



HEFREN-TILLOTSON

METICULOUS WEALTH MANAGEMENT SINCE 1948

# Holistic Financial Wellness

## Why and How to Help Your Employees

*Presented By:*

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# Today's Agenda

- Introduction to Hefren-Tillotson, Inc.
- What is “Holistic Financial Wellness”?
- Challenges Facing Employees Today
- Financial Stress and the Workplace
- What is Holistic Financial Wellness?
- Tools Employers Can Use
- Questions



# Who is Hefren-Tillotson?

- **Founded in 1948 – Privately Held**
- **Over \$13 Billion in Client Assets Firm wide**
- **HT Corporate Services**
  - **Manage and Service 401(k), 457, 403(b) plans**
  - **Fiduciary; ERISA; Plan Design; Employee Education**
  - **110 Corporate Retirement Plans**
  - **\$720 Million in Retirement Plan Assets**
  - **Over 10,000 participants**



## **ho·lis·tic**

/hō'listik/

- *adjective*
- Characterized by comprehension of the parts of something as intimately interconnected and explicable only by reference to the whole.
- The idea that various systems should be viewed as wholes, not merely as a collection of parts.

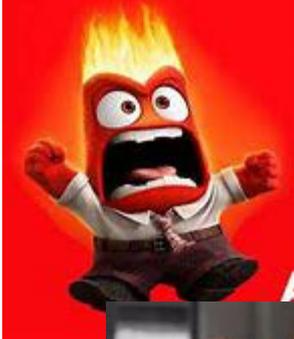


# Holistic Financial Wellness

- Financial education that seeks to address the person as a whole and improve overall quality of life.
- Connect to many areas of a user's life, and brings into focus how financial wellness can affect them all.
- Increases sound financial decision-making and decreases decisions that lead to stress and other negative emotions.



# Challenges Facing Employees Today





# Financial Challenges Facing Employees

- The median checking account balance = \$3,400 <sup>1</sup>
  - Women \$1,300
  - Men \$4,900
- The average 401(k) balance in 1Q 2019 was \$103,700 <sup>2</sup>
  - That equals \$5,185 annual withdrawal over a 20-year retirement
- In 2018, the average annual 401(k) contribution was \$2,370 <sup>2</sup>
  - In 2019, the IRS maximum employee elective deferral is \$19,000
- The average U.S. consumer holds 2 bank-issued credit cards and carries a total balance of \$5,551 <sup>3</sup>

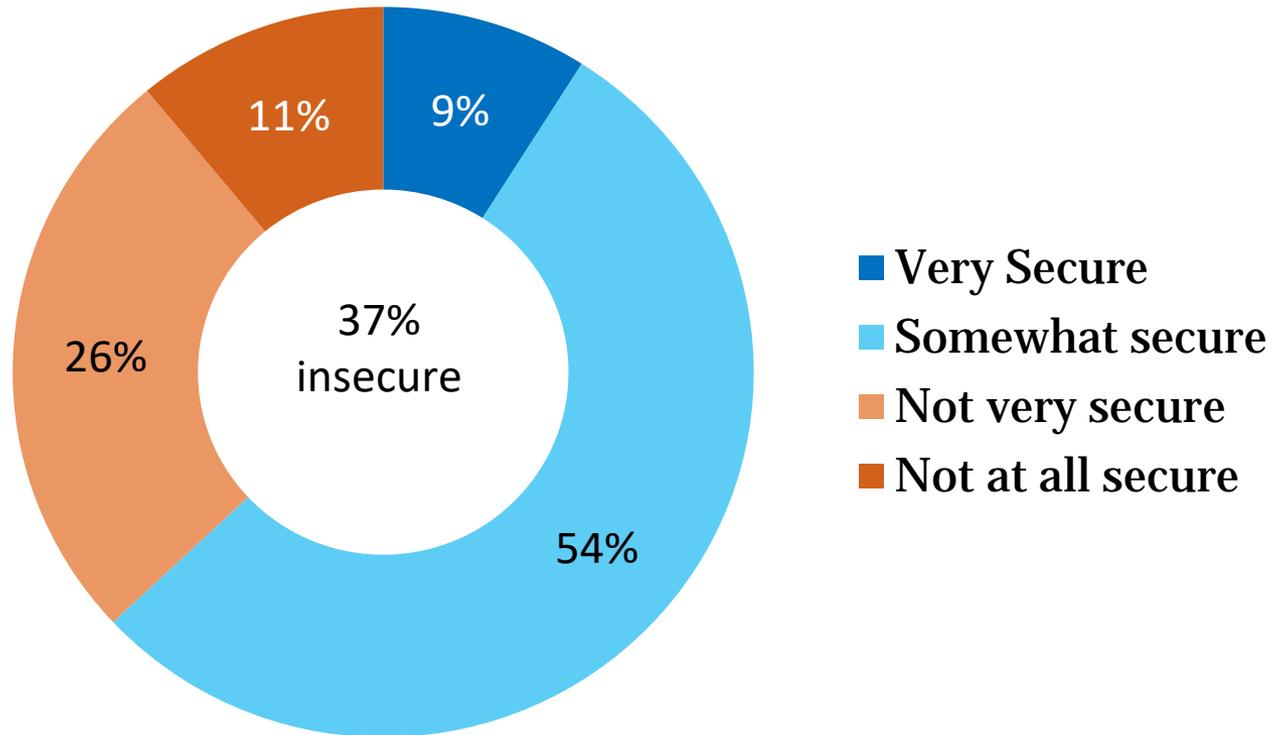
<sup>1</sup> 2016 Federal Reserve Survey of Consumer Finances

