



THE FUTURE OF FINANCIAL WELLNESS

September 30th, 2014
Conference Proceedings

Stanford Center on Longevity
Financial Security Division



**STANFORD
CENTER ON
LONGEVITY**

ATTENDEES

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Becky Bailey — Director, Benefits, Applied Materials

Michaela Beals — Social Science Research Analyst, Stanford Center on Longevity

Jo-Anne Bloch — Partner and Innovation Hub Leader, Mercer

Kelly Blue — Principal, Mercer

M. Michele Burns — Center Fellow and Strategic Advisor, Stanford Center on Longevity

Stephen Capper — Benefits Analyst, Google

Martha Deevy — Senior Research Scholar and Director, Financial Security Division, Stanford Center on Longevity

Betsy Dill — US Innovation Leader for Retirement, Mercer

Margaret Dyer-Chamberlain — Senior Research Scholar and Managing Director, Stanford Center on Longevity

Kathryn Farmer — Senior Director, Global Benefits, Levi Strauss & Co.

Sarah Fitzmaurice — Retirement Business Leader - West Market, Mercer

Cindy Gentry — Senior Partner, Mercer

Gopi Shah Goda — Senior Research Scholar, Stanford Institute for Economic Policy Research (SIEPR)

Lauren Grieco — Research Associate, Stanford Center on Longevity

Lisa Hanson — West Marketing Leader, Mercer

David Janka — Teaching Faculty, d. school, Stanford University

Dominika Jaworski — Research Assistant, Stanford Center on Longevity

David Kaplan — Senior Partner, Mercer

Scott Knowles — Manager, Global Benefits, Cisco Systems

Annamaria Lusardi — Professor of Economics, The George Washington University School of Business

Omar Medina — Financial Benefits Specialist, Google

Gerry Murphy — Senior Partner/West Market Leader, Mercer

Jacob Hale Russell — Lecturer, Stanford Law School

Les Schlaegel — Associate Vice President, Benefits, Stanford University

Steve Vernon — Consulting Research Scholar, Stanford Center on Longevity

Karen Wiens — Director, Global Benefits, Cisco Systems

Julie Wirt — Global Retirement Design and Strategy Manager, Intel

Nescett Wright — Global Wellness Manager, Applied Materials

Lisa Yee — Director, Corporate Benefits, Wells Fargo

AGENDA

Tuesday September 30th, 2014

8:30 – 9:30	Introduction and Background <i>Presentation by Steve Vernon, Stanford Center on Longevity and Gerry Murphy, Mercer</i>
9:30 – 10:15	What has been the effectiveness of financial literacy programs? <i>Presentation by Dr. Annamaria Lusardi, George Washington University</i>
10:15 – 10:30	Break
10:30 – 11:15	What are the lessons learned from health wellness programs? <i>Presentation by Dr. David Kaplan, Mercer</i>
11:15 – 12:00	What are the lessons learned from behavioral finance research? <i>Presentation by Dr. Gopi Shah Goda, SIEPR, and Steve Vernon, Stanford Center on Longevity</i>
12:00 – 1:00	Lunch
1:00 – 1:45	What are the lessons learned from employers? <i>Presentation by Betsy Dill, Mercer</i>
1:45 – 2:00	Transition to Breakouts
2:00 – 4:00	Ideation Workshop – Applying the Learnings <i>Facilitated by Dr. David Janka, Stanford d.school</i>
4:00 – 4:30	Wrap-up and Discussion of Next Steps
4:30	Meeting Adjourns

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INTRODUCTION

This conference, “The Future of Financial Wellness,” gathered a small group of academic researchers, consultants, and sponsors of financial wellness programs to discuss and debate how financial wellness programs can improve the financial security of employees and customers. For our purposes, financial wellness refers to having an understanding of major financial milestones, knowing how to make optimal financial decisions, and having the resources to do so.

The one-day conference began with several presentations and discussions covering a range of topics, including the effectiveness of financial literacy programs, lessons learned from health wellness programs, and how findings from behavioral finance research can be leveraged when developing financial wellness programs.



During the afternoon, the group participated in a design thinking workshop. Participants were encouraged to think creatively about the issues surrounding financial wellness in order to arrive at new and unique solutions. With the help of many colorful post-it notes and “out of the box” thought starters, the group brainstormed key ideas on financial wellness.

Overall, a number of themes arose from the conference, including the need to develop a better business case for financial wellness initiatives, how to use behavioral finance research to inform implementation of workplace financial wellness, and the importance of targeted communication.

Participants also identified several research ideas and immediate next steps that organizations can implement. Many agreed that while more research is necessary to develop better metrics and guidance for wellness programs, employers still can roll out small, incremental initiatives within their existing framework that will collectively have a large impact.

The group realized that the concept of financial wellness and the creation of supporting programs are still in their infancy, but the attendees gathered in the room are the very people who can pave the way for future innovations in the workplace.

TOPIC #1

BACKGROUND

The Future of Financial Wellness

By Steve Vernon, FSA, Consulting Research Scholar, Stanford Center on Longevity

Steve Vernon began the day by discussing the evolution of health wellness programs and how these programs might apply to the changing conception of financial wellness. For decades, employers focused only on health insurance to help people recover from illness and get back to the workplace. However, there was an eventual shift to health maintenance and prevention, which included preventative check-ups and medical tests. Recently, the general view of health wellness has shifted beyond “not being sick” to a broader and more robust conception that includes wellness coaching, fitness, screening, and health assessments.

Vernon noted that the role of traditional financial benefits is also evolving, though not as quickly as health wellness. Vernon explained that the current thinking regarding financial benefits has moved beyond insurance (e.g., retirement income, risk protection) and is approaching the planning and maintenance stage (e.g., budgeting, debt management financial check-ups). The ultimate goal will be for “financial wellness” to refer not to the absence of financial hardship, but to the financial security to accomplish one’s life goals.

Vernon suggested that one major impediment to progress in this domain is the lack of a clear business case for employers to offer broad financial wellness programs. He offered several potential reasons why employers may want to offer such programs, including improved productivity by reducing employee financial stress, fostering graceful and more predictable exits among older workers, brand building, and making the most effective use of shareholder capital contributed to employees’ 401(k) plans. He urged the attendees to offer additional examples of the business case for employers.

“How do you keep people educated, engaged, empowered, and able to move to action?”

- Conference attendee

Vernon also explained that financial concerns vary among different generations and he offered several different potential organizing principles for programs of financial wellness. Programs could be organized

around the themes of demographics (age, family/life status, job type, education, financial sophistication) or life events/milestones (hire date, specific financial or family events, termination/retirement, etc.). With input from the group, Vernon concluded that no one organizing principle will be sufficient.

He concluded by reiterating that the employer is in unique position to help employees plan for their financial future. Employees can conduct due diligence, narrow down the products and services to consider, help employees shop for products, supply institutional pricing, and use behavioral finance techniques to encourage optimal behavior.



Vernon's slides are available in the Appendix.

KEY DISCUSSION POINTS

The Business Case for Financial Wellness Programs

- Financial wellness programs would help to ensure that employees have the financial acumen to retire when they want to.
 - This helps foster graceful exits and allows for more upward movement for mid-level employees within the organization.
 - This also helps to avoid employees “retiring on the job” when they have become disengaged from their work but lack the financial resources to retire.
- Programs to help younger employees achieve interim financial milestones (e.g., saving for a house, paying off college debt, etc.) could be used as a recruiting tool for entry level employees.
- Employees who are financially independent may be more willing to take risks.
- Fostering employee accountability with respect to the value of their benefits packages may translate into greater accountability with respect to their careers as well. This could lead to greater employee productivity and added value for the organization.

Implementing Programs in the Workplace

- Like the annual health check-ups that are included in many health wellness programs, financial wellness programs could offer a once-a-year financial check-up to help employees assess their current needs and priorities.

- Many employees in all age groups express the desire to speak about their finances, face-to-face, with trusted advisors who offer unbiased advice.
- Default options should be offered and employees should understand how they work.
- Organizations might think of tailoring their compensation programs to attract the talent they need.
 - For example, educational debt-relief is likely more appealing to younger workers and generous retirement packages may be more likely to attract experienced, older workers.

Organizing Principles

- Financial wellness programs should be organized along several different dimensions, including:
 - Demographics — e.g., age, family, job type, education, and financial sophistication
 - Life events/milestones — e.g., hire date, specific financial events (home purchase, education, etc.), specific family events (marriage, birth of children, divorce, college, etc.), and termination/retirement
- Life events/milestones help determine the appropriate content to include, but demographics inform the delivery method.
- Employees will likely be receptive to participating in financial wellness programs during life transitions because they are already thinking about change.
- There is no “one size fits all” approach to financial wellness.
- Effective programs will embrace lifelong financial planning and begin early.



Communication and Messaging

- Communication content and delivery must be targeted to specific populations.
- There are life stage/generational differences in how employees respond to communication delivery methods.
 - Social media tools are great awareness generators for Millennials (e.g., for announcements), but they still want face-to-face interaction for financial planning.
 - Not all individuals of the same generation will have the same preferences.
- The content of messages must also take into account the different learning stages of employees.

Those with more financial acumen may be bored by a discussion of compound interest, but many others with low financial literacy need education about basic concepts.

- Ethnicity/cultural differences also affect preferences regarding communication delivery and content.
 - Some cultures hold different attitudes towards saving and caretaking in later life.
 - Some populations may be distrustful of financial institutions.

TOPIC #2

FINANCIAL LITERACY

The Effectiveness of Financial Literacy Programs

By Dr. Annamaria Lusardi, Professor of Economics and Accountancy, George Washington University School of Business

Dr. Annamaria Lusardi, professor at the George Washington University School of Business and director of the Global Financial Literacy Excellence Center, presented the main findings from her body of financial literacy research. She outlined the main themes of financial education, making the case why financial education is critically important. First, she explained that the new economic landscape has left individuals with increased responsibility for their financial well-being. This new landscape is the result of several factors, including the shift to more individual retirement accounts and DC pensions; changes in labor and financial markets; increased borrowing; a more mobile workforce; and significant demographic changes. Since financial instruments are very complex and there are new economic realities, we need to think about empowering people to make financial decisions through targeted approaches.

Dr. Lusardi presented results from her paper, “Financial Literacy around the World” (published in the *Journal of Pension Economics and Finance*), which featured survey results. This survey asked simple questions about basic concepts in financial literacy to people in 13 countries. The questions were about numeracy, knowledge of the workings of inflation, and risk diversification. She found that only 30% of Americans answered all three questions correctly, and, like the United States, most other countries showed similar results. There is also a widespread lack of financial literacy among all generations.



Dr. Lusardi found that financial literacy is strongly linked to retirement planning, which is an important determinant of wealth; individuals who make a plan have three times more wealth than those who do not plan. In another study, she accessed the administrative records of a financial firm and examined whether more financially educated individuals were better investors. She found that individuals who are financially literate earn higher returns on their portfolios. In other work, she found that individuals who are financially literate are less likely to borrow at a high cost.

Dr. Lusardi also discussed her research at Dartmouth College. There, her work focused on how to translate data into practical ways to empower the employee. Her team offered a retirement planning aid that simplified supplementary retirement account (SRA) information by breaking down the enrollment process into seven simple steps. The result was that 21.7% of the participants in the treatment group enrolled 30 days after hire, as compared to only 7.3% of the participants in the control group. She conducted interviews with Dartmouth College employees (targeted at lower income and female employees) in order to learn their financial goals and to understand how they save and invest. From these interviews, she found that individuals make their decisions based on advice of individuals around them. The interviews created personas that put a face on different savers. The interviews were made into videos that were shown to new employees at the time of orientation. Listening to how other employees at Dartmouth College plan and save for retirement increased the enrollment into supplementary retirement accounts by 56%. The main takeaway of this project was that small, low-cost interventions can have a large impact.



