August 2017

July 2017 ASEC Partners Meeting Spotlights Developments in Research and Evaluation of Financial Education, Sidecar Savings Accounts, and Increasing Use of HSAs for Retiree Medical Costs

On July 19, 2017, the American Savings Education Council (ASEC) Partners gathered for the Summer meeting where speakers addressed trends in how to evaluate financial education programs and some of the latest research in the field; how the use of sidecar savings accounts can enhance workers' savings habits and how some employers are turning to Health Savings Accounts to help workers save for their medical costs in retirement. **Click here to view the full attendee list and click here to view the ASEC Partner list.**

The following summarizes the presentations by Ted Beck, President and CEO, National Endowment for Financial Education (NEFE); David John, Senior Strategic Advisor, AARP Public Policy Institute; and Jack Towarnicky, Executive Director, Plan Sponsor Council of America.

Developments in Research and Evaluation of Financial Education

Ted Beck with NEFE presented information on effective evaluation of financial education programs, what can be learned from research into financial education, and highlighted current NEFE research projects. Ted said there is an ongoing discussion about the effectiveness of financial education as well as a debate between behavioral economics and financial education as to what really influences individual's financial decisions. While standardized measures of effectiveness may not currently exist, more evaluation than ever before is being conducted. On the research side, Ted said research into financial education is dramatically better than ever before. In looking at the difference between evaluation and research Ted explained that evaluation seeks to improve and research seeks to prove.

Ted stated that evaluation acts to assess whether something is working or not, determine how to improve it and decide if the program should continue. He said it is hard to stop a program, especially when donors are involved, yet there are situations when you need to acknowledge that a good idea just isn't doing what you thought it would do. The primary objectives of an evaluation process are to explore the operations or processes of a financial education program and to assess the outcomes achieved by the participants.

Ted explained it is necessary for an evaluation to consider participant satisfaction with the program. You can't get to higher levels of achievement if participants are not satisfied with the program and learning to change their behavior right from the beginning. Ted also said it is helpful to bring in outside people to conduct an evaluation because program sponsors are often too engaged and have difficulty recognizing what it will take to get long term impacts from the program. It is also important to build in evaluation right from the beginning.

In the area of research NEFE aims to facilitate dialogue by sponsoring academic research. NEFE takes a long-range view when deciding what research to sponsor by thinking about what will we want to know in five years.

The following are NEFE's current research projects:

- Early Warning Signs of Impaired Financial Skills in Older Adults out of the University of Alabama. This project looks at normal cognitive decline and considers how to retain financial resilience. As a result of findings from this project NEFE developed and promoted "Five at Fifty," which is a list of five financial steps to take when you turn 50. It was designed to complement the idea of health actions you take when you turn 50.
- Financial Capability of Young Adults out of George Washington University. This project looks at the financial decision-making skills of the millennial population. One of the biggest learnings from this research is that millennials are not prepared for income shocks. Income shocks is a topic that is beginning to get more attention among researchers.
- Financial Behavior, Debt and Early Life Transitions: Insights from the National Longitudinal Survey of Youth out of Ohio State University. Some of the issues this study looked at were the effect of early access to debt, how debt affects mental health and the impact parents have on their children. One of the findings was that parents have an ongoing impact in their children's lives for a long time.
- Enhancing Retirement Savings with School-Based Financial Education out of George Washington University. Using the PISA data this work looked at the financial capability of 15-year-olds around the world and found that the U.S. population is very average. This research is intended to explore the implications of teenagers' financial literacy on retirement savings behavior.
- The Significance of Gender on Latina/Latino Savings and Retirement out of the University of Notre Dame. This research continued other research that is trying to explain and understand the low levels of retirement savings among Latino households. It found that Latino men and women are more alike than different in their attitudes toward money and savings. Ted also commented that the financial community continues to struggle to reach the Latino community and that they probably need to work harder at it.
- Approaching 30: Adult Financial Capability, Stability and Well Being out of the University of Minnesota – Twin Cities. This study, which just released the fourth wave in mid-July, looks at adults who started college in 2006. This most recent wave shows they are acting responsible and making prudent financial choices such as paying off debt, making budgets, prepaying student loans; and saving before purchasing.
- Untangling the Determinents of Retirement Savings Balances out of The New School This work explores the impact of income disruptions on retirement saving. The findings reveal that 96% of Americans experience four or more income shocks in their working years and 61% of Americans went at least one year with no income by age 70. Not surprising is that many American use retirement savings to cover hardships before they

retire. Ted added that there appears to be more income disruptions now compared with the post WWII economy.

Ted concluded his presentation by describing how NEFE uses the findings from the research it sponsors. It works to disseminate the information learned as widely as possible, regularly conducting media tours. As they conduct these tours, they are finding that there is stronger interest among major media outlets than ever before in this topic. In addition, NEFE creates mini courses that can be used through benefit programs. NEFE does not customize these programs for specific employers because it believes it is better to show employees that the information is coming from a neutral source. They also develop financial workshop kits for educators that can be used in many settings. One new community where interest for financial education is growing is the social work community. Ted also said NEFE is beginning new work in the FinTech area because most of the apps focus on purchase decisions or asset management and very little on decision making.