<sup>2</sup> Fidelity Investments Q1 2019 Retirement Analysis

<sup>3</sup> According to Experian's latest State of Credit report,



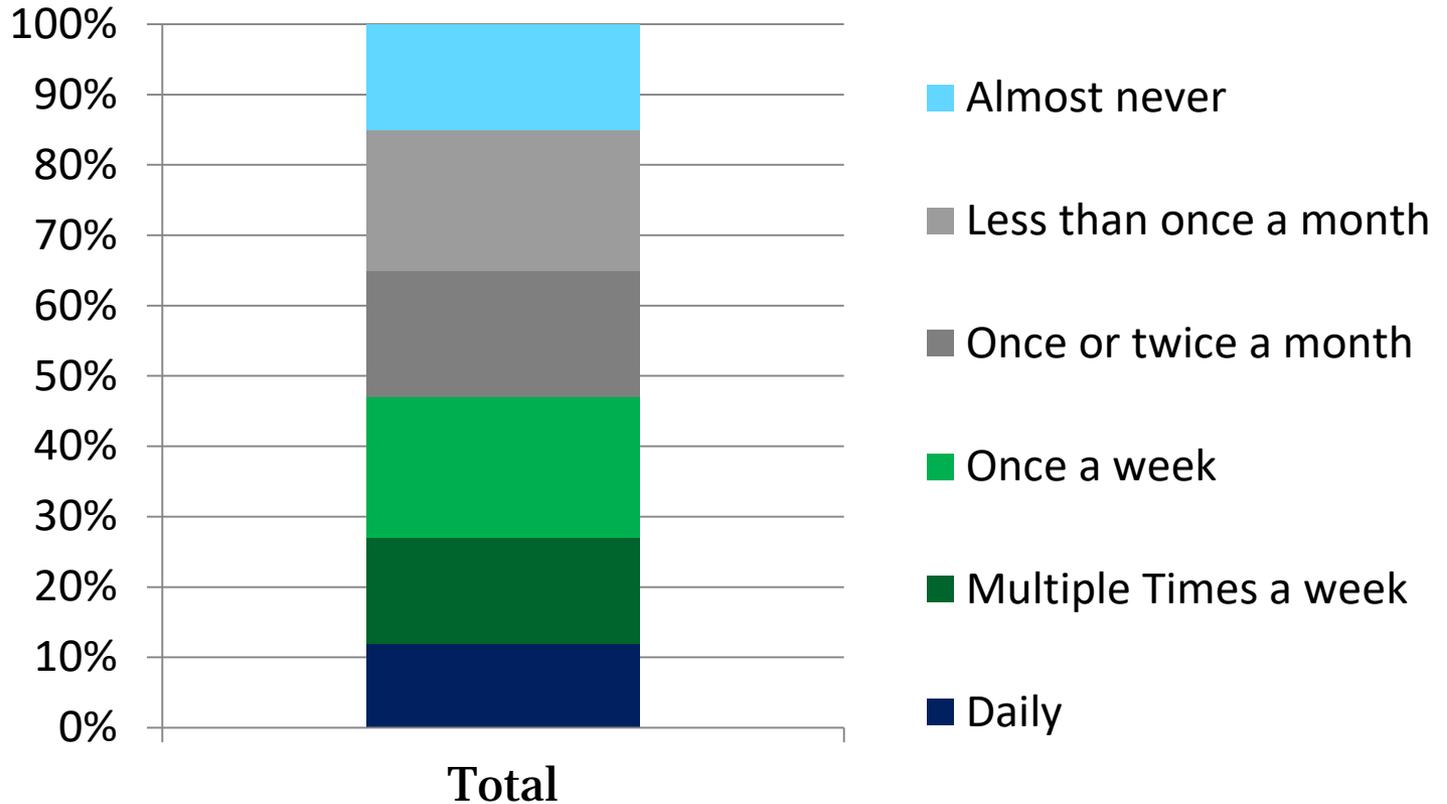
# Financial Security



• 2017 Mass Mutual Small Business employee Financial Wellness Study



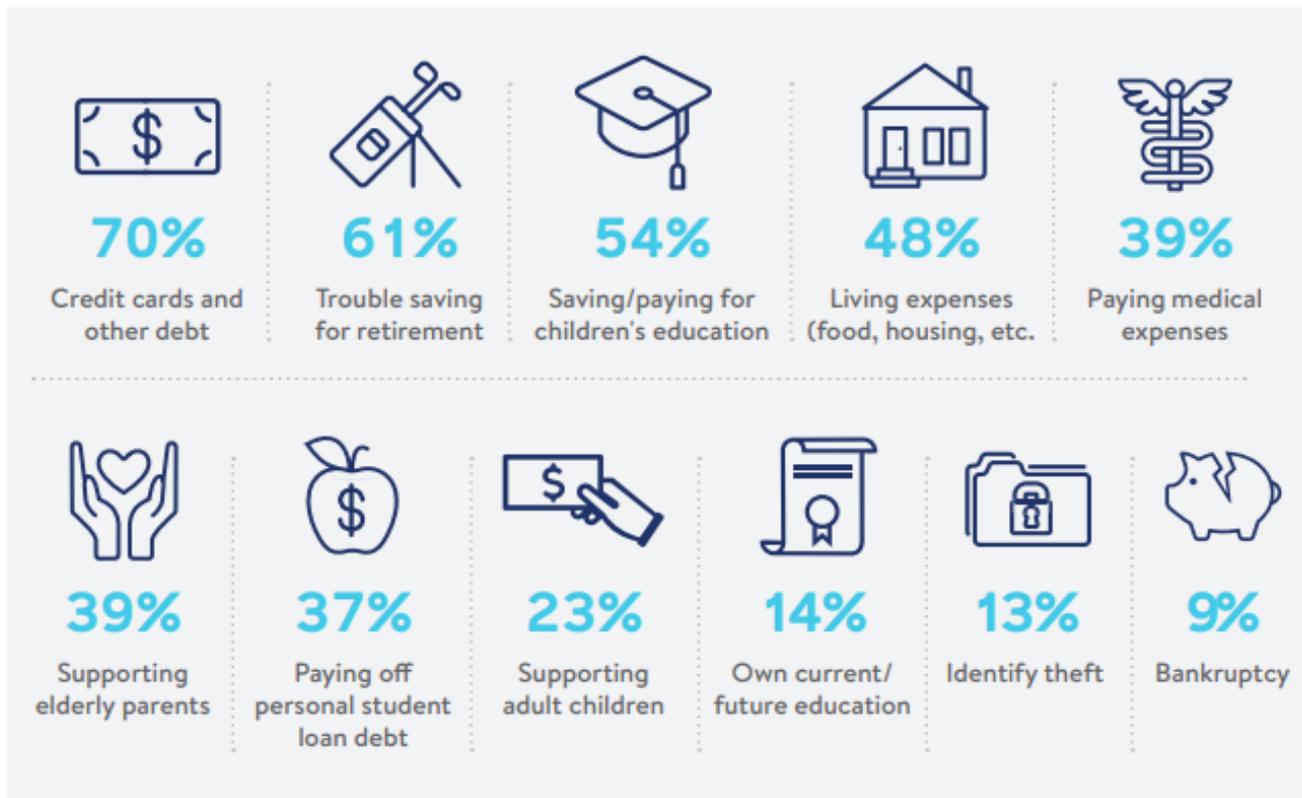
# How Often They Worry About Money



• 2017 Mass Mutual Small Business employee Financial Wellness Study



# Financial Challenges Affect a Significant Portion of Employees



Source: IFEBP 2018 Financial Education for Today's Workforce  
<https://blog.ifebp.org/index.php/financial-education-workplace-best-practices>



# Signs of a Stressed Employee

- An increase in sick days or absenteeism
- Aggression
- Diminished creativity and initiative
- A drop in work performance
- Problems with interpersonal relationships
- Mood swings and irritability
- Lower tolerance of frustration and impatience
- Disinterest
- Isolation



# Employers Can (Should) Take the Lead





# Companies Want to Help...

- **83% of business owners identified an “engaged and productive workforce” as the most important factor in the success of their business**
- **66% of business owners consider their employees family**
- **77% want to make a positive difference in the financial wellness of their employees**

\* 2017 Mass Mutual Small Business employee Financial Wellness Study



# Holistic Financial Wellness

- Employers serve as the facilitator, educator, intermediary for information surrounding their employees' financial lives.
  - Budgeting
  - Emergency Fund
  - Debt Paydown
  - **Retirement Savings**
  - Student Debt
  - **HSA Utilization**
  - Investing
- The investment employers make in their employees financial lives leads to a more satisfied, loyal, focused, productive workforce.



# **Budgeting, Savings and Debt**





# The Real Cost of Your Morning Coffee

Compounding: One cup of coffee at a time



\* Source: Ashley Rodriguez, 2016. The average cost of coffee in your city. Accessed May 1, 2017, at <http://www.baristamagazine.com/average-cost-coffee/>.

\*\* Assumes 6% annual return. This is a hypothetical illustration and is not intended to represent past or future performance of any of the investment options available within your plan.