Dr. Lusardi then presented action steps, with a particular focus on the critical need to create financial education programs that encompass a broad range of topics including saving, debt, risk, and retirement. These programs need to be targeted to different demographics and should start in grade schools and continue with the employer and local communities. In order to make this effective, communication is key, especially in finding new and improved ways to engage people (e.g., finance museums, gamification).

Dr. Lusardi's slides are included the Appendix.

KEY DISCUSSION POINTS

Financial Literacy in the 21st Century

- Financial literacy is an essential skill for the 21st century based on new economic realities.
 - Financial literacy is strongly linked to retirement planning and is a strong determinant of wealth.
 - Employers need to be concerned with employees' debt management and credit score knowledge.
- We need a common website for financial literacy, similar to health websites like Web MD.
 - The government created mymoney.gov but this resource is largely unknown due to poor advertising.

Financial Literacy and Demographics

- Women are the ideal target for financial literacy programs because they recognize their lack of financial literacy knowledge.
 - Lusardi found that the majority of financial literacy program participants in her studies were women.
- Employers need to create customized financial wellness programs for different demographics in the workplace so that they are equipped to make savings and retirement decisions.



Communication and Messaging

- It is important to change the way we communicate financial information and to simplify the message.
 - There could be timed triggers for sending out messages for age ranges where individuals are likely to experience certain life events.
 - For example, messages about paying off student debt could be sent to employees in their 20s, messages about buying a house to employees in their 30s, and messages about retirement to employees in their 50s and 60s.

“Keep the messages simple.”

- Conference attendee

TOPIC #3

LESSONS FROM HEALTH WELLNESS

Financial Wellness

By Dr. David Kaplan, Senior Partner, Mercer

Dr. Kaplan presented ten lessons learned in health wellness programs that could impact financial wellness programs. He highlighted several key ideas, including the fact that awareness does not translate into action; inducing behavioral change by fear or through providing tools without providing basic needs can be counterproductive; planning aids, small nudges, positive incentives are very effective; and having an independent onsite expert has shown success in health wellness programs. Below is content from one of Dr. Kaplan’s introductory slides that summarizes his presentation’s key points.



What We’ve Learned	What It Means for Financial Wellness
Genes + Behavior = Health	Saving is a function of income minus essential expenses, and an employee’s inclination
Awareness does not translate into action	Educate but don’t expect miracles
Too much choice can be confusing	Reduce to a few meaningful investment choices
Fear (loss aversion) works, but is an unpleasant motivator	Showing people future selves helps spur saving
Positive incentives can help	Matching programs have some benefit
There are costs to opting out	Stop asking for permission
People like doing stuff that is fun	Gaming
People tend to do what they’ve already been doing	Co-opt “bad behavior” for good use (e.g., direct a percentage of all spending to a savings account)
Commitment contracts can work	Leverage but limit the number of strings attached
Personalized goal setting works	Create personalized savings plans

Dr. Kaplan’s slides are included the Appendix.

KEY DISCUSSION POINTS

Encouraging Behavioral Change

- An individual needs both the ability (basic needs met and tools) and the motivation to effectively participate in behavioral change.

What works:

- Professionals can be key influencers. A family physician is very influential in encouraging behavior changes so the same concept could be applied with an independent on-site financial expert.
- Family involvement leads to long-term behavioral change.
- Personalized goal setting works best.
- Opt-out strategies have been effective in increasing enrollment levels of employees.
- Financial incentives are effective for initial engagement and short-term behavior change.
- Visualize the future: techniques using virtual technology leads to greater savings behavior.
 - Individuals are more likely to save money for the future when it is tangible.

“Health and financial wellness are intertwined.”

-Conference attendee

What doesn't work:

- Too many choices may lead to selecting an easy option with lower impact.
- It is unclear if financial incentives work in the long-run.
 - Intrinsic motivation, rather than extrinsic motivation, is more effective in the long-run.

Workplace Implementation

- Financial wellness programs need to be part of corporate culture.
 - Employees should be permitted to participate in financial wellness program activities during work hours.
 - Employers should consider compensating non-salaried workers for attending financial wellness workshops.
 - Management should actively participate in financial wellness programs. Participation would have to be done with great sensitivity due to differentiated compensation.
- We need to identify a set of metrics akin to biometrics to measure financial well-being.



Communication and Messaging

- Provide realistic information and attainable goals.
- Provide different demographics of employees with customized retirement planning through a variety of channels (e.g., email, text messaging, etc.).
 - For example, a company that created an app for their Millennial employees that linked to their retirement accounts measured a significant increase in participation rates at maximum contribution within 30 days.

TOPIC #4

LESSONS FROM BEHAVIORAL FINANCE

Lessons Learned from Behavioral Finance Research

By Steve Vernon, FSA, Consulting Research Scholar, Stanford Center on Longevity

Vernon highlighted the potential role of behavioral finance research in designing effective employee financial wellness programs. He explained that unless employees are actuaries or economists, the complex calculations that are necessary for effective financial planning may be beyond the general capacity or inclination for most people. He also underscored the importance of appealing to both emotion and reason when encouraging optimal financial decision-making.



Vernon proposed that people fall into three broad categories when it comes to financial planning:

- 1) Do it for me.
- 2) Help me do it.
- 3) I'll do it myself.

Most financial products are designed for the third group, yet surveys show that many individuals want help, especially as financial decisions become more complex. Vernon offered two possible responses to address the mismatch between current financial wellness design and employee preferences:

- 1) Do it for them.
- 2) Implement guiding design, in which behavioral finance is further integrated into plan design to encourage optimal decisions.

As an example of guiding design, he presented the Stanford Center on Longevity's new model of positive behavioral engineering, which outlines a three-step model of behavior change that employers can use for guidance as they develop retirement and financial wellness programs. This model is included in the forthcoming paper, "Behavioral Finance: The Next Frontier in Retirement Plan Design."

Lastly, Vernon described several behavioral finance research studies with employee groups that are being planned at SCL, including a study applying a health wellness template to financial wellness, interventions to increase savings, and the use of big data techniques to study personality types and decision-making.

Vernon's slides are included in the Appendix.

Research Designs to Test Impacts of Financial Wellness Programs

By Dr. Gopi Shah Goda, Senior Research Scholar, Stanford Institute for Economic Policy Research (SIEPR)

Dr. Goda offered a taxonomy to organize the barriers that impede optimal financial decision-making. In her work, she divides impediments into two broad categories:

1) cognitive barriers, and 2) motivational barriers.

Cognitive barriers are present in many difficult decisions, such as figuring out how much to save for retirement, how to fill out financial aid forms, or how to enroll in the best health plan. Motivational barriers relate to the

tendency to put off making decisions related to such complex issues. These barriers are very important, as delays can translate into large losses of retirement wealth. However, there is still a great deal we do not know about these barriers, including the best ways to overcome them, how financial tools can play a role, and how overcoming barriers will affect overall financial well-being.



Fortunately, such questions can be addressed with well-designed research studies. By way of example, Dr. Goda presented a research design within the context of retirement savings. The first step is to measure the levels of both cognitive and motivational barriers with respect to the specific issue under study. The next step is to develop a two-pronged intervention that addresses both kinds of barriers. The gold standard in research is what is called a randomized controlled trial, in which participants are randomly placed into different groups, some of whom receive the intervention, and some of whom are placed into a comparison group with no intervention. Dr. Goda described a potential study in which there are several interventions that incorporate different combinations of solutions for cognitive and motivational barriers. At the beginning of this study, researchers would gather baseline data about levels of savings and other demographic variables. Dr. Goda mentioned that she is currently working with a team of researchers to develop a set of surveys that assess levels of cognitive and motivational barriers. Then, participants would be randomly assigned to the different interventions.

“ With all the changes that have occurred in the U.S. in the retirement and healthcare systems, we are increasingly asking individuals to bear more risk when they aren’t equipped to do so.”

-Conference attendee

We can predict that the interventions would have different effects on participants based on their personal levels of cognitive and motivational barriers. For example, the interventions are not likely to have an effect on people who are already high both in cognitive ability and motivation. However, we can predict that the interventions that target motivational barriers will be effective for those low in motivation, the cognitive interventions will be effective on those with low ability, and an intervention with a combination of factors will be most effective on those who are low in both ability and motivation.

Dr. Goda asked the group for their feedback on this design and asked attendees to consider implementing a research study as they develop financial wellness programs in their organizations.

Dr. Goda's slides are included in the Appendix.

KEY DISCUSSION POINTS

The Role of Reason and Emotion

- Financial education efforts should incorporate emotion in their communication strategy.
 - This is because most people make decisions with emotion and reinforce them with logic.
 - Financial education efforts that use just facts and figures will likely be met with limited success.

Employee Capabilities and Preferences

- Employees exhibit a broad spectrum of financial capabilities and preferences, but can generally be divided into three groups:
 - 1) Do it for me.
 - 2) Help me do it.
 - 3) I'll do it myself.
- There is a great deal of variability regarding financial preferences.
 - Not only are there different preferences between individuals, but the same individual may fall into different categories depending upon the financial planning tasks, e.g., budgeting/spending vs. retirement planning.
 - Individual preferences may also vary over the lifetime.
- While the “do it for me” approach may work for retirement planning (e.g., automatic enrollment, auto escalation), it may not be appropriate for the more personal nature of day-to-day budgeting.
- The best way to assess employee preferences is to simply ask them, rather than running the risk of making incorrect assumptions.

**“One size doesn't fit all.
One size fits one.”**

-Conference attendee

TOPIC #5

LESSONS FROM EMPLOYERS

What Are the Lessons Learned from Employers?

By Betsy Dill, US Innovation Leader, Mercer

Betsy Dill, former head of Human Resources of a prominent cultural institution, shared her experience implementing a new HR strategy to offer attendees a practical example of large-scale programmatic change. She walked the group through her journey as an HR leader to create a workplace culture of accountability. Even though the organization offered very generous benefits and many perks, extensive interviews with employees revealed several misconceptions about the value of total compensation, concerns about opportunities for growth, and a sense that the institution was hierarchical. Interviews with



executives revealed that there was a need to create more visibility to staff about the realities of running a non-for-profit and attendant budgetary constraints. Dill noted that the organization had traditionally followed a paternalistic model, but needed to move towards a “Good Samaritan” model where staff were given the opportunity to take more initiative and accountability for their careers.

A focus on financial wellness ended up being a key component of the accountability strategy. In order to move the employee value proposition to one of empowerment, the organization eliminated unnecessary bureaucracy and provided context to staff regarding the mission of the organization, the budgeting process, and the rationale for executive decisions. From an engagement standpoint, the organization invested heavily in targeted education through brown bag gatherings, focus groups, and informal surveys. Dill outlined numerous programmatic changes, including implementing online development plans, redefining the salary structure, adding additional opportunities for professional development, instituting a high deductible health plan with a partially funded health spending account, and adding loans and a Roth component to the retirement plans.

Dill highlighted the importance of working with the communications department and outside consultants through all levels of implementation. Prior to roll-out, the organization increased direct communication with staff to lay the foundation for engagement and created a benefits portal with a single sign-on to access all benefits information. They also rolled out the training with several tools to help employees make optimal decisions. In the financial wellness space, they partnered with Vanguard, Financial Finesse, and Financial Engines to offer a financial symposium, on-site training, and personal financial planning basics, among other tools.

