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Financial Life Planning at Work: How Financial Mentorship of Younger Employees Leads to Improved Retirement Preparedness

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While the extent of the looming retirement crisis is debatable, most researchers and practitioners agree that the average American is not prepared for retirement. Younger workers that often fall into generational labels such as millennials and Gen Y or Z (those born in 1995 or later) have the longest time horizon to bridge the retirement preparedness gap. Yet, to really make long-lasting improvements, the focus shouldn't be on more retirement planning education. Younger employees need financial life planning guidance that addresses their overall financial health. That is the key to improving retirement outcomes.

Traditional retirement planning education techniques generally focus on telling early career employees that they need to save as much as possible in their employer-sponsored retirement plans, taking advantage of the time value of money and compound returns. While this may be true, if these messages are not connected to what preoccupies younger employees at this stage of their lives, they may not be listening. The increased usage of retirement plan design features such as auto-enrollment, contribution rate escalation and target-date retirement funds as default

investment options can help encourage retirement savings behaviors, but behavioral finance initiatives can only accomplish so much to move the retirement preparedness needle in the right direction.

Employers need to change the conversation. Most younger employees aren't thinking about retirement. Instead, they're thinking about the competing financial priorities of early adulthood: moving out on their own, enjoying life, paying off student loans and, eventually, homeownership, marriage and parenthood.

Millennials want jobs that promote their well-being, so a new employer/employee relationship that goes beyond just a paycheck and expectation of future retirement benefits must emerge. According to a Gallup-Healthways well-being index survey, work/life balance is a crucial component of job and life satisfaction for millennials.¹ Financial well-being is defined in this survey as "managing your economic life to reduce stress and increase security," and is one of five metrics that comprise total well-being.

Early career employees also want coaching at work.² This is part of an overall generational trend toward seeking guidance, not direction. This is playing out in the economy with the proliferation of gourmet cooking subscriptions, basic how-to videos for home maintenance and online personal style services. Employers that offer financial coaching and mentorship to their early career employees are more likely to help them achieve their life goals and enjoy financially healthier lives.

The Link Between Financial Wellness and Retirement Preparedness

The best way to secure future retirements is to offer a comprehensive financial wellness benefit that goes beyond retirement planning and incorporates life planning. Financial wellness has been shown to have a significant influence on retirement preparedness. Individuals with higher levels of financial satisfaction, perceived financial knowledge and confidence in their current asset allocation have an increased likelihood of reporting a strong sense of retirement preparedness. One specific financial behavior

1 Brandon Rigoni and Bailey Nelson, "Millennials Want Jobs That Promote Their Well-Being," *Gallup Business Journal*, Nov. 1, 2016, <http://news.gallup.com/businessjournal/196985/millennials-jobs-promote.aspx>.

2 Karie Willyerd, "Millennials Want to be Coached at Work," *Harvard Business Review*, Feb. 27, 2015, <https://hbr.org/2015/02/millennials-want-to-be-coached-at-work>.

associated with retirement preparedness is calculating one's future retirement income needs. Running a retirement calculation is positively related to retirement preparedness,³ and people who calculate their ability to meet future retirement income needs⁴ have higher retirement confidence.⁵

Younger employees are less likely to run a basic retirement calculation on their own, but those who participate in a workplace financial wellness program are more likely to run a projection.⁶ This simple financial planning tool prompts discussions on all the things in life that can get in the way of retirement savings, such as debt, student loans, housing costs and parenting expenses. When early career employees master the basics of cash-flow management, debt reduction, goal-based saving and investing, they are more likely to achieve important life milestones such as home ownership, and more likely to contribute more to retirement savings throughout their career.