# Establishing Emergency Savings

- An Emergency Fund is a stash of money set aside to cover the **financial surprises** life throws your way. These unexpected events can be stressful and costly.
- Job loss, Medical or Dental emergency
- Guidelines:
  - 6-12 months' of living expenses (job loss)
  - \$1,000 - \$2,000 dollars is more realistic (furnace, roof, car, medical deductible)
  - Keep \$ in a Savings Account (separate from the same account used to pay bills)
- Some 401(k) Recordkeepers facilitate this type of savings with third-party arrangements.

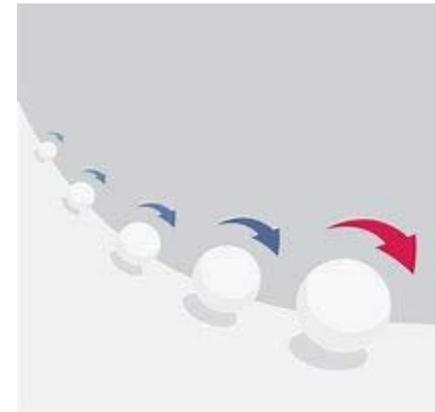


# Debt Paydown

- The average U.S. consumer holds 2 bank-issued credit cards and carries a total balance of \$5,551
- Credit Card debt can come from:
  - Medical, dental expenses
  - Funeral expenses
  - Emergency home repairs
  - Unnecessary expenses – Budgeting
- Employees may look to their 401(k) as a means to pay down debt

# Debt Paydown

- Debt Spend-down Suggestions – Debt Snowball
  - Pay off High Interest Rate First
  - Pay off Smallest Balance First
  - After Card #1 is paid, use the most recent monthly payment + the payment due on Card #2 to pay down the debt owed on Card #2, etc.
  - Paying off a credit card with 15% interest is like earning 15% on your money.





# Student Loan Debt Paydown

- A typical 2017 college graduate owes about \$39,400 in student loans.
- Borrowers ages 20 to 30 are making average payments of \$351 a month to service their loans.
- 66% percent of Millennials don't have anything saved for retirement.
- Additionally, 6 in 10 working adults with student loans would consider switching companies to gain a student debt employee benefit.
- 64% of all adults with student loans say finding a company that offers a student loan benefit is important.
- 42% of adults with student loans aren't saving for retirement due to their student loans, including half of people with student debt ages 18-34 and a third of those over 55.

\* Source: Survey joint Abbott Laboratories and YouGov survey



# Student Loan Debt Paydown

- Employers can pay employees a bonus equal to the amount of their student loan payment
  - Nondiscriminatory
- Abbott Laboratories - Employer 401(k) Match on the Student Loan payments (Private Letter Ruling)
  - NOT broadly approved by the IRS

## Third-party Resources for Employees

- Common Bond
- StudentLoanHero.com



# Benefits to Companies

- Attract and retain employees
- Employers are more competitive with industry peers
- Increase tax savings for the employer
- Encourage increased participation rates and retirement savings
- Incentivize employees to pay down their student loan debt earlier



# Retirement and HSA





# Retirement Planning

- Re-enrollment
- Automatic Enrollment & Automatic Increase
- QDIA
- Target Date Funds
- Minimizing 401(k) Loans
  - Limit to 1 outstanding loan at a time
  - Employees may only borrow from their own deferrals, not Employer contributions
- Relentless education
  - HR Enrolls new employees
  - Annual Group education – Advisor or Recordkeeper
  - Annual opportunity for individual counseling - Advisor



# Do You Know Where You Stand?

Current Age	Checkpoint (x Current Salary)					
	\$20,000	\$30,000	\$40,000	\$50,000	\$75,000	\$100,000
30	0.1	0.3	0.3	0.3	0.5	0.9
35	0.4	0.7	0.7	0.6	1.0	1.4
40	0.8	1.1	1.1	1.1	1.5	2.0
45	1.2	1.7	1.7	1.6	2.2	2.8
50	1.9	2.4	2.4	2.3	3.0	3.8
55	2.6	3.3	3.3	3.2	4.1	5.0
60	3.6	4.5	4.5	4.3	5.4	6.6
65	4.8	5.9	5.9	5.7	7.1	8.6