Overall, the new HR strategy resulted in an increase in retirement plan participation, high levels of participation in training and tools, and positive feedback from employees.

KEY DISCUSSION POINTS

Communication Strategy

- Communications or marketing departments should be included when implementing programmatic changes.
 - This helps HR leaders “speak the language” of their employees by avoiding technical jargon.
- Communications should occur early and often with employees during both planning and implementation stages, using targeted message delivery.
 - Examples of targeted communication for hard-to-reach populations include:
 - Having sessions at different times of day that work better for those with late-night shifts.
 - Enlisting help from translators to communicate with workers whose first language is not English.
 - Compensating non-salaried workers for attending workshops.
- The messaging surrounding benefits should be consistent with the how HR leaders want employees to engage in the program.
 - For example, if an organization wants to instill a sense of accountability among employees, then it should utilize a “Let me show you how” rather than a “We’ll take care of you” messaging campaign.

HR Design Strategy

- It is important that employees understand the benefits that are available to them in the workplace.
 - This is a necessary step to help them make optimal decisions about their physical and financial health.
 - This also allows the organization to get credit for benefits offered.
- The ideal employee wellness program uses a holistic approach that incorporates social, emotional, physical, and financial health over the lifespan.
- Culture change takes time. Plan accordingly.



Considerations

- Employees seem to have difficulty understanding the value of employer-sponsored benefits programs.
- Employees engage based not just on age and pay but also based upon learning styles. One size does not fit all.
- Millennials may have difficulty engaging with financial wellness programs because they have so much college debt that saving for emergencies and retirement is not a priority for them.
- Lower wage earners have many items competing for their paycheck so they may need more help understanding trade-offs as they consider how to access employer-sponsored benefit programs.

D.SCHOOL IDEATION WORKSHOP

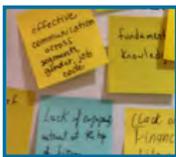
Discussion Leader: Dr. David Janka

Dr. David Janka of the Hasso Plattner Institute of Design at Stanford (known as the d.school) led a design ideation workshop with conference participants. The workshop was based on the design thinking process, which draws on methods from engineering and design, and combines them with ideas from the arts, tools from the social sciences, and insights from the business world. The process encourages combining creative and analytical approaches to arrive at nontraditional solutions.



Using unique prompts like, “How can financial wellness be more like a spa?” and “What would the world look like with unlimited funding for financial wellness programs?”, Dr. Janka led the group through a series of brainstorming exercises that encouraged attendees to think in new and innovative ways about the issues surrounding financial wellness programs. Below is a sample of outcomes from the sessions.

How attendees imagine a world with unlimited financial wellness funding:



- Employers offer individualized financial wellness programs that include annual financial wellness check-ups.
- Employees participate in financial wellness activities on company time.
- Companies would help pay off student debt.
- Financial counseling is easy to access through house calls, on-site counselors, and mobile access.
- Financial literacy education is available to people of all ages.
- High profile influencers like sports stars and famous investors are recruited for national public campaigns about financial literacy.
- Technology is leveraged to provide better use of financial education tools.

Financial wellness programs should offer a relaxing experience.

Employer Actions:

- Make the experience more spa-like and less like going to the dentist.
- Add plants and softer lighting to create a relaxing atmosphere and nice ambiance.
- Offer an on-site financial wellness center or office.
- Provide personalized 1:1 advice from independent financial advisors.
- Encourage employees to share the experience with family members or trusted colleagues.



Government support would enable the delivery of effective financial education.



Government Actions:

- Launch a national financial literacy campaign with common financial literacy standards.
- Support financial education programs in grade schools and community centers.
- Develop safe harbors to reduce liability for employers.
- Encourage employers to offer packaged solutions to common financial challenges.

Some of the biggest surprises were:

Challenges:

- It is difficult for employees to save when they have a lot of debt and little savings.
- There are significant differences between how men and women and different generations think about financial wellness.

Communication:

- The way you communicate financial wellness programs and information to employees is highly important.
- Messages need to be targeted to the specific needs of different demographics. For example, Gen X and Y are more concerned about emergencies than retirement planning.

Industry:

- There is a lack of industry-wide clarity on how to organize and implement financial wellness programs.
- Employees do not use all of benefits offered at a company, so an employer should either re-evaluate benefits packages or increase awareness of benefits offered.



EMERGING THEMES

Over the course of the day, several key topics of interest emerged around the topic of financial wellness programs. These themes included bolstering the business case for financial wellness programs, workplace implementation, ensuring targeted communication and encouraging behavioral change using what we've learned from health wellness programs and behavioral finance, among others.

Define the Business Case

Talent Management

- Financial wellness is an increasingly important component of talent management.
 - HR talent costs decrease due to increased retention rates and timely retirement exits.
 - Employees who are financially secure have increased productivity due to stress reduction and the ability to take greater risks in the workplace.



Brand Building

- Financial wellness programs support brand image by fostering graceful exits for retirees and showing that employers care about the financial well-being of their employees.

Shareholder Capital

- Investing in programs to help employees manage their retirement assets makes the most effective use of shareholder capital that was contributed as a match.

Implement in the Workplace

Insights from Behavioral Finance

- Implement small behavior nudges (e.g., text message reminders, simple educational brochures) to help employees meet their financial goals through simple, incremental steps.
- Provide narratives of those who have successfully changed their behavior to encourage action in others. Stories and peer support are powerful motivators.
- Implement default programs to foster behavioral change and engagement.

Lifespan Approach

- When creating financial wellness programs, use a lifespan approach that incorporates basic financial literacy skills and accounts for unexpected life events.
 - Basic financial literacy skills, such as budgeting, saving and paying off debt, are strongly linked to retirement planning and are a strong determinant of wealth.
 - Our focus should be on financial security throughout the lifespan, including interim milestones such as paying off student loans, buying a home, and sending children to college.
 - Financial wellness programs must account for unexpected life events such as divorce, a child with special needs, and major illness.

On-site Office

- Create an on-site financial wellness office to enable a personal connection with an independent financial advisor who provides 1:1 assistance and the opportunity to involve the whole family.
- Make progress check-ins part of the workday.
- Create a relaxing environment.

“We thought we were communicating, but we were only messaging.”

- Conference attendee

Communicate and Message

Targeted, Simple, and Actionable Communication

- Develop specific communications for various segments of the population, especially for those who have little money and don't know where to start.
- Communicate financial information and financial wellness program initiatives in a simple, clear way. A brochure on complicated issues won't be effective if people can't understand the content.
- Provide the necessary tools and resources that will allow employees to move to action.
- Create personalized goals plans. This has been effective in the health wellness space.
- Create ready-made media content to engage local and national media in the discussion.

Considerations

Lack of Definition

- Progress in this field is hindered because there is no clear definition of financial wellness and what a financial wellness program looks like in the workplace.

Senior Leadership Perceptions

- Executives inaccurately perceive that employees know how to save when they are well-paid.
- There is a lack of opportunity to talk about financial wellness with C-suite executives.

Data

- There is no defined ROI or list of best practices for financial wellness programs, largely because these programs are new. Employers haven't implemented such programs to enable measurement of ROI.
- There is a hard data blind spot because employers do not have a full picture of their employee's financial situations.



Lack of Employee Awareness & Demand

- Employees are not asking for financial wellness programs because they are not aware of these types of programs and do not understand their value.
- It is a long process to get employees educated and engaged in financial wellness programs.
- New employees have difficulty saving when they are often saddled with significant student debt.

RESEARCH AGENDA AND ACTION ITEMS

SCL Research Agenda

One goal of the conference was to identify possible research and projects that could increase the adoption of financial wellness programs. Conference attendees identified several potential projects for the Stanford Center on Longevity to explore:



- Compile case studies of what has been successful to create a set of preliminary “best practices” for employers.
- Identify and quantify potential benefits to employers that result from offering financial wellness programs.
- Develop financial wellness milestones for different population segments based on generational and life stage differences.
 - Determine what metrics should be used as indicators of success.
- Analyze how demographic, generational, and life stage differences may affect intervention efficacy.
- Partner with employers to measure outcomes of financial wellness interventions.
- Investigate which interventions improve financial wellness.
 - What motivates people to move to action?
 - What delivery channels do employees respond to?
 - Which communications strategies are most effective?

Employer Action Steps

Many employers already offer an array of financial wellness options. There are several steps that organizations can take, however, to improve financial wellness within their current constructs.

- Incorporate financial wellness programs into the corporate culture.
 - Management expectations should include employee participation in benefits programs as part of performance objectives.

- Indicate that employees may participate in benefits programs during regular working hours.
- Increase the ease and accessibility of financial wellness options.
 - Institute yearly financial check-ups for all employees. This could take the form of house-calls with financial advisors.
 - Implement a benefits portal so that all benefits-related information is accessible in a centralized location.
 - Help employees learn about their credit score. It is a small, easy step with a large impact.
- Mine current data to analyze participation rates and identify evidence of financial hardship among employees.
 - Analyze participation in benefits programs by demographic variables to see if any particular groups are falling behind.
 - Use the prevalence of loans from 401(k) plans as an indicator of financial distress.
- Develop targeted communications and educational tools.
 - Develop educational seminars on finances directed at women, who are more likely than men to achieve high rates of participation and success.
 - Create materials that help Millennials achieve interim financial milestones, like paying down student debt, saving for a house, having their first child, etc.

“Financial wellness is important for the employer & employee value proposition.”

-Conference attendee

APPENDIX

CONFERENCE PRESENTATIONS

The Future of Financial Wellness.....	43
by Steve Vernon, FSA	
The Effectiveness of Financial Literacy Programs.....	49
by Annamaria Lusardi, PhD	
Financial Wellness.....	73
by David Kaplan, MD	
Lessons Learned from Behavioral Finance Research	83
by Steve Vernon, FSA	
Research Designs to Test Impacts of Financial Wellness Programs.....	91
by Gopi Shah Goda, PhD	

