



Financial Wellness

Bringing to Bear the Power of the Actuarial Perspective

Presented to Western Pension & Benefits Conference

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TOWERS WATSON 

The Economy Has Recovered and Workers are Doing Better Financially



BUT, they still don't feel secure:

Age	Worried about financial state
Less than 40	60%
Age 40s	58%
Age 50+	54%

Source: 2013/14 Global Benefits Attitudes Survey - U.S.

Workers are still very worried



- Debt, housing costs and fear of benefit cuts/erosion of Medicare/Social Security are roadblocks to retirement confidence
- Employee responses when asked for their top 3 financial priorities:
 - 51% - paying off debt
 - 50% - saving for retirement
 - 48% - general household costs
 - 47% - housing

Why focus on financial wellness?

“Money stress brought on by lighter paychecks this year is affecting more than Americans’ wallets — it’s taking a toll on their waistlines, friendships and sleep¹”

22% of employees admit that they have taken unexpected time off in the past 12 months to deal with a financial issue and/or spent more time than they think they should at work on personal financial issues²

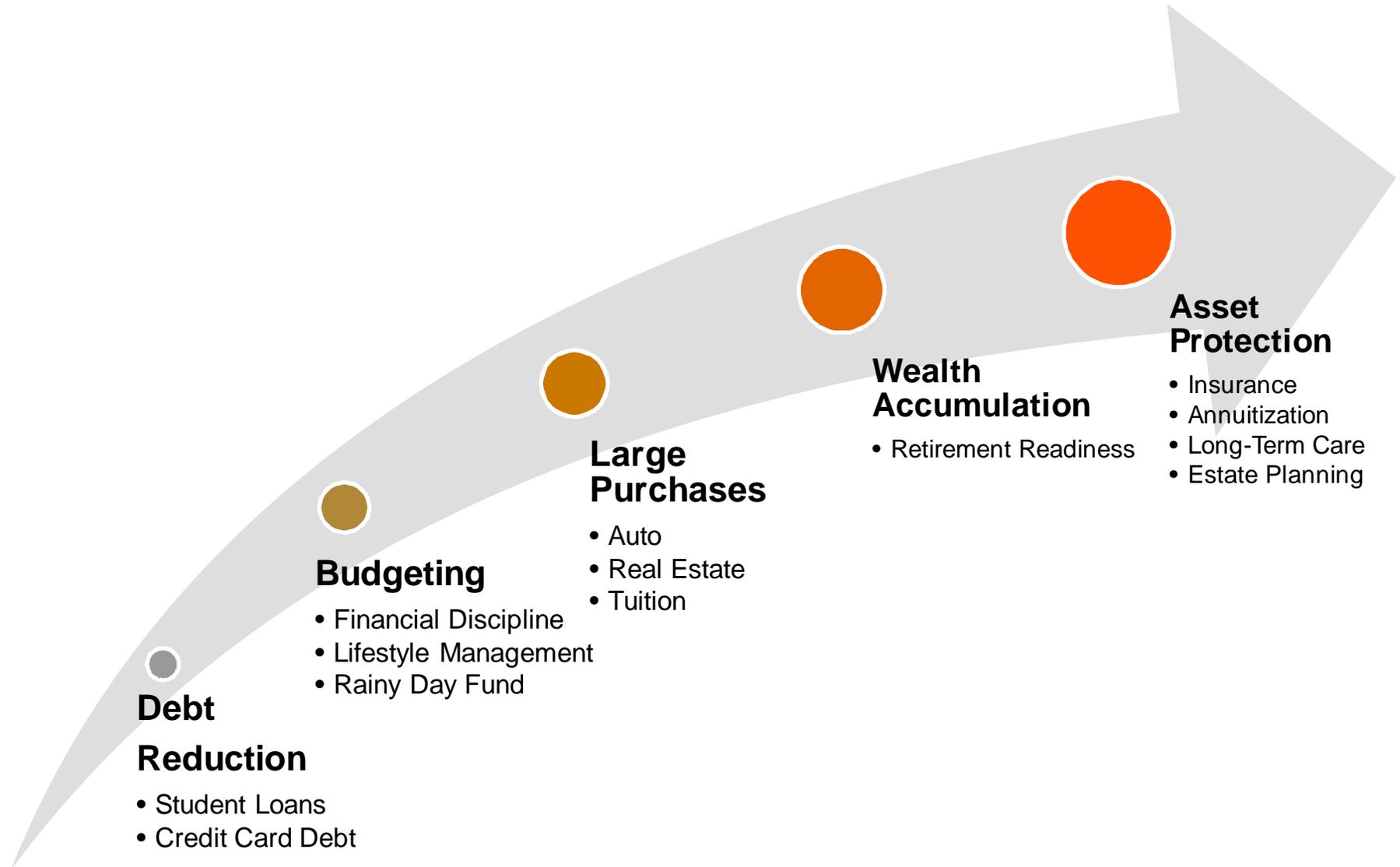
Many Generation X workers (29%) say their personal finances distract them at work, and a majority (53%) find it stressful to deal with their personal finances³”