How to Design a Successful Workplace Financial Wellness Program

Successful incorporation of a financial wellness program in the workplace begins with a holistic assessment of the workforce. This step is necessary for the design of a robust financial education program that can simultaneously address and balance immediate financial stressors, such as cash-flow needs and debt reduction, with longer-term needs and priorities such as planning for retirement.⁷

Unfortunately, many workplace financial wellness programs focus solely on providing information to employees designed to improve their knowledge of

company retirement programs. This is a disservice for all employees—especially younger workers. The presumption is that additional knowledge will help employees better prepare for retirement and manage their finances more successfully.⁸ However, recent studies show no significant association between perceived financial knowledge alone and the intention to engage in retirement-planning behaviors. Increasing financial knowledge is insufficient to improve retirement preparedness unless this knowledge is also accompanied by motivated behavioral change.⁹

A successful workplace financial wellness program serves as a valuable employee benefit that provides continuous access to unbiased financial guidance and coaching. The core intention of the program is to help employees develop better financial habits and behaviors and make informed financial decisions that are in their best interest. Effective workplace financial wellness programs must meet the following criteria to be appropriately described as a financial wellness benefit, as opposed to offering limited aspects of financial education or financial advice.

- Holistic and comprehensive in nature—covers all aspects of financial planning from debt management to more advanced estate planning
- Personalized to the employee based on their specific needs
- Unbiased—free from sales pitches or conflicts of interest
- Designed and delivered by qualified experts who have extensive financial planning experience
- Delivered as an ongoing process, to provide the support and accountability employees need to

3 Paul Gerrans, Craig Speelman and Guillermo Campitelli, "The Relationship Between Personal Financial Wellness and Financial Wellbeing: A Structural Equation Modeling Approach," *Journal of Family and Economic Issues* 35, no. 2 (June 2014): 145–60: <http://dx.doi.org/10.1007/s10834-013-9358-z>.

4 Robert N. Mayer, Cathleen D. Zick and Michelle Glaittli, "Public Awareness of Retirement Planning Rules of Thumb," *Journal of Personal Finance* 10, no. 1 (March 2011): 12–35, https://issuu.com/iarfcregister/docs/vol_10issue1.

5 Jinhee Kim, Jasook Kwon and Elaine Anderson, "Factors Related to Retirement Confidence: Retirement Preparation and Workplace Financial Education," *Journal of Financial Counseling and Planning* 16, no. 2 (January 2005).

6 Financial Finesse, "2016 Year in Review," report, March 22, 2017.

7 Scott M. Spann, "Three Essays on Financial Wellness in the Workplace" (Ph.D. diss., Kansas State University, 2014), <http://krex.k-state.edu/dspace/handle/2097/18412>.

8 Cliff A. Robb and Ann S. Woodyard, "Financial Knowledge and Best Practice Behavior," *Journal of Financial Counseling and Planning* 22, no. 1 (2011): 60–70.

9 Spann, "Three Essays on Financial Wellness."

- make, sustain and build upon positive financial habits and behaviors
- Integrated with all employee benefits, with guidance on how employees can most effectively manage their benefits as part of their overall financial plans
- Offered as a benefit available to all employees

After performing a financial wellness assessment for the entire workforce to establish benchmark financial wellness measurements, employers may decide to establish an online financial learning center where employees can access a variety of personal finance tools and information on their own. (Examples can be seen in Figure 1.) Other layers of the workplace financial wellness program may include telephone and internet access to personal financial guidance and education via a financial help line staffed by independent and unbiased certified financial planner professionals. Other elements of the program can include educational webcasts, financial workshops at worksite locations, one-on-one financial planning sessions or similar interactions to help employees get their finances on track and move forward with their retirement-preparedness efforts.

Moving the Retirement Preparedness Needle

A retirement crisis is looming in the United States for both workers and their employers. Retirement preparedness is both a financial wellness issue and

Figure 1 Multi-channel Education Model



Source: Financial Finesse

a significant financial burden for employers due to significantly higher costs associated with a workforce of distracted, overstressed, under-engaged employees who hold on to their jobs longer than planned in order to postpone unaffordable retirements. A holistic focus on overall financial wellness that includes financial mentorship to help younger employees plan for major life events is needed to improve the retirement outlook for those not prepared to become financially independent or to make the transition from the workforce into retirement.

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