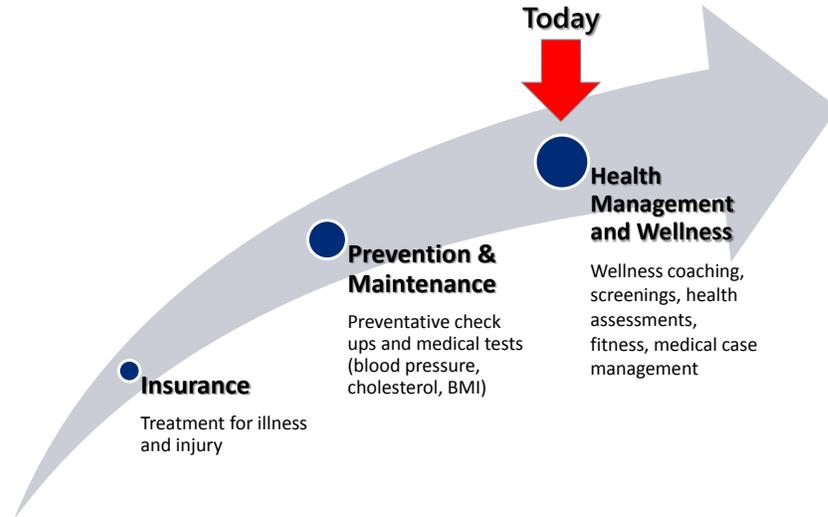


The Future of Financial Wellness

September 30th, 2014
Stanford Center on Longevity



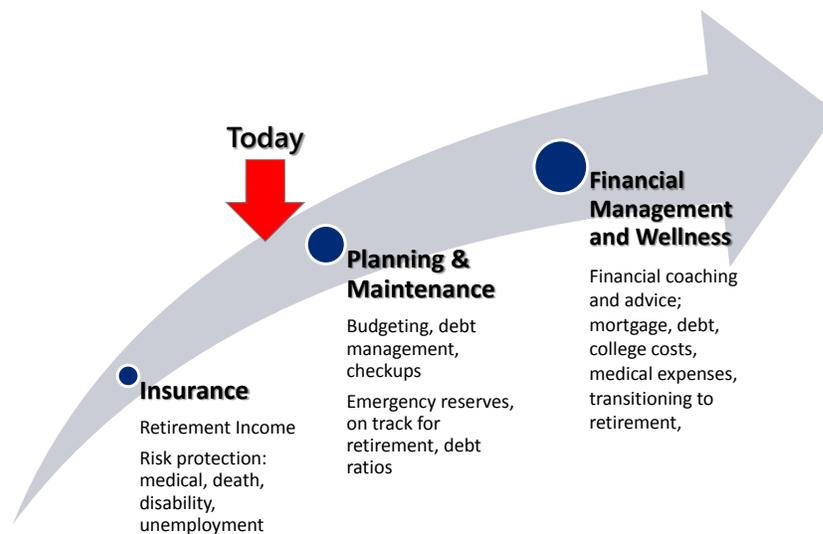
The Evolution from "Insurance" to Health/Wellness



November 7, 2014

2

The Evolution to "Financial Wellness"



November 7, 2014

3

What is the Employer Business Case for Evolving

Some thoughts...

- Improved productivity by reducing financial stress
 - Financial stress causes increase in medical issues, higher absenteeism (Garman, et al)
- Improved ability to manage workforce
 - Predictable and appropriate exits
- Better use of shareholder capital by improving financial outcomes for employees
- Corporate brand builder
 - Desirable place to work
 - Good corporate citizenship – it's the right thing to do

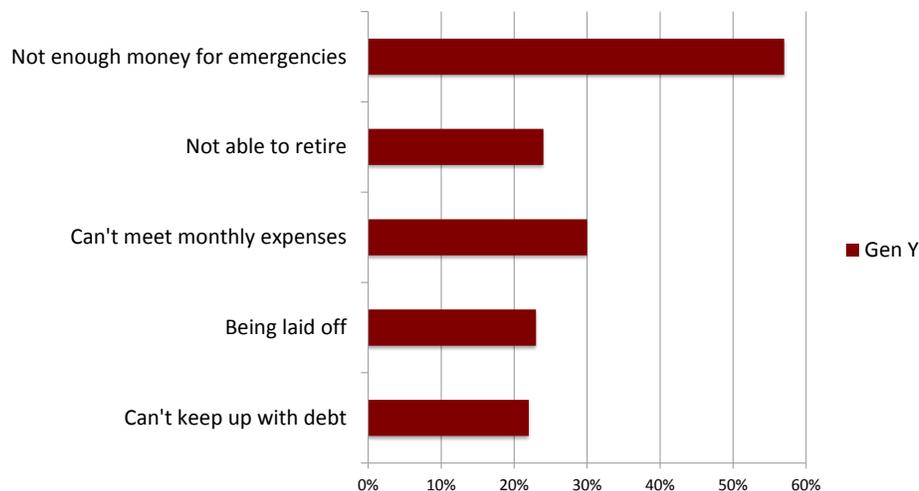
Others?



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Top Financial Concerns: Gen Y



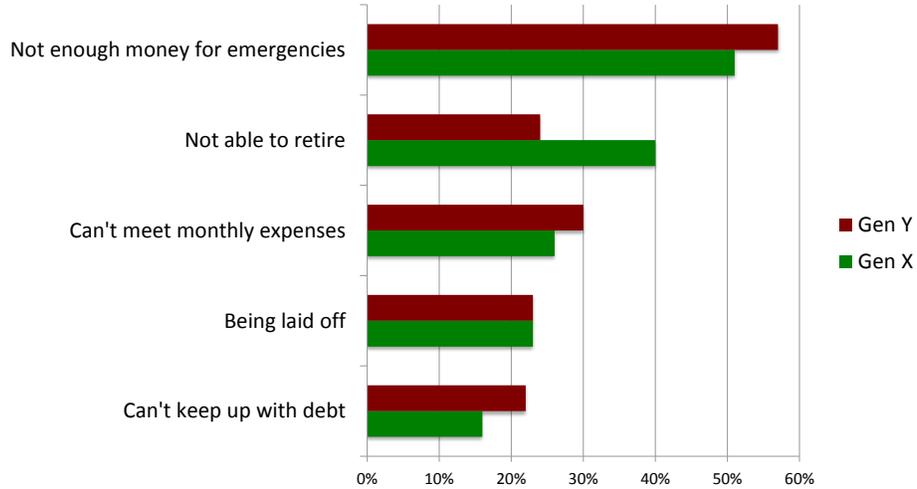
Source: PWC 2014 Employee Financial Wellness Survey



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Top Financial Concerns: Gen X vs. Y



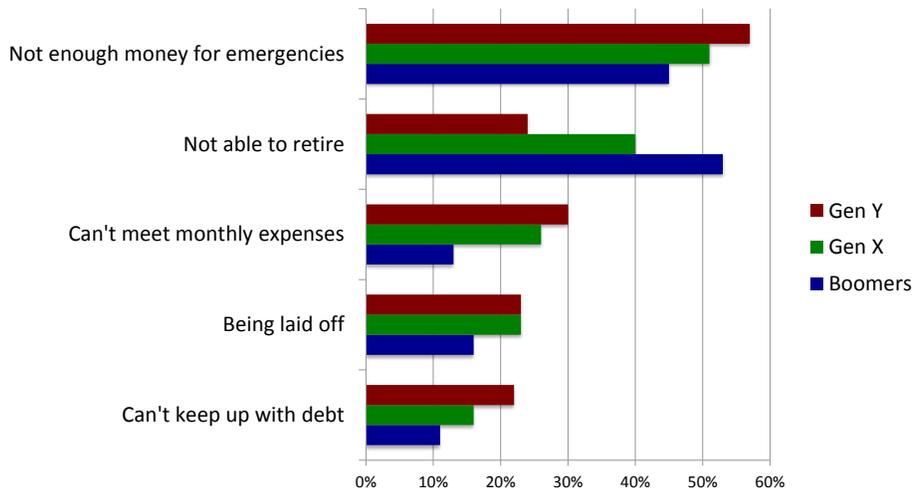
Source: PWC 2014 Employee Financial Wellness Survey



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Top Financial Concerns: Gen X vs. Y vs. Boomers



Source: PWC 2014 Employee Financial Wellness Survey



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How Should Programs be Organized?

Employee Demographics

- Age
- Family/life status
- Job type: Blue collar vs. white collar
- Education
- Financial sophistication

Life Events/Milestones

- Hire date
- Specific financial events: home purchase, education
- Specific family events: marriage, birth of children, college, divorce
- Termination/retirement

Others?



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What Can Employers Provide?

- Education and tools to enable better decisions
- A narrowed down list of qualified products and services
- Group/institutional pricing
- “Do it for them” solutions when decisions desired are complex
- Use of behavioral finance techniques to influence more effective decisions
- Others?



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Today's Agenda

- (9:30-10:15) What has been the effectiveness of financial literacy programs?
- *Dr. Annamaria Lusardi, George Washington University*
- (10:30-11:15) What are the lessons learned from health wellness programs?
- *Dr. David Kaplan, Mercer*
- (11:15-12:00) What are the lessons learned from behavioral finance research?
- *Dr. Gopi Shah Goda, FSA, Stanford*
- *Steve Vernon, FSA, Stanford Center on Longevity*
- (1:00-1:45) What are the lessons learned from a plan sponsor?
- *Betsy Dill, FSA, Mercer*
- (2:00-4:00) Discussion – Applying the Learnings
- *Dr. David Janka, Stanford d.School*
- (4:00-4:30) Wrap-up and Discussion of Next Steps
- (4:30-6:00) Reception and presentation: Does Financial Education Promote Financial Competence? (optional)
- *Dr. B. Douglas Bernheim, Stanford University*



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Listening Capture Guide

REFLECT ON THE FUTURE OF FINANCIAL WELLNESS

Using the categories below, jot down your thoughts and reflections throughout the day. Include what you hear from speakers and other attendees.

In addition to facts and ideas, consider things that are interesting, provocative, and controversial. Note tensions, opportunities and unanswered questions. This afternoon we will synthesize and distill.

The Business Case

What is Success?

Decision Making

Engagement + Motivation

Use of Technology

Other Ideas + Thoughts



The Future of Financial Wellness
September 30, 2014

The effectiveness
of financial literacy programs

Annamaria Lusardi

Academic Director: Global Financial Literacy
Excellence Center (GFLEC)
The George Washington School of Business



The growing importance of financial literacy

A new economic landscape

Major changes that increase individuals' responsibility for
their financial well-being

- **Changes in the pension landscape**
 - More individual accounts and DC pensions
- **Changes in labor markets**
 - Divergence in wages – skills are critical
 - More flexibility – workers change job often
- **Changes in financial markets**
 - More opportunities to borrow & in large amounts
 - Greater complexity



Increase in individual responsibility

Being our own CFO

- **Individuals are now in charge of deciding**
 - How much to contribute to retirement accounts
 - How to invest retirement wealth
 - How to decumulate retirement wealth

- **Not enough to look at asset side; liability side is equally important**
 - Increase in household debt, even close to retirement
 - Debt normally incurs higher interest rates than what is earned on assets

- **Financial decisions are complex**
 - Many more financial products than in the past



A large amount of research in past 15 years

Some questions

1. How well-equipped are people to make financial decisions?
2. Are there groups to target?
3. Does financial literacy matter?
4. What makes financial education programs effective?

How well-equipped are people?

Do individuals know the basic concepts that are key to making financial decisions?

**Aim: Assess knowledge of basic concepts:
The *abc's* of personal finance**

The journey of three simple questions

Measuring financial literacy (I)

To test numeracy and understanding of interest rates, we asked:

“Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?”

- More than \$102
- Exactly \$102
- Less than \$102
- Don't know
- Refuse to answer

Measuring financial literacy (II)

To test understanding of inflation, we asked:

“Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy...”

- More than today
- Exactly the same as today
- Less than today
- Don't know
- Refuse to answer

Measuring financial literacy (III)

Finally, to test understanding of risk diversification, we asked:

“Do you think the following statement is true or false?
Buying a single company stock usually provides a safer return than a stock mutual fund.”