¹ AICPA Survey: Money Stress Taking Toll on Well-being, American Institute of CPAs (Apr. 23, 2013)

² MetLife, Inc., 10th Annual Study of Employee Benefits Trends: Seeing Opportunity in Shifting Tides 51 (2012)

³ PricewaterhouseCoopers, LLC, Employee Financial Wellness Survey 10 (2014)

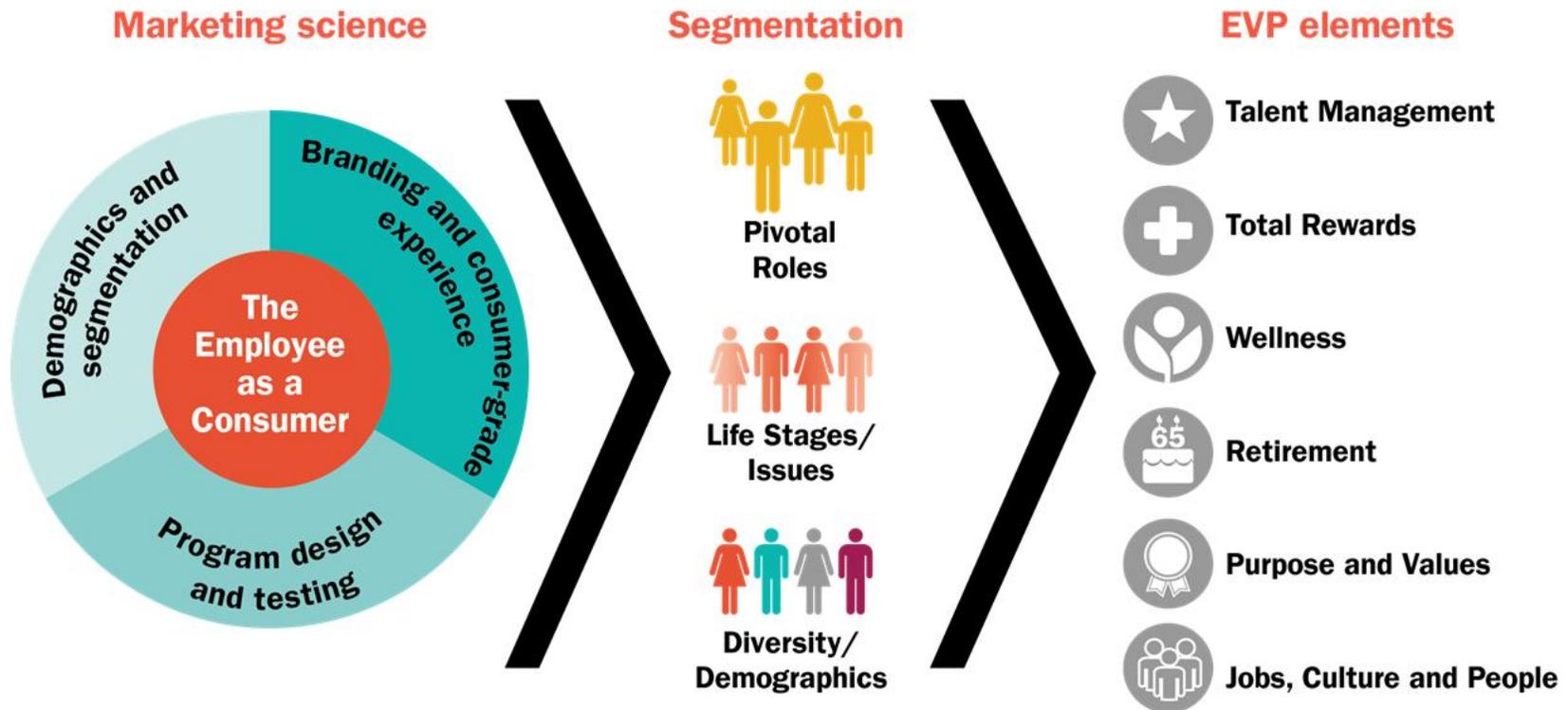
Barriers to Financial Wellness



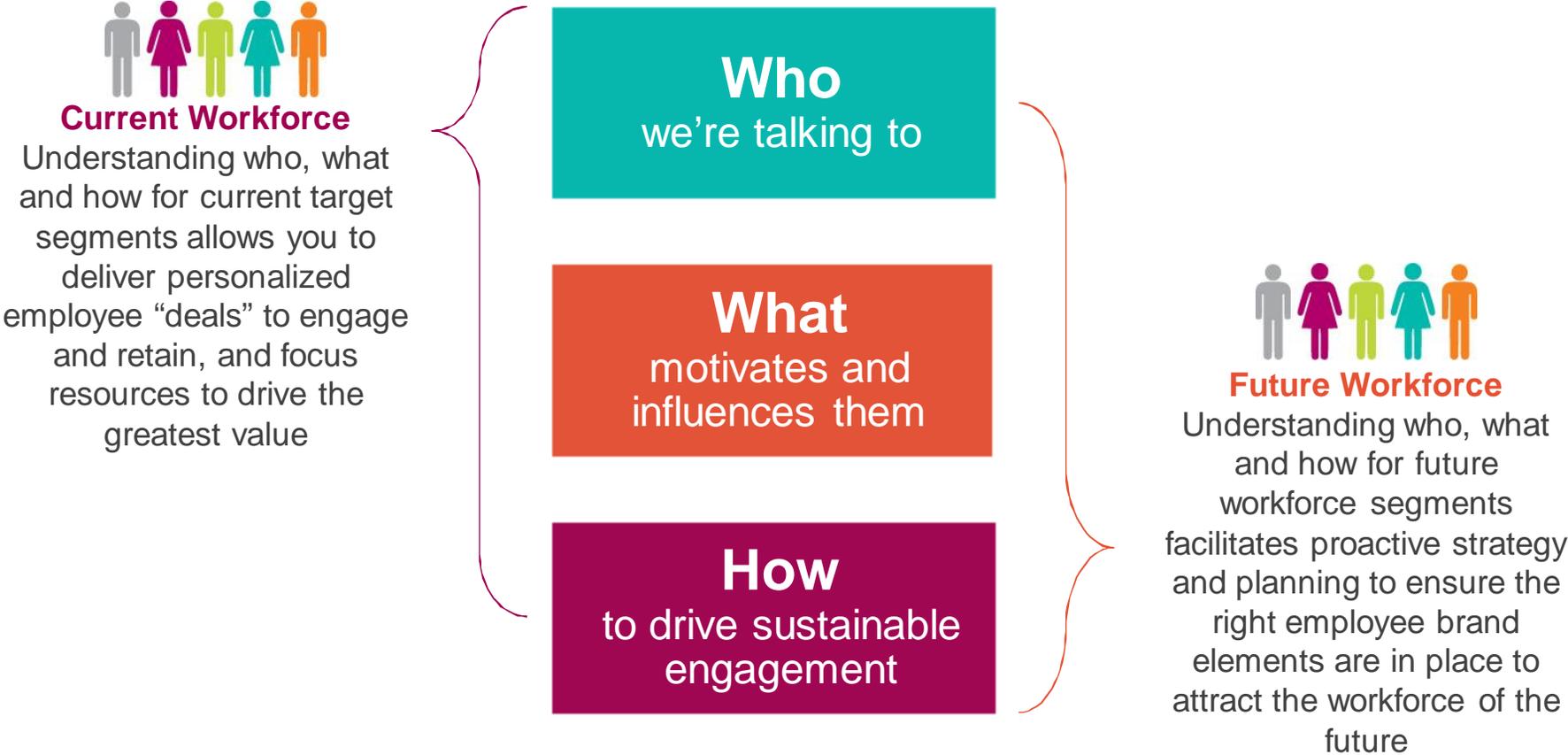
Financial Concerns Vary by Career Stage

Early career	Mid-career	Late-career
<ul style="list-style-type: none">• Pay off education debt• Develop a budget• Maintain a good credit score• Evaluate decisions about buying vs. renting/leasing• Develop strategies for saving and investing for retirement	<ul style="list-style-type: none">• Funding education expenses• Refine strategies for saving and investing for retirement• Maximizing cash flow• Risk management/insurance planning• Estate planning• Caring for elderly parents	<ul style="list-style-type: none">• Focus on retirement or life after retirement• Retirement cash flow and distribution planning• Investing during retirement• Healthcare protection• Social Security and Medicare• Estate planning

Digging Deeper: Treating employees like consumers