### Model Assumptions:

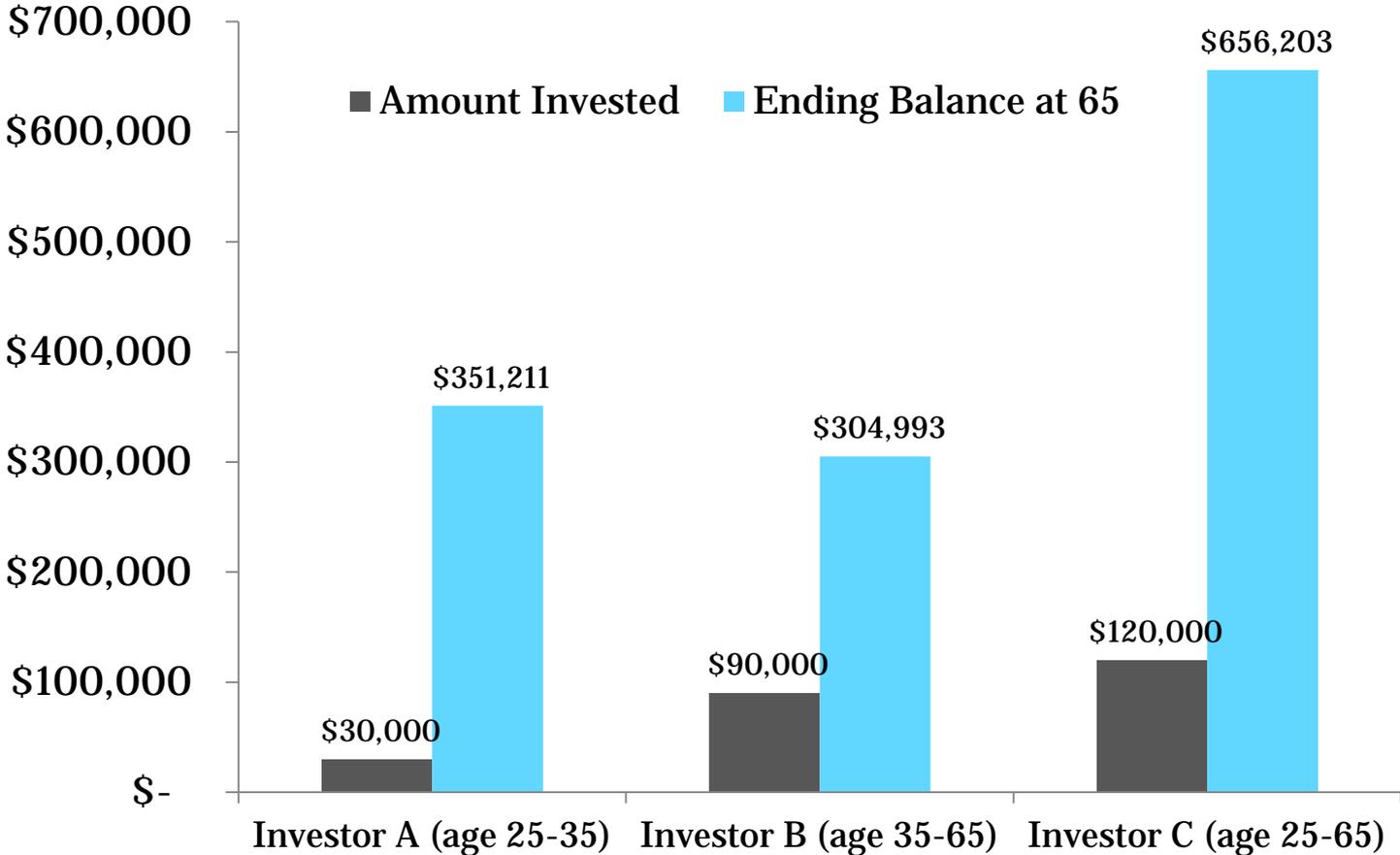
- Pre-retirement invest Return: 7.0%
- Post-retirement investment return: 5.0%
- Retirement age: 65
- Years in retirement: 30
- Inflation rate: 2.25%
- Assumed annual contribution rate 5%

### How to use:

- Go to the intersection of your current age and your closest current salary.
- Multiply your salary by the checkpoint shown and get the amount you should have saved today, assuming you continue annual contributions of 5% going forward.
- Example: for a 40-year-old making \$30,000:  $\$30,000 \times 1.1 = \$33,000$