- True
- False
- Don't know
- Refuse to answer

Financial Literacy around the World (FLat World)

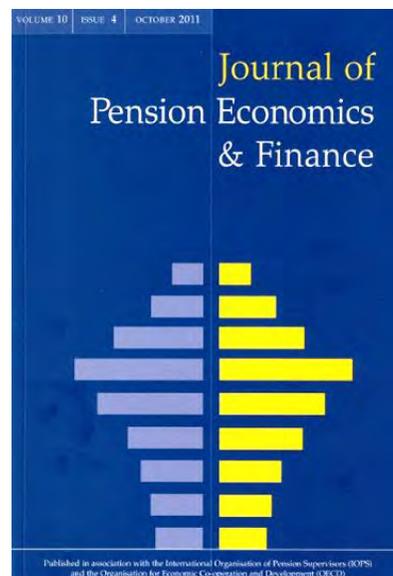
Evidence from 13 countries:

- ❖ USA
- ❖ The Netherlands
- ❖ Germany
- ❖ Italy
- ❖ Russia
- ❖ Sweden
- ❖ New Zealand
- ❖ Japan
- ❖ Australia
- ❖ France
- ❖ Switzerland
- ❖ Romania
- ❖ Canada



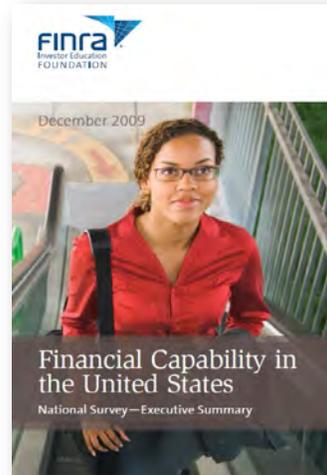
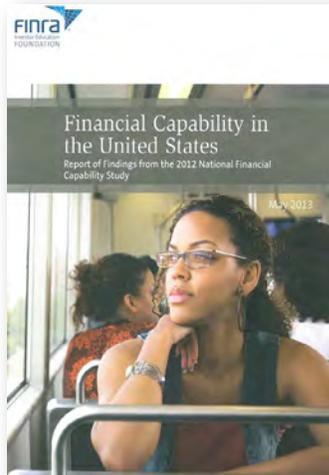
Special issue of JPEF, project ongoing

- ***Financial Literacy around the World (FLat World)***
- **We published a paper for each participating country**



New data for the United States

The 2009 & 2012 National Financial Capability Study



How much do Americans know?

Distribution of responses across the U.S. population 2009 National Financial Capability Study (NFCS)

	Responses			
	<i>Correct</i>	<i>Incorrect</i>	<i>DK</i>	<i>Refuse</i>
Interest rate	65%	21%	13%	1%
Inflation	64%	20%	14%	2%
Risk diversif.	52%	13%	34%	1%

NB: Only 30% correctly answered all three Qs; less than half (46%) got the first two Qs right. **Strikingly similar evidence across countries.**

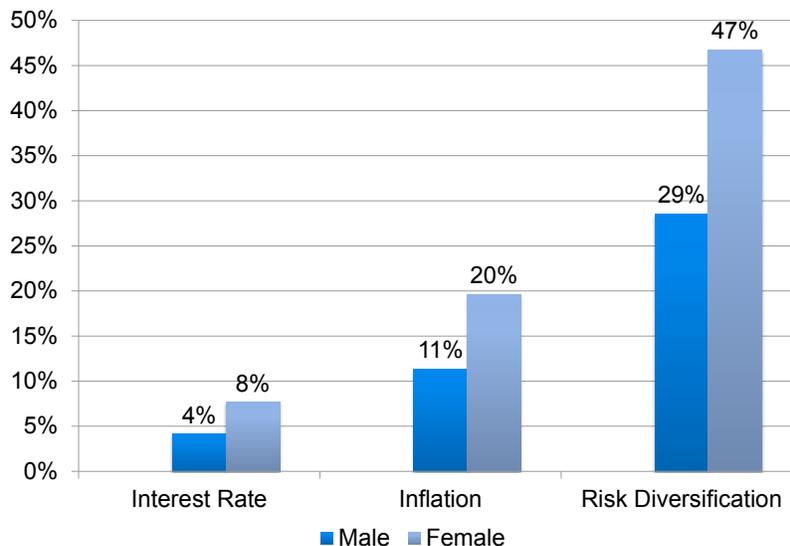
Financial literacy across age groups (2012 NFCS)

The widespread lack of financial literacy

	Total sample	Millennials	Mid-career	Pre-retirees
Interest Q correct	80%	75%	81%	83%
Inflation Q correct	65%	50%	68%	79%
Risk Q correct	54%	44%	56%	62%
All 3 Qs correct	41%	28%	43%	51%

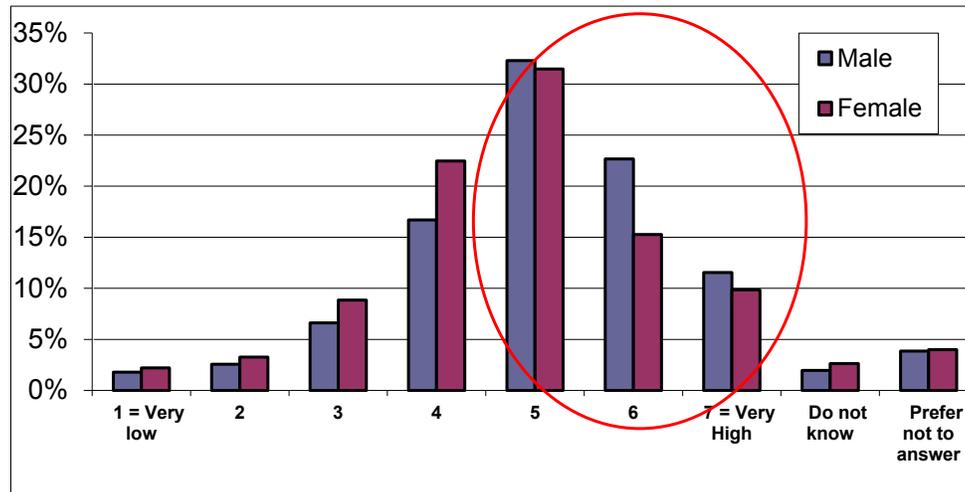
Note: Respondents aged 23 to 61 and employed at the time of the survey. Young people know the least in most countries.

“Do not know” responses by gender (age 23-28, NLSY). Same finding in all 13 countries



Gender differences in self-reported literacy (TNS data for US - 2009)

On a scale of 1 (very low) to 7 (very high), how would you assess your overall financial knowledge?



Implications for financial education

What the research suggests

- **Need to improve levels of financial literacy**
 - Risk diversification is most difficult concept
- **Need for more targeted programs**
 - One size does not fit all
- **Women are an ideal group for fin. educ. programs**
- **It will be difficult to engage employees**
 - They are not aware of their lack of knowledge

Turning to behavior

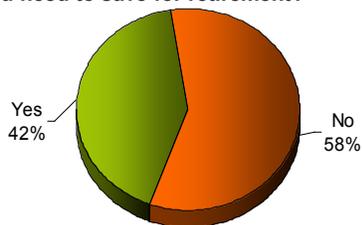
We have looked at several outcomes

- **Retirement planning**
 - An important determinant of wealth
- **Investing**
 - Returns on investment, accounting for risk
- **Borrowing**

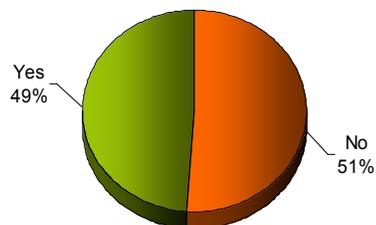
Main message: Financial literacy matters!

Planning ahead: Most Americans don't

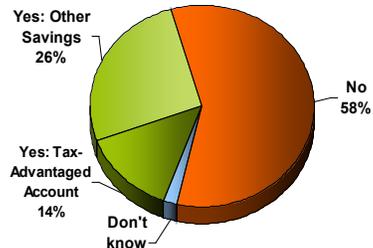
Have you ever tried to figure out how much you need to save for retirement?



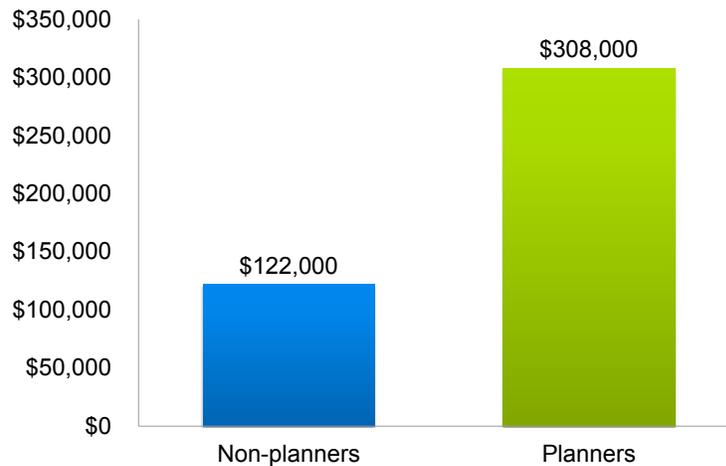
Have you set aside an emergency or rainy day fund?



Are you setting aside any money for your children's college education?



Retirement planning and wealth holdings



Median Net Worth, 2004 US HRS, age 51-56

Linking financial literacy to behavior

Financial literacy is an important determinant of retirement planning

Across countries:

- Financial literacy affects retirement planning and the causality goes from literacy to planning
- Knowledge of risk diversification is most important for retirement planning
- Financial literacy affects other decisions, for example borrowing and investing

Recent research work

Financial knowledge & 401(k) investment performance

- Use administrative data from large financial institution
 - High quality data
- Designed survey that had the 3 financial literacy questions
 - Higher financial literacy than in the US population
- Linked financial literacy to return on 401(k) investments
 - Unique data
- **Those who are more financially literate earn 130 basis points more on their portfolio (adjusted for risk)**
 - **Similar evidence is emerging in other papers**

From research to applications

Venues for financial education

- In schools
 - Easier to reach the young
- In the workplace
 - Easier to reach the adults
- In libraries, local communities, museums
 - Where people go to learn



Financial education in schools

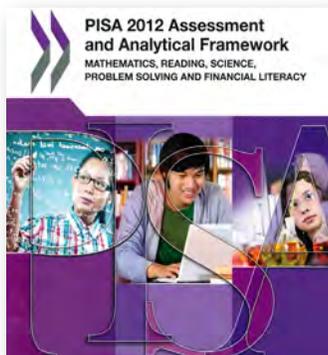
Need to prepare the new generations

Financial education in school is critically important:

- Investment in higher education is one of the most important decisions the young face
 - Young people start their economic life in debt
- Need to be financially literate *before* engaging in financial transactions
- Provide a basis on which to build
 - It will be cheaper to do workplace financial education

OECD's Programme for International Student Assessment (PISA). Financial literacy added in 2012

Are students well prepared for future challenges?
Can they analyze, reason and communicate effectively?
Do they have the capacity to continue learning throughout life?



Every three years the OECD Programme for International Student Assessment (PISA) answers these questions and more. It assesses to what extent students near the end of compulsory education have acquired some of the knowledge and skills essential for *full participation in society*.

How are younger generations doing?

Findings from the 2012 PISA financial literacy data

- In comparison to other countries, the US ranked average
- 18% of US students scored below the proficiency level
- There are large differences across demographic groups
- Most of the variation in financial literacy is explained by socio-economic status

How to help employees make financial decisions

The Dartmouth Project

- Simplify financial decisions
- Provide information when needed by individuals
- Target specific groups
- Use communication that does not rely on figures and numeracy



A Planning aid

Together with a marketing professor, I designed a planning aid intended to help Dartmouth College employees enroll in supplementary retirement accounts (SRA)

We have outlined 7 simple steps to help you complete the application.