Segmentation: Helps to Understand the Values, Attitudes and Motivators of Target Segments



Going Beyond Segmentation – Individualization and an Empowered Holistic Approach to Financial Wellness

In the Future:



Segmentation of employees will be critical to the design and implementation of Compensation and Benefit programs that are effective and financially efficient, BUT

For employees to become truly financially healthy, each individual must make their own decisions in the context of their unique circumstances and to do that they will require more than just a well designed comp and benefit program

Long term financial health requires a holistic view that includes the employee's full "balance sheet" as well as his/her plans and goals for the future including:



Debt (Student Loans, Credit Card, Mortgage)

Real Estate holdings (primary residence and vacation home)

The employee's "personal rate of discount"

A Holistic View of Financial Wellness – Debt

Biggest employee concern is debt



2/3 of 2012 graduates had an average of **\$30,000 in student loans**.
Total outstanding **student debt** exceeds **\$1 trillion**



The average size of **mortgage** for homeowners is about **\$150,000**



To place in context, as of the end of 2014 the average **401(k) balance** was only **\$91,300** and total **401(k) assets** were about **\$4.4 trillion**

From an emotional standpoint, debt represents a burden and a barrier against thinking clearly about the financial future

The presence of debt (and real estate) on an individual's balance sheet should be taken into account for:

- Saving vs. spending vs. debt pay down decisions
- How to invest both 401(k) balances and deferrals

A Holistic View of Financial Wellness – Real Estate

The largest single asset that most employees have is their primary residence



Real estate can be both a source of emergency funds (Equity Line of Credit) AND as a retirement savings vehicle (Reverse Mortgage)

Historically, home equity is not considered in retirement planning

Mortgage is assumed paid-off at retirement

Considered a “legacy asset” not to be monetized

Home equity is now far more “liquid” than in the past

Current research indicates that use of a reverse mortgage can be an effective retirement planning tool

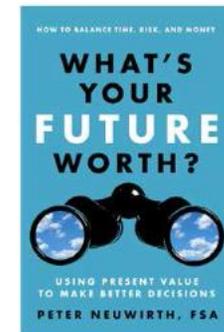
A Holistic View of Financial Wellness – Personal Rates of Discount (What's Your Future Worth?)