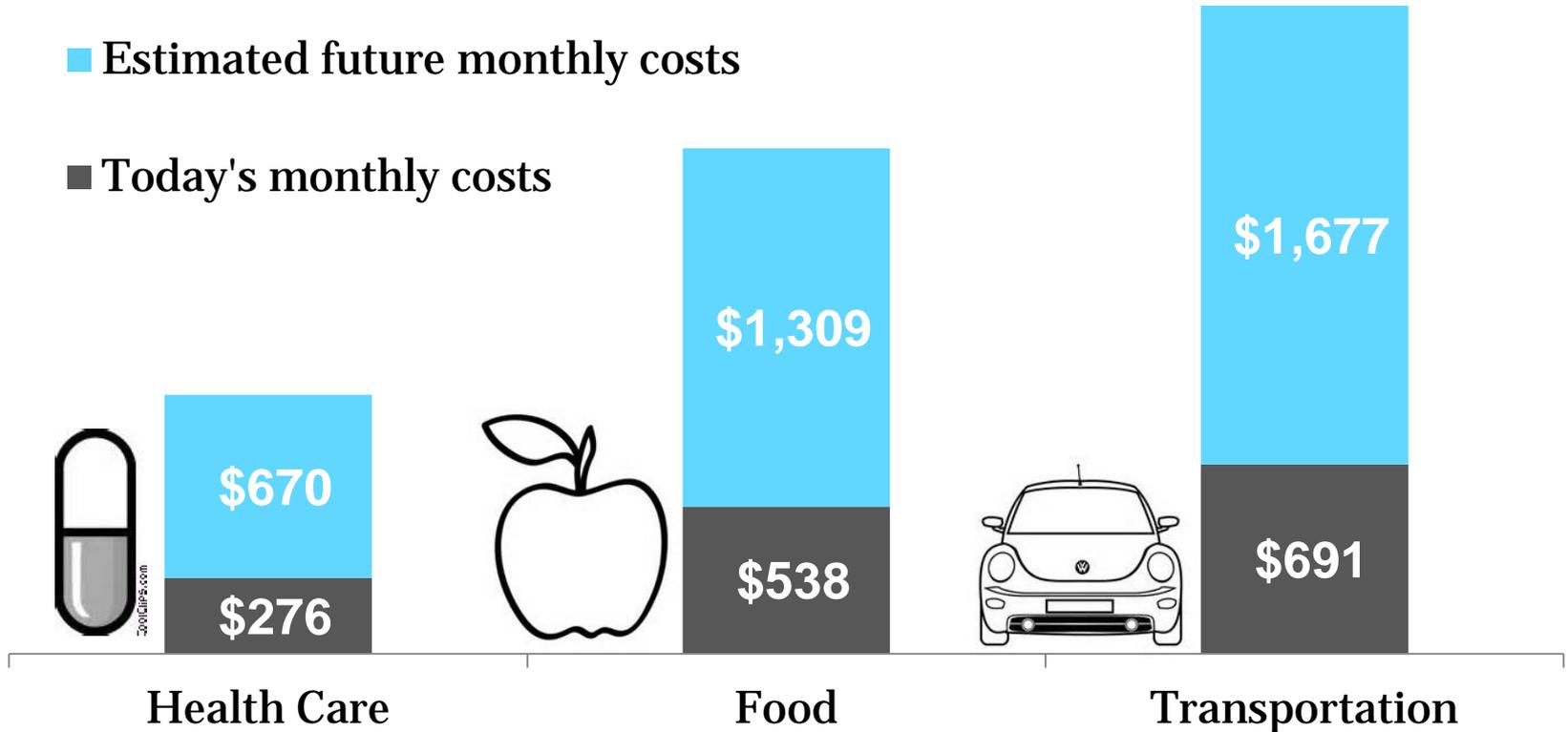
# Retirement Savings in Action



Assumes \$250 monthly savings, 7% annual return. This is a hypothetical illustration and is not intended to represent past or future performance of any of the investment options available within your plan.



# Expenses Don't Retire When You Do



Sources: 2011 Consumer Expenditure Survey; US Bureau of Labor Statistics, Sept. 2012. Future cost projection based on 3% annual inflation for 30 years.



# Health Savings Account

1. You get a discount on your health care expenses.
  - HSA contributions are tax deductible.
2. You can prepare for unexpected medical expenses.
3. You can choose to invest your HSA dollars.
  - The money that you earn through investing generally is income tax-free.
  - You can use that money for future medical expenses, or even for retirement.
4. You can use your HSA for anyone in your family.
  - You can use your HSA to pay for the qualified medical expenses of anyone you claim on your taxes, even if you're only enrolled with single coverage.
5. You get to keep the money in your HSA, no matter what.
  - Withdrawals after age 65 for non-medical expenses are not subject to a penalty (taxes still apply)

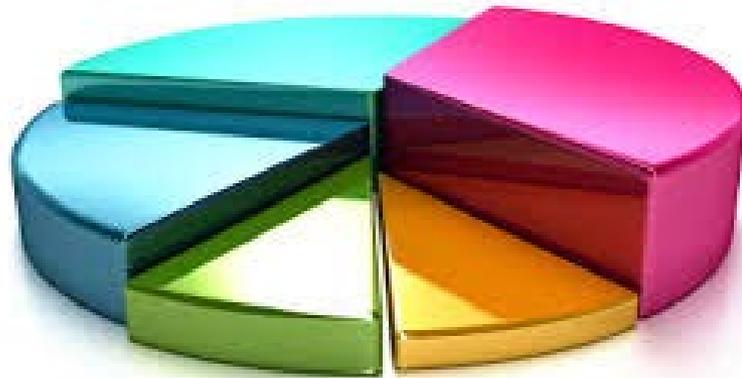


# Health Savings Account

- Another way to fund Retirement
- Many 401(k) recordkeepers offer an HSA functionality
  - To a third-party HSA provider (Optum Bank)
  - To a proprietary HSA solution
- Companies do not have to use the HSA provider recommended by their Health Insurance carrier