1. **Select a 30 minute time slot** right now to complete the online contribution to your Supplemental Retirement Account (SRA) during the next week.
2. **3 minutes.** Check to see if you have the following materials: a) worksheet in your benefits packet , and b) the name and social security number of a beneficiary .
3. **Select the amount you want to invest for 2006** (minimum: \$16/month, maximum: \$1,666.67/month), even if you don't know your take-home pay in your first month. If you want, you can change this amount at a later date. This voluntary contribution is tax-deferred, you will not pay taxes on it until you withdraw the funds.
4. **5 minutes.** **Select a carrier.** If you do not select a carrier, Dartmouth will invest the non-voluntary portion of your college funds in a Fidelity Freedom Fund, a fund that automatically changes asset allocation as people age.
5. **5 minutes.** Now you are **ready to complete your worksheet.** Complete the worksheet even though you may be unsure of some options. You can change the options in the future.
6. **Take your completed worksheet to a computer** that is available for 20 minutes. If you like, you can use the one in the Human Resources office at 7 Lebanon Street, Suite 203.
7. **15-20 minutes.** **Log on to Flex Online and complete your online SRA registration** within the 20 assigned minutes. Be sure to click on the investment company (TIAA-CREF, Fidelity, or Calvert) to complete the application. You need to set up your account – otherwise your savings will not reach the carrier.



Fidelity.com

TIAA-CREF Calvert



FlexOnline
Get Your Savings Started

A Planning aid

Don't give up! Contact the Benefits Office (6-3588) if for any reason you could not complete the online application.



It takes no time to prepare for your lifetime!

Most people plan on electing a supplemental retirement account, but feel they don't have the time or information right now. We have outlined 7 simple steps to help you complete the election process. It will take between 15 – 30 minutes, from start to finish. It will take less time for you to start to insure your future than it takes you to unload your dishwasher!

Program effectiveness

There was a large increase in savings enrollment within 30 and 60 days of hiring among participants who received the brochure.

	30 days After Hire	60 days After Hire	Number of Observations
Control Group	7.3%	28.9%	210
Planning aid	21.7%	44.7%	166

In their own words: Four videos



Topics discussed:

Hopes for retirement

Why they save

How they save

Planning for the future

Their recommendations

Effects of videos

Increase of 56%

Possibility to test because HR did not show videos on some days



Main takeaways

The Dartmouth Project

- Even small interventions can have large impact
- These are low-cost changes
- Need to listen to employees, debt was their main concern
- HR is not well equipped to deal with DC pensions



NYSE Workplace Financial Fitness Toolkit

A program for any company

- **Ten steps divided into 3 stages: Basic, Intermediate, and Advanced**
- **Customize the program for employees**
One size does not fit all
- **The Employee Checklist**
Ten guidelines with implementation tips to improve employees' financial fitness

Workplace Financial Fitness Toolkit

The Employer Checklist

Ten key steps to financial fitness, divided into three stages and designed to help employees meet their financial goals.

[LEARN MORE](#)

The success of employee benefit programs depends on employee participation rates! Nearly four in five employees claim they would benefit from financial advice and answers to everyday questions. Improve employee participation rates, employee welfare and your company's bottom line by using our customizable employer and employee financial fitness toolkits.

THE BASICS

Automatic Enrollment
Participation soars when employees are automatically enrolled.
[MORE](#)

Automatic Escalation
Scheduled increases make the most of automatic enrollment.
[MORE](#)

Lifecycle Asset Allocation
Give employees the chance to grow their retirement savings.
[MORE](#)

Curiosity

Register Your Classrooms Today for an Engaging Student Challenge

[Learn More](#)

Did You Know?

Bells were introduced on the NYSE when continuous trading was instituted in the 1870s. Originally a Chinese Gong was used, but brass bells have been used since the Exchange moved to its current location in 1903. Visit our history page to learn more fascinating facts. [MORE](#)

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INTERMEDIATE



Employee Toolkit
Increase participation rates by empowering employees to customize programs. [MORE](#)



Direct Deposit
Increase safety and lower administrative costs at the same time. [MORE](#)



Financial Planning and Tax Preparation
Employee satisfaction is as a competitive advantage. Create a culture of caring for employees. [MORE](#)



Credit Scores
Improved employee credit scores have direct and indirect benefits to employers. [MORE](#)

ADVANCED

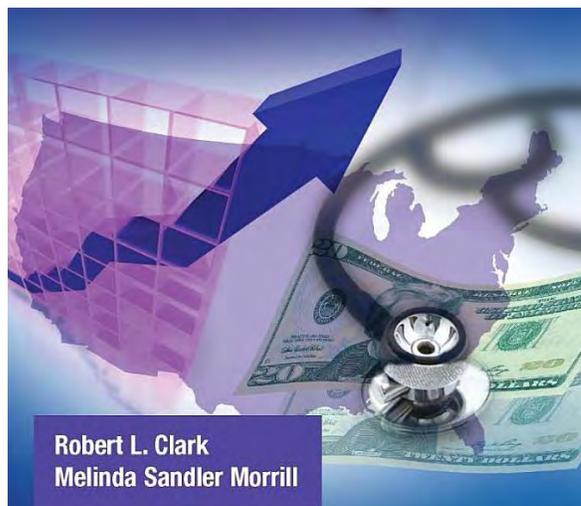
Debt Management
Help with debt management can prevent an employee's loss of focus and performance. [MORE](#)

Health and Financial Fitness Assessment
Data enables employers to design an evidence-based benefit plan. [MORE](#)

Financial Planning Seminars
Educate your employees about the customized financial plans available to them. [MORE](#)



Evaluating workplace education in six big firms



Building long-term financial security

Best practices

How employers can help new hires save for retirement: *Best practices that build long-term financial security*



We prepared a report documenting best practices for improving financial decision making in the workplace.

- Based on studies of many employer-provided financial education programs
- Goal of the report is to help employers improve retirement saving choices of newly hired workers

A program for the young

Five steps to planning success

- **We designed a program for young workers**
 - They are the ones with low literacy
- **Used new method of communication**
 - A video
- **Kept the message free of economic/finance jargon**
 - Very important for women
- **Covered concepts, such as interest compounding and risk diversification, in a simple story**

Short video about interest compounding



[Link to video!](http://www.rand.org/labor/centers/financial-literacy.html) <http://www.rand.org/labor/centers/financial-literacy.html>

Short video about risk

Risk diversification = don't put all your eggs in one basket



[Link to Video](http://www.rand.org/labor/centers/financial-literacy.html) <http://www.rand.org/labor/centers/financial-literacy.html> 

We measured whether it worked

- Tested interventions using an Internet panel
- Baseline questions on 5 concepts
- Randomly assigned
 - Intervention group
 - ◆ Video only, narrative only, video & narrative
 - Control group
 - ◆ No intervention
- Repeated 5 concepts questions

Findings

- After being exposed to videos, the performance on financial literacy questions (general knowledge and hypothetical choices) improved
- While young were targeted, the videos affected all age groups

A financial bootcamp for women

The screenshot shows the LearnVest website interface. At the top, the logo reads 'LV LEARNVEST™' with the tagline 'LEARN • EARN • INVEST'. Navigation links include 'Summary', 'Bootcamp Programs', 'Money Tuneup', 'Living Frugally', 'LV Experts', 'Tools', and 'Financial Basics'. The main heading is 'Bootcamp Programs' with a sub-headline: 'Email programs written by experts and delivered to you daily to get your money organized'. Below this, a section titled 'Step 1: Choose Your Bootcamps' features two highlighted programs:

- Personal Finance Basics** (Free!): '17 days you will become the master of your financial domain. Get the accounts you need, create a budget you can stick to, and get on the right track for retirement.'
- Get Out Of Debt** (Free!): 'No matter how much debt you have, this 15-day Bootcamp will give you the tools, support, and know-how to tackle it once and for all.'

Thinking outside the box: Financial literacy games



Thinking outside the box: A saving museum



An International Federation of Finance Museums: Four founders – now extended to many museums



Concluding remarks

Shifting paradigm

- **Equipping people to make saving and retirement decisions**
 - Financial literacy is an essential skill for the 21st century
- **Need to start early**
 - The importance of financial literacy in school. These are not separate topics. Pension providers should speak to Department of Education
- **Need targeted approach**
 - Workers are very different
- **Cannot focus on retirement savings only**
 - Other decisions are important and affect retirement security

Contact and sources of information

Annamaria Lusardi

Global Financial Literacy Excellence Center (GFLEC)

E-mail: alusardi@gwu.edu

Web page: <http://www.gflec.org/>

Blog: <http://annalusardi.blogspot.com/>

Twitter: [@A_Lusardi](https://twitter.com/ALusardi)

Facebook: <https://www.facebook.com/gflec>

FinLit Talks: <http://www.gflec.org/>

Financial Literacy Seminar Series: <http://business.gwu.edu/flss/>



Financial Wellness

David Kaplan

We have all spent a lot of time and effort trying to get employees to engage in healthy behaviors. What are the lessons learned from our successes and failures in wellness programs?

Lessons from health

What we've learned

- 1 Genes + Behavior = health**
- 2 Awareness does not translate into action**
- 3 Too much choice can lead to confusion or doing the wrong thing**
- 4 Fear (loss aversion) works, but is an unpleasant motivator**
- 5 Positive incentives can help**

What it means for Financial Wellness

- Saving = f(income less essential expenses, inclination)**
- Educate, but don't expect miracles**
- Reduce to few, meaningful investment choices**
- Showing people future selves helps spur saving**
- Matching programs have some benefit**

MERCER

November 10, 2014

2

Lessons from health

What we've learned

- 6 There are costs to opting out**
- 7 People like doing stuff that is fun**
- 8 People tend to do what they've already been doing**
- 9 Commitment contracts can work**
- 10 Personalized goal setting works**

What it means for Financial Wellness

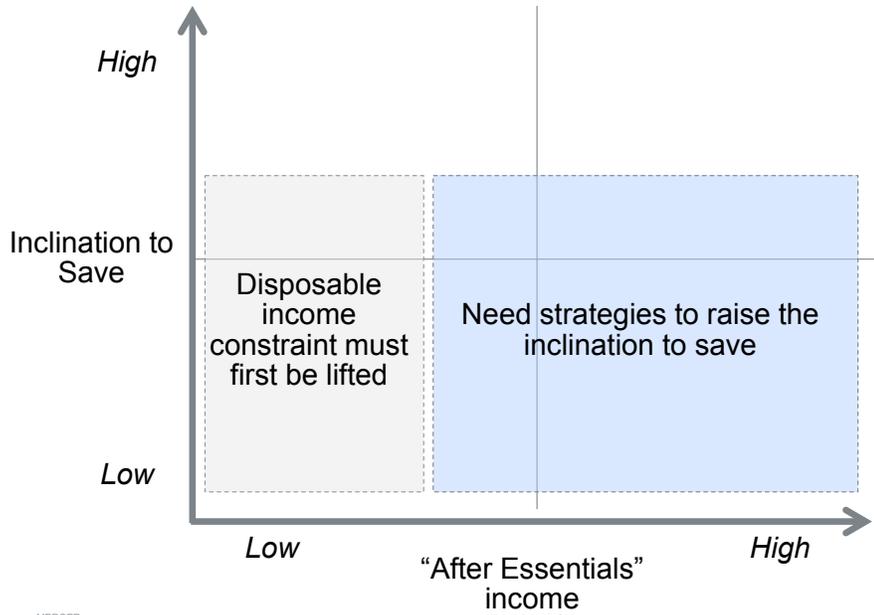
- Stop asking for permission**
- Gaming!**
- Link "bad behavior" with "good behavior"**
- Leverage but limit the number of strings attached**
- Create personalized savings plans**

MERCER

November 10, 2014

3

1 Do people have the means and inclination to save?



4

2 The role of awareness

"I know that eating french fries for dinner is not good for me. I just can't resist it."

