of the upcoming generation. Alan Greenspan, financial guru and former chairman of the Fed, once said that "the number one problem in today's generation and economy is the lack of financial literacy." Why is financial literacy so important? Because hard work and long hours can only do so much.

Albert Einstein, possibly the smartest man of the last century, once said: "The difference between stupidity and genius is that genius has its limits." Financial literacy does not require genius, but the depths of the potential hole dug by financial ignorance are limitless and should provide sufficient motivation for all to learn what we can to become more financially literate. This is especially needed for children as they begin their financial lives.

The sad situation of the young and upcoming generation today is that they start with the greatest intentions and end with outrageous debt. As they begin their adult lives, enrolling at only the best colleges and often forgoing work

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Why Our Children Need Financial Literacy (cont.)

while in college to dedicate themselves to their studies, they saddle themselves with debt that will follow them for decades. When we combine this debt with a general lack of financial literacy, we arrive at the great personal financial problem of this decade.

When incoming students at four-year colleges were tested on their financial wellness, the average score was around a dismal 30 percent. The test was given to 42,000 college freshmen, and published by Higher One, a financial aid disbursement company, and EverFi, an education technology company. The questions were not about financial ratios or stock call values, but simply tested students' understanding of student loan terms, credit scores and emergency funds.

While one may assume that college students with proverbially skinny wallets would be very careful with how they spend their money, the survey found that only 39 percent of four-year college students use budgets. Possibly more alarming, 12 percent of students don't even check their account balances and know how much money they have - because it makes them nervous.

With this situation, it is much more common for students to start to learn financial literacy through an embarrassing rejection of their card at a restaurant on a date, a loan denial when they go to buy their first car, or an intimidating letter that comes in the mail notifying them of their delinquency. While their parents and friends might be forgiving, financial institutions are not, and learning through mistakes in the financial world can leave you in a financial pit of despair for years as significant mistakes will weigh down a credit score for nearly a decade.

But this is not the only way that students can learn.

A much better way is for the older generation to acknowledge its own deficiencies in financial literacy and lead the younger generation by example - by the example of learning along with them and applying those lessons to their own finances as they help their children do the same. We may have been lucky enough to make it through the gauntlet of financial mistakes and emerge relatively unscathed without sound financial literacy skills, but the gauntlet is much more dangerous now. In just the last 15 years, student loan debt has grown 511 percent. Heading innocently into that financial climate without a better understanding of the tools of financial wellness is likely to end in disaster for the younger generation.

By talking to, and learning about, financial literacy along with children, they can be sent forth into the world, and the older generation toward retirement, on the best footing possible.

Do Auto Features Drive Better Retirement Outcomes?

Paula Aven Gladych ebn, Employee Benefit News

When it comes to automatic features in retirement plans, automatic enrollment gets the most press, but plan sponsors are exploring many other automatic options to help employees do a better job of saving for retirement, including auto escalation, auto rebalancing, model portfolios and qualified default investment alternatives.

Auto enrollment

“We’ve seen a fair amount of plans adopting auto enrollment, especially when they are coming on board, a startup plan or converting from a prior record keeper. That seems to be a good turning point to affect change,” said Geno Cufone, senior vice president of retirement administration at Ascensus in Dresher, Penn.

About 16% of Ascensus’ plans have automatic features, which may seem small but the majority of the company’s plans are under $5 million and serve 25 to 75 individuals.

“The plans that offer auto enrollment have greater participation

Do Auto Features Drive Better Retirement Outcomes? (cont.)

to [save] at a much earlier age than we've seen in the past," Cufone said. "The millennials are getting the benefit because more plans are adopting these automatic features early on in their lifespan."

Pirie McIndoe, vice president and defined contribution director at Sibson Consulting, said that automatic enrollment has become a really key part to getting people to start saving.

"What we all know is the greatest force in business in the universe is inertia. Once something is in motion, it tends to stay in motion. Once you get someone to start contributing, generally they will continue to contribute," he said.