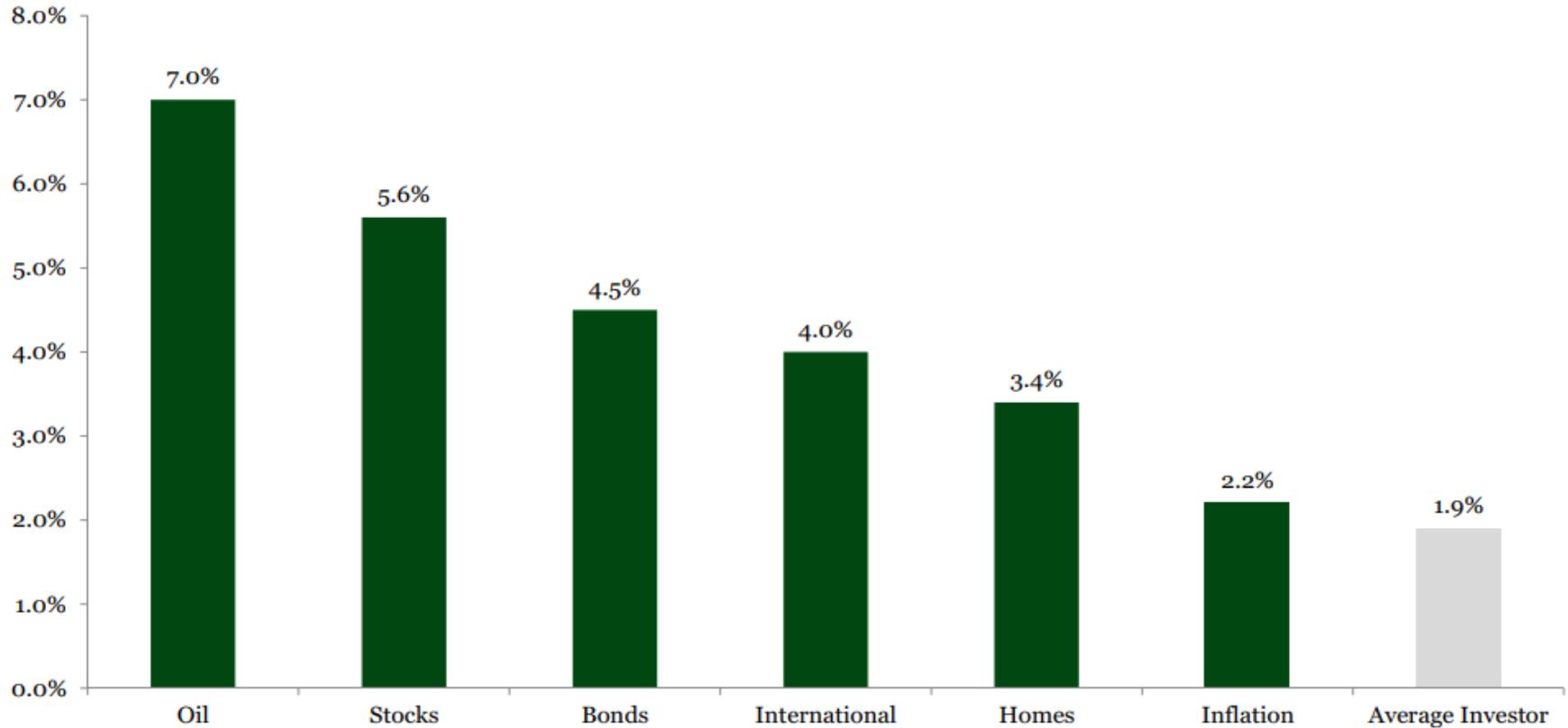


# Investment Education – A Fiduciary Obligation?





# 20 Year Annualized Returns (1998-2018)



Sources: JP Morgan; Bloomberg; Dalbar. Past performance is no guarantee of future results. It is not possible to directly invest in an index. **Oil** is represented by the change in price of the NYMEX Light Sweet Crude Future contract. **Gold** is represented by the change in the spot price of gold in USD per ounce. **Homes** is represented by the median sales price of existing family homes. **Stocks** are represented by the S&P 500 Index. **Bonds** are represented by the Barclays US Aggregate Bond Index. **International Stocks** are represented by the MSCI EAFE Index. **Inflation** is measured by the Consumer Price Index. **Average Investor** is represented by the Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions, and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20 year period ending 12/31/18 to match Dalbar's most recent analysis.