– Wellness program participant

"Plan managers have spent untold amounts of money trying to communicate the benefits of saving. It does have impact – it's not fruitless. But the transformative power of automatic enrollment is unmatched."

– Lori Lucas, Callan Associates

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3 Choices – there can be too much of a good thing

Health: Choice in incentive design

▪ PCP Visit	50 points
▪ Health coaching	50 points
▪ Online coaching	50 points
▪ Participate in challenge	50 points
▪ Tobacco cessn. coaching	50 points
▪ Maternity program	50 points
▪ Flu shot	50 points
▪ Preventive visit	50 points
▪ Drink 6 glasses of water	50 points

Too many choices with equally weighted rewards may lead to selecting an easy option with lower impact

Retirement

Every additional 10 mutual funds in a plan reduces participation by 2%

Changing the default investment option in 401(k) plans to target date funds is effective at driving diversification

Reducing choice can drive the right outcomes

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4 Using fear about aging to spur engagement

The Real Age concept has been used by companies like Vitality to motivate people to take healthy actions

Talking to people about themselves while they viewed a future image of their current self...



...impacted savings decisions, with those viewing an older self putting twice as much money in long term savings accounts

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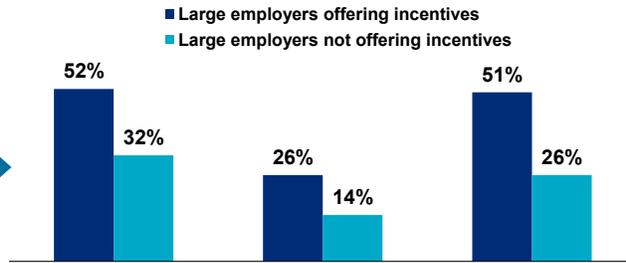
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5 Incentives increase participation

Health

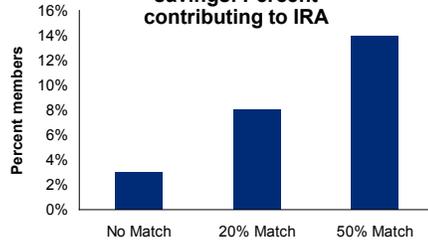
Large employers using incentives report higher participation rates

*Average % of identified persons actively engaged in program

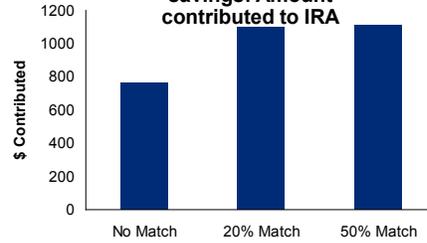


Retirement

Impact of matching on savings: Percent contributing to IRA



Impact of matching on savings: Amount contributed to IRA

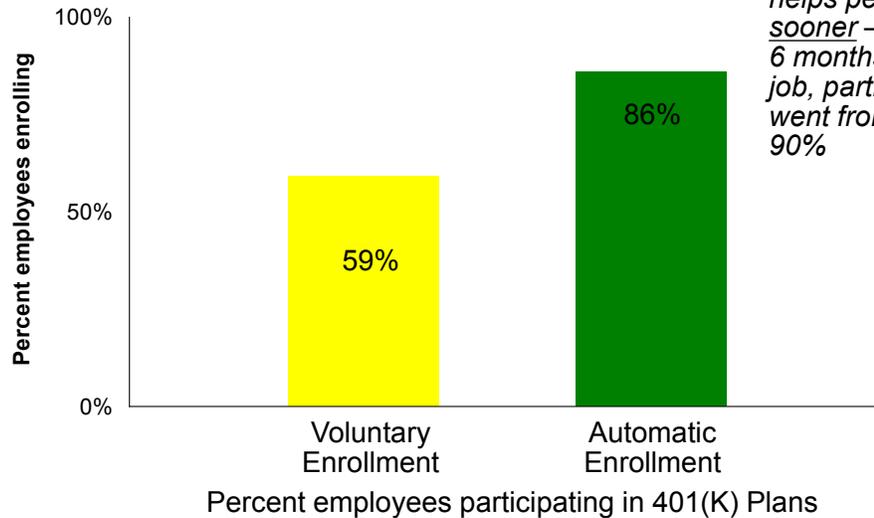


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Source: Mercer Survey; Duflo et al

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6 Stop asking for Permission: Switch to Opt Out Strategies



Automatic enrollment also helps people save sooner – for those 6 months on the job, participation went from 34% to 90%

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7 Make it fun!

Doorways to Dream started Save to Win in Michigan - for each deposit of \$25, savers got normal interest, plus one entry to the annual grand prize and monthly smaller prizes of between \$25 and \$100. More deposits meant more chances to win, up to \$250 – 10 chances — a month



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8 Link naughty with nice

Save automatically – use the app to direct a percentage of every purchase into a savings account

SavedPlus	
Savings Account	
Current balance	\$375.08
U.S. Bank **** 1811	\$35.00 >
Union Bank **** 2128	\$0.00 >
Capital One - Bank	\$0.00 >

Average savings
\$350 per month \$4200 per year

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9 Commitment contracts

Three components

1. A goal
2. Something at stake
3. A way to be accountable

Health Commitment

- Goal: Smokers committed to quit smoking for 6 months
- Stake: Loss of 6 months of smoking money
- Accountability: Urine test

30% improvement in chance of quitting

Financial Commitment

- “Commitment Savings Accounts” – open an account, cannot withdraw funds till a certain date; penalties for early withdrawal
- Challenge: Hard to get people to open a CSA – allow some flexibility in allowing withdrawals for emergencies

82% boost in savings relative to control group

Note: Both examples based on experiments conducted in Philippines

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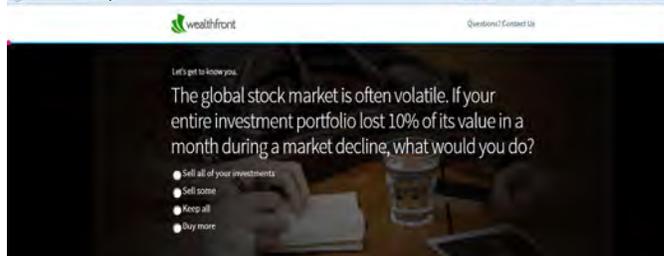
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10 Personalized goal setting

In health, personalized goal setting drives member engagement by linking the unique member situation to their goals and change strategies

Wealthfront Example



New online financial managers tailor investment choices on behalf of customers to their risk profile

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I asked the Mercer Total Health Management team what they saw as the lessons learned from wellness and I got an earful!

“Start small and communicate, communicate, communicate. They should be spending more on communicating than on wellness. If the population is not engaged, then all is for not. Also, communicate and program from their perspective (employee and dependent).

For example- timing. What might be convenient for the employer, may not be convenient for the population. Our own Mercer program could not have come at a more busier time for me with kid's school starting and all that comes with it; annual physical and dental appointments, paperwork to be completed, shopping, sport's practice, etc.”

“Rational only gets you so far. That said, face the facts- we are not going to fix financial literacy in a generation .

Recognize retirement like health is now laced with financial fears so it is not about pictures of people on a golf course but viable low cost solutions

Tap into the fundamental social nature of mankind – wouldn't it be cool if companies allowed for savings clubs or mini investment clubs . Tap into the fundamental goodness of mankind – so for every \$100K our employees save we give \$X.”

“This is not very clinical or scientific...but my feedback is that we need to be really careful about what we call things when we communicate to a target audience. Personally, I have never thought disease management sounded like anything I would want to sign up for or participate in. My favorite ill-named strategy is “lean medicine” – which sounds like diet medicine or less care. We all know diet food is never as tasty as the food it is attempting to replicate. On the other hand, a lean cut of meat is better for you but still not as tasty...

Message: don't ruin a good idea with a bad name.”

“Behavior change is easier to do when there is a personal connection. Wellness programs seem more successful when there is an on-site wellness person coordinating them. The most effective way to change health behaviors is when the person’s doctor tells them to change their behavior.

Employer on-site clinics often have the trust of the employees. Wellness programs based there are often very effective. What if you added an onsite financial expert in the clinic and had people schedule yearly financial check ups?”

It is audience participation time!



What are your lessons learned?



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Lessons Learned from Behavioral Finance Research

Steve Vernon, FSA
Research Scholar, Stanford Center on Longevity

Here's a Big Problem

"For many people, being asked to solve their own retirement savings problems is like being asked to build their own cars."

- Richard Thaler, University of Chicago



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1

Here's Another Problem

“The essential difference between emotion and reason is that emotion leads to action while reason leads to conclusions.”

- Donald Caine, Neurologist



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2

Three population segments

1. Do it for me.



3
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Three population segments

1. Do it for me.



2. Help me do it



4
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Three population segments

1. Do it for me..



2. Help me do it



3. I'll do it myself



5
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Proportion in Each Segment?

- 40% rank themselves as C, D, or F on personal finance knowledge
 - 2013 Consumer Financial Literacy Survey
- 48% rank themselves as “not at all knowledgeable” or “not very knowledgeable” of investments and financial products
 - 2013 LIMRA SRI Consumer Survey
- 50% not comfortable selecting investments
 - PWC 2014 Employee Financial Wellness Survey



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Proportion in Each Segment?

- 85% would find “very useful” or “somewhat useful” an estimate of retirement income from savings
 - 2014 Retirement Confidence Survey, EBRI
- 88% would find “very valuable” or “somewhat valuable” recommendations on sustainable withdrawal amounts for lifetime income
 - 2014 Retirement Confidence Survey, EBRI
- 73% prefer fixed monthly retirement income over a lump sum at retirement
 - PWC 2014 Employee Financial Wellness Survey



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Two Possible Responses

- Do it for me
- Guiding design



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Current State of Research On Behavioral Finance

framing effects
prospect theory

disposition effect
representativeness heuristic

affect heuristic
serial position effect
hyperbolic discounting

consumerism and credit card effect
overconfidence
planning fallacy

money illusion
base rate neglect
loss aversion

Unrealistic optimism
illusion of control

choice overload
nudges
inertia, status quo bias, and the default heuristic

social norms
mere-measurement effect
accounting
endorsement effect

illusory correlations
confirmation bias
anchoring effects

Availability heuristic
sunk cost fallacy

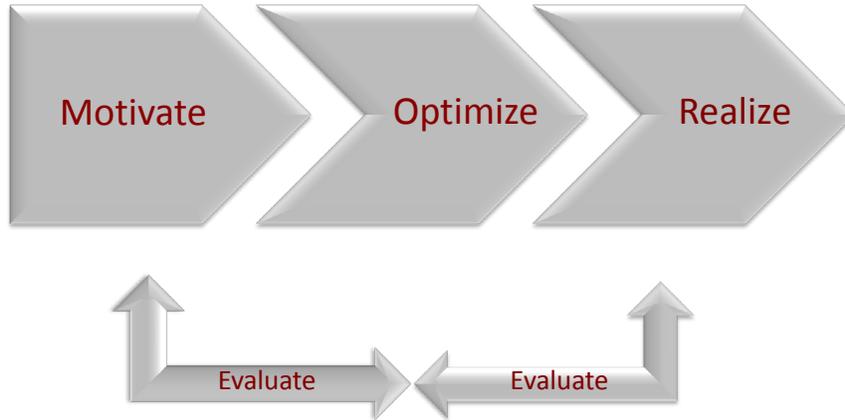


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Moving Beyond Education and Awareness *SCL MORE Model*