Most financial planners (and their software) assume fixed discount rates and investment returns when recommending saving and investment strategies

Optimistic and pessimistic economic scenarios are often considered, but all assume a consistent weighting (between individuals and time periods) of present and future value

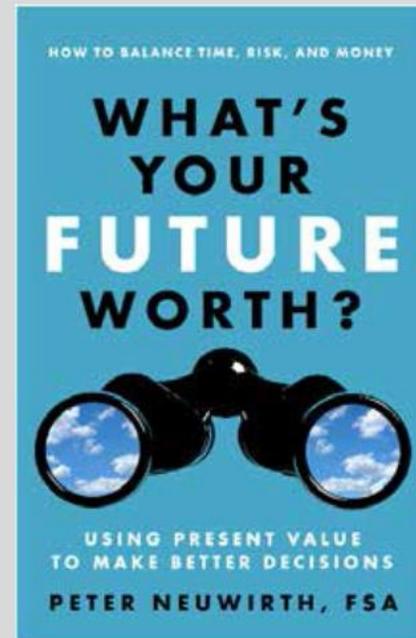
Research (e.g., Khaneman and Tversky) has shown that such a view is overly simplistic and fails to take account of an individual's "time preference" or what we have termed a "personal rate of discount"



Bringing the Power of the Actuarial Perspective to Bear

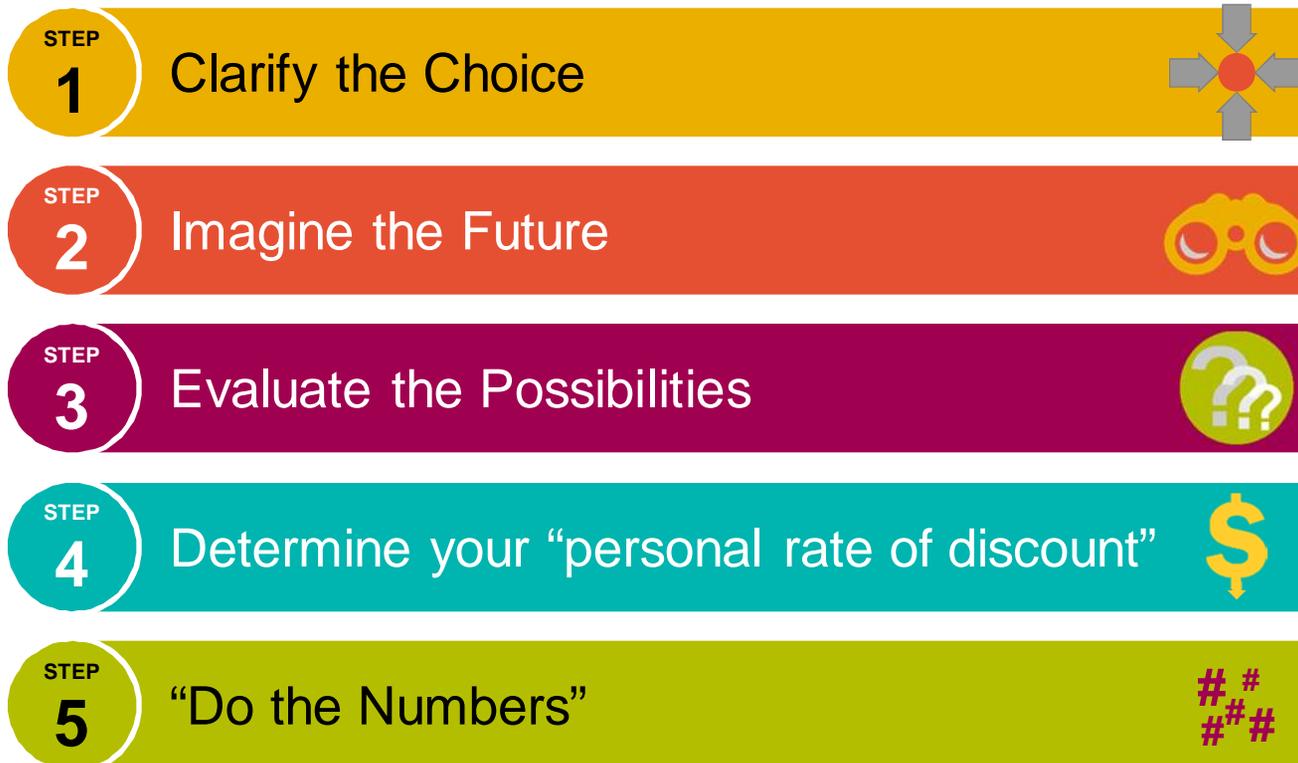
In **What's Your Future Worth?** we consider many types of decisions that are critical to Financial Wellness:

- When to invest in your education and take on debt
 - How to balance household expenses with savings
 - When to change jobs
 - Whether to buy a new car or save for retirement.
- More Importantly, in it we address the question of **HOW DO YOU DECIDE?**



Bringing the Power of the Actuarial Perspective to Bear

The key is the “5-Step” process for using Present Value to make better decisions

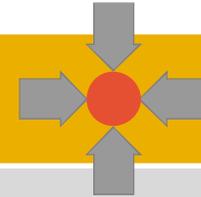


Bringing the Power of the Actuarial Perspective to Bear

STEP

1

Clarify the Choice



- Gather the relevant information
- Be careful of decision conflation
- “What are my alternatives?” vs. “What do I do?”

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STEP

2

Imagine the Future



- Each path has multiple possible outcomes
- Stay unattached to any particular scenario
- Don't discount the “outliers”

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STEP

3

Evaluate the Possibilities



- Ask the experts
- Do your research
- Don't expect to get exact answers

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STEP

4

Determine your “personal rate of discount”



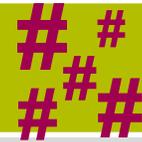
- “Now” vs. “later” vs. “much later”
- Consider your time horizon
- Make it **your** discount rate

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STEP

5

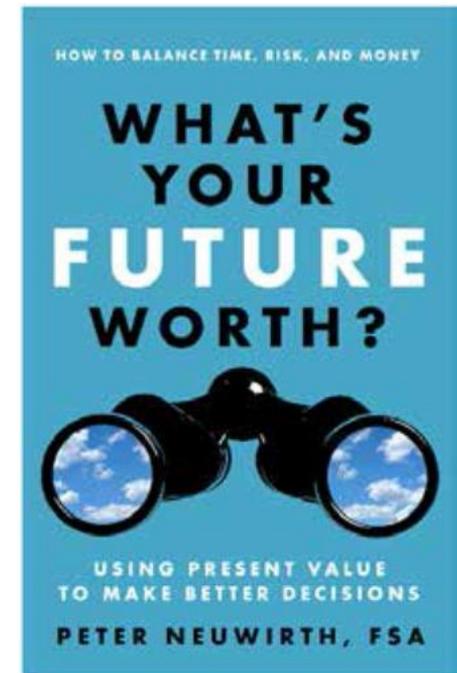
“Do the Numbers”



- No need to “outrun the bear”
- Approximate values are sufficient
- Choose a path not a “number”

Bringing the Power of the Actuarial Perspective to Bear

We will never be able to get inside the heads of our clients' employees nor fully understand their entire financial world, but **What's Your Future Worth?** can provide an approach that will help EVERY employee make better decisions in all areas of their lives.



Bringing the Power of the Actuarial Perspective to Bear

There is no “right” answer, but there is a correct process for thinking about the question.

“Read *What’s Your Future Worth?* and you will discover that the value of the actuarial perspective, and Present Value in particular, extends far beyond what most people think. What actuaries have been doing for decades can be applied by everyone to make better decisions; for themselves and their organizations.”

— Bill Gulliver, Managing Director, North America Retirement, Towers Watson