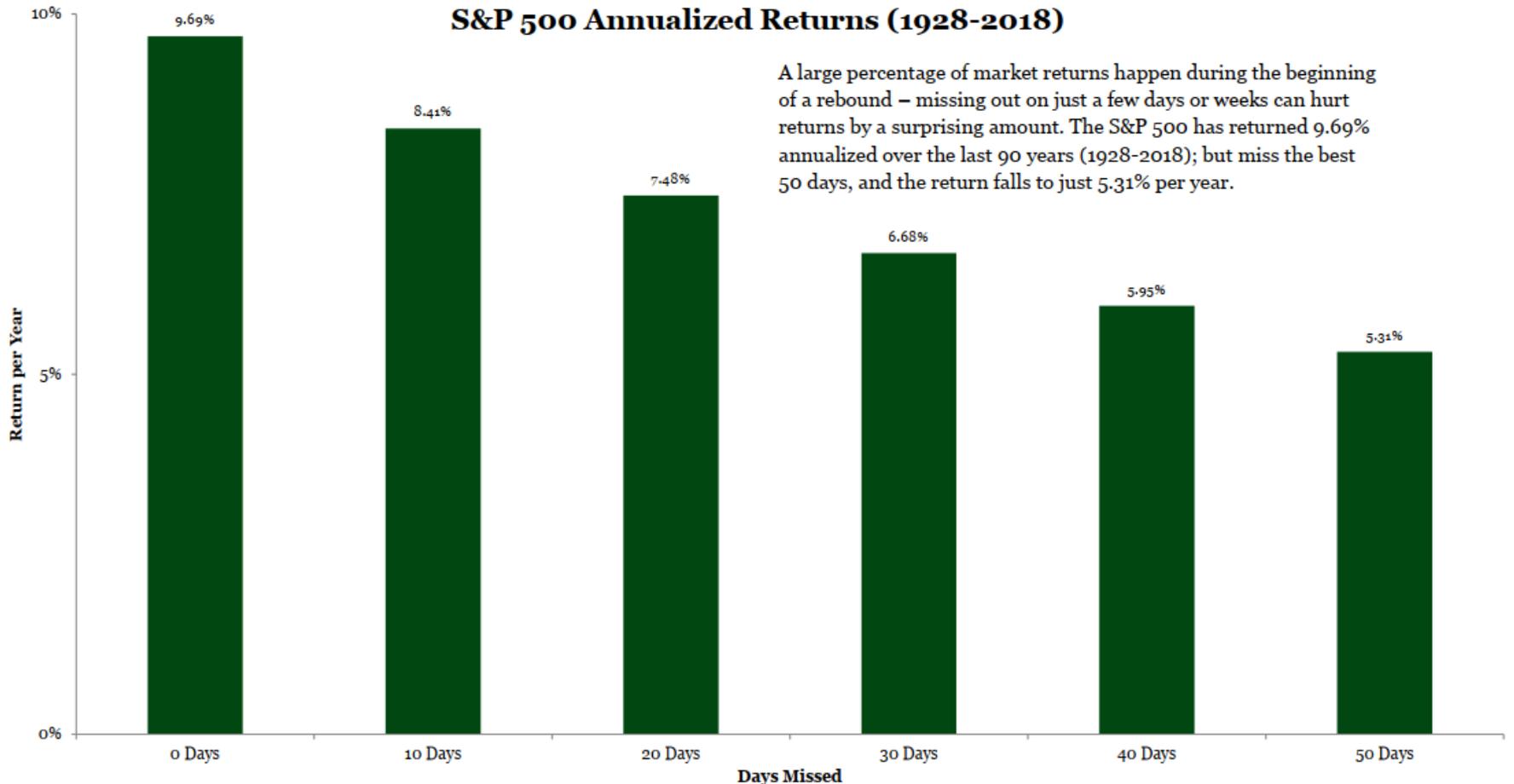


# Investment Risk Explained

- There are many types of “risk” to consider when building an investment portfolio:
  - Market Risk
  - Inflation Risk
  - Longevity Risk
  - Concentration Risk
  - Horizon Risk
- Your 401(k) Advisor should be willing and able to offer personal investment guidance to every employee



### S&P 500 Annualized Returns (1928-2018)



A large percentage of market returns happen during the beginning of a rebound – missing out on just a few days or weeks can hurt returns by a surprising amount. The S&P 500 has returned 9.69% annualized over the last 90 years (1928-2018); but miss the best 50 days, and the return falls to just 5.31% per year.

Source: Morningstar, Hefren-Tillotson. PAST PERFORMANCE DOES NOT PREDICT FUTURE RESULTS. Data as of 12/17/2018

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# Don't Give Investment Advice

- **Unlicensed individuals should NOT give investment Advice**
  - HR, CFO, Controller, CEO....or anyone else at the Company
  - You risk fiduciary exposure for ill-timed, emotional, or bad advice
- **Where to turn for unbiased investment advice**
  - Your 401(k) Plan Advisor
    - Make sure they are a Fiduciary Advisor
    - Written acknowledgement of Fiduciary Status
  - Your 401(k) recordkeeper (if they provide advice)



# Questions?





# Where to Go for Help

- **Your 401(k) Recordkeeper**
  - Many Financial Wellness tools are included in the cost of recordkeeping
  - Certain tools are per an arrangement between the recordkeeper's resources and the Participant
  - Ask your 401(k) provider what they can do to help
- **Third-party Financial Wellness Tools**
  - [FinancialFinesse.com](https://www.financialfinesse.com)
  - [Enrich.org](https://www.enrich.org)
  - Base and per-head cost



# Thank you!

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