Refine the “awareness to action” model

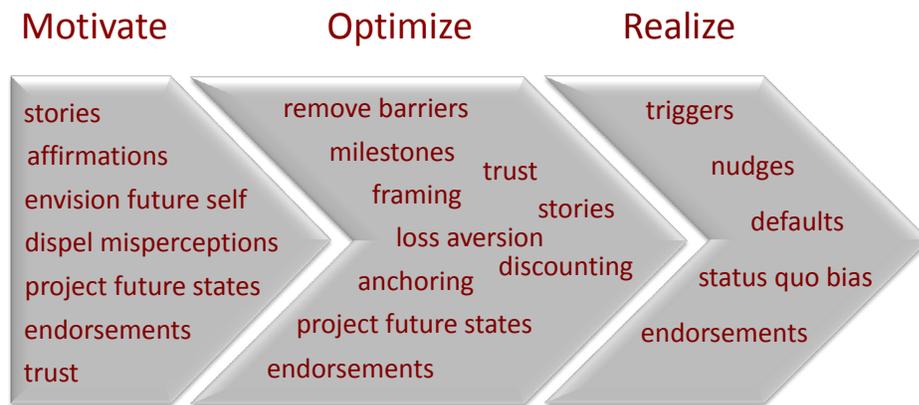


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Guiding Design

Refine the “awareness to action” model



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What We're Working On

- White papers: Behavioral finance – The Next Frontier of Plan Design
- Behavioral finance research with employee groups
 - Applying health wellness template to financial wellness
 - Interventions to increase savings
 - Use of “big data” techniques to study personality types and decision-making
 - Decision-making at retirement



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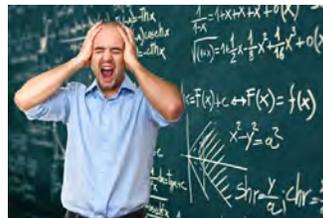
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RESEARCH DESIGNS TO TEST IMPACTS OF FINANCIAL WELLNESS PROGRAMS

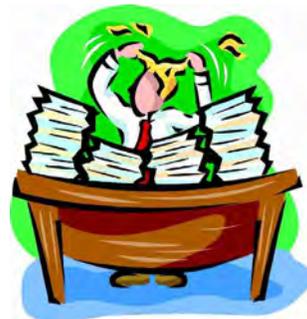
Gopi Shah Goda

CHALLENGES IN MAKING APPROPRIATE FINANCIAL PLANNING DECISIONS

- **Cognitive barriers**



- **Motivational barriers**



WHAT DO WE STILL NOT KNOW ABOUT THESE BARRIERS?

- How can we overcome these barriers?
 - How should financial planning tools be designed to effectively influence cognitive barriers?
 - How does overcoming motivational barriers affect financial decisions?
 - How much higher would financial well-being be if cognitive and motivational barriers could be addressed and overcome?
- 

STEP 1: MEASURE LEVELS OF BARRIERS

- Cognitive barriers: How well-equipped is the individual in understanding how much savings is needed to support a level of income in retirement?
 - Motivational barriers: How likely is each employee to follow through on plans or put them off until “tomorrow”?
- 

STEP 2: TWO-PRONGED INTERVENTION

- Retirement income planning tools → targeting cognitive barriers
- Incentives to encourage the use of retirement income planning tools → targeting motivational barriers



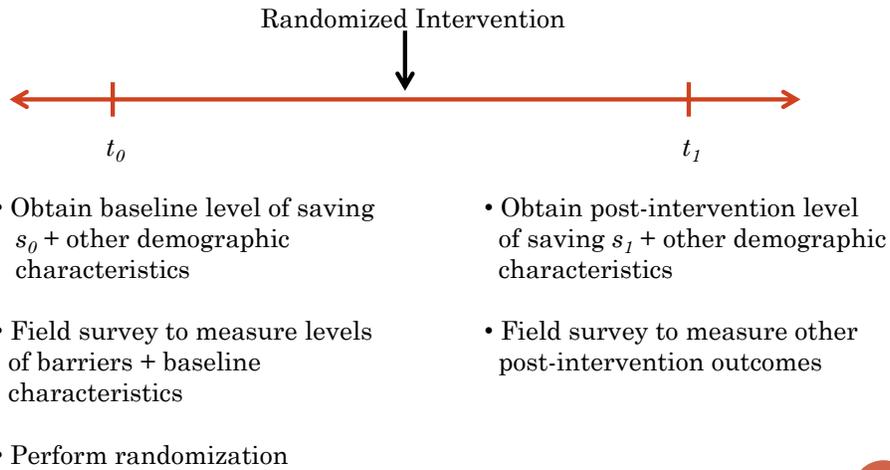
GOLD STANDARD IN RESEARCH DESIGNS: RANDOMIZED CONTROL TRIAL (RCT)

Treatments for Cognitive Barriers

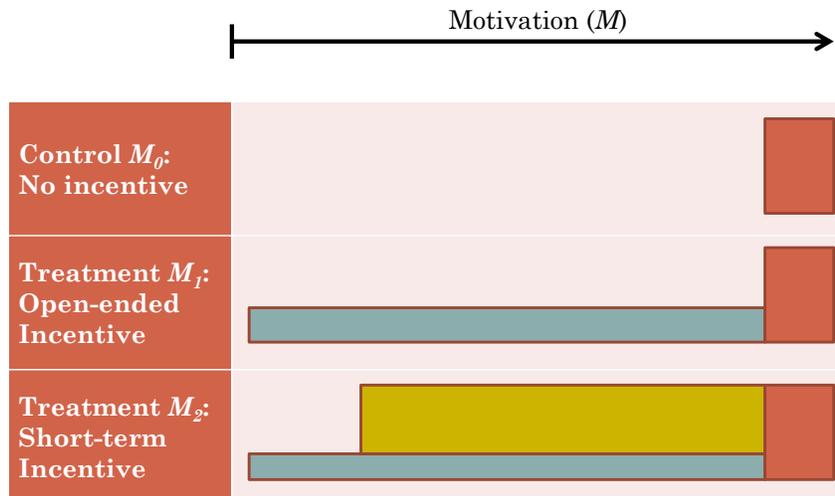
	Control C_0 : Placebo Planning Tool	Treatment C_1 : “Rule of Thumb” Planning Tool	Treatment C_2 : Retirement Income Planning Tool
Treatments for Motivational Barriers			
Control M_0 : No incentive	N_{11}	N_{12}	N_{13}
Treatment M_1 : Open-ended Incentive	N_{21}	N_{22}	N_{23}
Treatment M_2 : Short-term Incentive	N_{31}	N_{32}	N_{33}



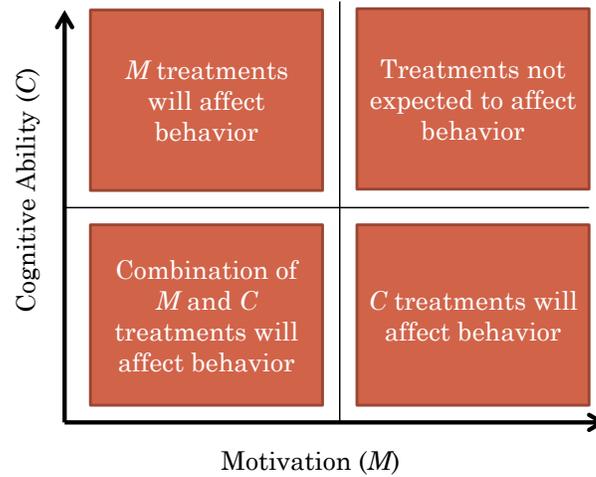
TIMELINE



PREDICTED EFFECTS OF TREATMENTS TARGETING MOTIVATIONAL BARRIERS ON TOOL UTILIZATION



PREDICTED EFFECTS OF TREATMENTS ON CHANGE IN SAVING: $S_1 - S_0$



CONCLUSIONS

- Implementation of financial wellness programs allows an opportunity to credibly test their effects
- Researchers are interested in designing RCTs to test the impact of interventions on financial well-being

MEMBERS OF THE RESEARCH TEAM

- Gopi Shah Goda, Stanford University
 - Matthew Levy, London School of Economics
 - Colleen Manchester, University of Minnesota
 - Aaron Sojourner, University of Minnesota
 - Joshua Tasoff, Claremont Graduate University
 - Steve Vernon, Stanford University
- 

WHY MIGHT AN ORGANIZATION CONSIDER PARTICIPATING?

- Interested in providing retirement planning tools to participants, but unsure how to design the communications to maximize effectiveness
 - Has developed a retirement income planning tool but utilization is low
 - Wants to quantify whether participant behavior will shift as a result of planning tools
 - Want practical insight into how potential DOL rule-making on lifetime income disclosures may affect your plan
- 

WHAT DOES AN ORGANIZATION STAND TO GAIN?

- Primary research results to help you better understand cognitive and motivational barriers in your plan population
 - Potential for your plan participants to be better prepared for retirement
 - Active interaction with senior academics and industry leaders
 - Ability to shape the approach for significant industry research
 - Option for no-cost publicity if you choose to be named in the research
- 

WHAT WOULD COOPERATING WITH A RESEARCH TEAM ENTAIL?

- Access to anonymized information for each eligible worker before and after the intervention, including, for instance, age, years of tenure, salary/earnings, contributions, and level of assets
 - Ability to administer a 10-15 minute electronic survey to eligible workers and provide incentives to respond and answer questions honestly
 - Ability to administer interventions to employees in a randomized fashion
 - Ability to merge data from all of the above and use in analysis
 - Ability to disseminate results of study via high-quality, peer-reviewed economics journals, academic conferences, and to the public and policymakers if opportunities allow.
- 

PRECAUTIONS FOR PRIVACY AND MEETING ETHICAL STANDARDS

- Data protection plan: mutually agreed-upon plan to conceal personal details about individuals involved in the study
- Review by Institutional Review Boards (IRBs): committees that are trained to assess research that involves human subjects in order to ensure high ethical standards for research and that the rights, safety, and well-being of all subjects are safeguarded



TIMELINE

Length of time	Phase
3-6 months	Develop research design
3-6 months	Conduct experimental intervention
3-6 months	Analyze data and prepare research report
6-12 months	Present results to firm and submit draft for publication





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The Stanford Center on Longevity

The mission of the Stanford Center on Longevity is to redesign long life. The Center studies the nature and development of the human life span, looking for innovative ways to use science and technology to solve the problems of people over 50 in order to improve the well-being of people of all ages.

Working as a catalyst for change, the Center identifies challenges associated with increased life expectancy, supports scientific and technological research concerning those challenges, and coordinates efforts among researchers, policy makers, entrepreneurs, and the media to find effective solutions.

The Center was founded in 2006 by two of the world's leading authorities on longevity and aging. Laura Carstensen PhD, professor of psychology, is the founding director, and Thomas Rando MD, PhD, professor of neurology and neurological sciences, is deputy director. The Center received its initial funding from Richard Rainwater.

The Financial Security Division, directed by senior research scholar Martha Deevy, brings a unique interdisciplinary perspective to financial security issues facing our society by rethinking the perceived problems around an aging population, especially retirement planning and the need to work longer. By understanding the role that research, education, and policy can play in solving these issues and looking at the problems from multiple perspectives, the division drives the dialogue forward in order to facilitate a healthier state of long-term financial security for the individual and society.

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