If businesses can get employees to begin contributing at an early age, they will see a benefit, said McIndoe. He pointed out that those early contributions, along with employer matches and compounded interest, make up the bulk of the assets available to participants upon retirement. More than half of the wealth that comes in comes in during the last 10 years before retirement, he said, primarily on the underlying accumulation an employee created by the time they turned 55.

Many companies that use auto enrollment are only using it for new hires. Many retirement experts recommend that companies apply auto enrollment to current employees who previously opted out of the plan as well. They have the opportunity to opt out once they have been opted in, but that classic inertia can work in their own favor as well. Only about 2% of employees who previously opted out elect out of that auto enrollment, Cufone said.

The majority of plans that are using automatic enrollment are defaulting employees in at a 3% deferral rate, but in the past year, Cufone said he has seen more plans adopt a higher initial default deferral rate.

"If you are auto enrolling at 3% and the majority of those employees are not highly compensated employees, it could drive your average deferral percentage down, which could cause you to fail nondiscrimination testing. If you set it at 6% or a higher deferral percentage, you have a greater opportunity to influence passing nondiscrimination," he added.

The added benefit is that employees who are deferring at a higher rate are much better prepared for retirement.

Do Auto Features Drive Better Retirement Outcomes? Continued…

Auto escalation

About half of plans that adopt auto enrollment also adopt auto escalation, which automatically increases an employee's retirement plan deferral rate by 1% annually until it reaches a target number like 12%, Cufone said.

"We recommend if you are going to adopt a lower initial deferral rate because you don't want to be too aggressive about how much is automatically taken out of a paycheck, having auto increase is ideal," he said.

Carolyn Wood, director of retirement for Bimbo Bakeries USA in Philadelphia, Penn., said earlier this year that Bimbo was working with Fidelity to implement an easy enroll program that uses anchoring to get employees to not only opt in to their retirement plan but to do so at a higher allocation rate than the typical 3%. Easy enroll gives employees three allocation choices: 6%, 8% or 10%.

When given a choice, plan participants will most likely choose the lowest opt-in amount.

Auto rebalancing

Having an automatic rebalancing feature is helpful in ensuring plan participants keep the investment allocations they've chosen as the market moves up and down. The feature allows plan participants to set an auto rebalance once a quarter, annually or semi-annually.

"We have the ability to set it at the plan level or set it so each participant can set auto rebalance as part of their portfolio," Cufone said.

Model portfolios and QDIAs

Many plans are moving to some sort of model portfolio that employees can be defaulted into.

"That is a trend we are starting to see more and more of and also having a qualified default investment alternative that is set with a specific allocation to go hand-in-hand with automatic enrollment," Cufone said.

Heartland Institute of FINANCIAL EDUCATION

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Do Auto Features Drive Better Retirement Outcomes? (cont.)

Model portfolios are created by investment professionals out of the investment options that already are available in a company's retirement plan. Each model appeals to different types of investors, like those with a conservative mindset who want less risk, those who take a more moderate approach to investing and those who are more aggressive and want to pursue real growth in their portfolios.

It makes it easy for investors who aren't as savvy to end up with a diversified portfolio at the risk tolerance that fits best with their personal retirement goals. Most plans that offer model portfolios expect that employees will place 100 percent of their asset allocations into this portfolio.

Many plans have started offering target-date funds as their qualified default investment alternative to help employees who don't know anything about investing save for retirement. The goal of these is to move investments into less risky options as a person nears their target retirement date.

HIFE Financial Wellness

The Heartland Institute partners with colleges and universities throughout the United States to provide financial education courses to businesses and their employees, organizations and their members, and even civic and community groups who desire this type of purely educational coursework and information. These courses are taught by CFE Certified Financial Educators® who have both instructional and practical business experience. Our team of certified Instructors work with organizations and their employees to outline financial training that best suits the organization and its needs.

The results of these non-solicitous classes have been amazing. Employees and private citizens who would never take the time to attend a course in financial education are joining their colleagues for class at the community center, office or plant after work. As a further incentive, spouses/partners are invited to join the class for no additional cost.

Whether your employees need help with retirement planning, cash flow planning, debt management, investment planning or other important areas of financial education, we can help. For more information, please visit our website at www.hife-usa.org

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