Sidecar Savings Account and Workers' Savings Behavior

The next presenter was David John with AARP's Public Policy Institute. His presentation discussed new research in examining the positive impact sidecar savings accounts could have on workers' savings habits. David described the current discussion around workers' savings behavior as either trying to scare workers by telling them they are doomed if they don't save enough or that they need detailed technical advice to get their portfolios to perform. Taking a different approach, there is a body work examining the creation of simpler mechanisms to help workers save.

The problems that this work is trying to solve are coping with income shocks, decreased worker productivity when under financial stress and leakage from retirement accounts. Income shocks happen regularly across all income levels and survey data shows a low percentage of individuals with immediate access to $400 for emergencies and even fewer with access to $2,000. Data also shows that for every dollar that goes into retirement accounts 40 cents comes out before retirement.

The intent of this work is to find a way to help workers save for emergencies. It is based on the "envelope" theory, that if money is saved and divided up for different purposes, into different envelopes, then it may be less likely workers will use money for the "wrong" purposes. Because a majority of workers are familiar and comfortable with the use of auto enrollment for their retirement plans, the use of this feature is being explored for emergency savings accounts.

The research is exploring the design of a mechanism that enrolls workers into a retirement account and emergency savings account at the same time. Workers' contributions would be split between two accounts giving them a place to go for inevitable income shocks and hopefully will help decrease leakage from retirement accounts. David said this is one mechanism, not necessarily "the" mechanism.

David then described three options for how this concept may work.

Option 1: An After Tax 401(k). This vehicle is not widely used anymore and is primarily for workers who have maxed out their 401(k) contributions and want to continue to save. Under this option the sidecar account money would be deposited into the after-tax 401(k) account and most likely be invested into relatively liquid options so that there is easy access to the funds. The drawback to this model is that upon withdrawal the funds are blended for tax purposes - 80% being treated as contributions so no tax taken and 20% treated as earnings and are taxed accordingly. This type of split tax treatment may be confusing for some workers.

Option 2: Imputed Roth IRA. This option creates an artificial dividing line, mainly a legal division, that treats contributions to the sidecar account just like Roth IRA contributions –after tax contributions that upon withdrawal don't have tax consequences until all the contributions are withdrawn and the account holder begins taking out earnings. At that time tax consequences occur on the earnings.

The negatives to this option are having to create an imputed Roth IRA and determine how the contributions are treated in investment options as it pertains to a qualified default investment alternative (QDIA). (QDIA regulation states that plan participants have exercised their control over the assets in their retirement accounts if, in the absence of a participant's investment instructions, the plan sponsor invests those assets in a QDIA.) David said some regulation would most likely be needed for this option to be feasible. The other drawback is that if an employer uses a retirement plan provider for these sidecar accounts withdrawals could only occur Monday through Friday.

Option 3: Payroll Integration. This is a straightforward approach where you have a portion of your money from your paychecks directly deposited into an account with a bank or credit union. This approach makes it difficult to use auto enrollment since that feature right now is only for retirement accounts. The plus to this approach is the ability of workers to get their money quickly and easily from a financial institution.

With this approach workers are putting a portion of their retirement savings into a sidecar account so a system would need to be set up that splits the contributions and then when a designated level of emergency savings is reached, directs all contributions to the retirement account. For example, with a 6% savings designation, 4% goes into a retirement account and 2% goes into a sidecar account. When the sidecar account reaches the designated level of savings, as determined by the worker, the 2% would go to the retirement account. If the sidecar account is used and the balance falls below the designated amount the split deposit needs to be resumed until it reaches that level again.

David then mentioned some questions the research is exploring. One is the belief that some in financial education hold that auto enrollment reduces engagement. Would the presence of a sidecar account give workers' an account that they could learn to manage and would it then help with their overall financial knowledge? David also said researches believe that there is a need for these accounts but it hasn't been proven yet that workers think they need help with emergency savings.

David invited the audience to pose questions they believe still need to be answered as this concept is explored further:

1) Account Fees: How much would these accounts cost and would that be a detriment to establishing them? Most human resource professionals don't believe high fees would be much of an issue and would be negotiable with the account providers.
2) Use of Passbook Savings Accounts. Could employers simply educate their workers to put money from their paycheck into a savings account designated for emergencies? David said this work's intent is to make the accounts as close to universal as possible. He cited how the use of auto enrollment brings retirement account participation up above 90% while 65% of workers own a savings account.
3) Small Account Balances. Would retirement account service providers be willing to handle small account balances? David believes if the employer is important enough to the service provider they'll adjust accordingly.
4) Nondiscrimination rules: Would these accounts have to pass the nondiscrimination test rules? To avoid the nondiscrimination rules test employers would probably not be able to provide a match for sidecar savings accounts.
5) Account Limits. Would there need to be limits placed on these accounts similar to retirement accounts' limits? David said there is probably merit to having a limit on the sidecar account balances.
6) Ease of Withdrawal. Would there be a process workers have to go through to withdraw money in a hardship similar to withdrawal test for 401(k) plans? There would probably be some steps workers would need to take to withdraw money from a sidecar account and they could serve the same function as the hardship test in terms of making the worker think through their decision.
7) Income Inequality. Are these accounts of value to low income workers who have trouble saving already? David said he doesn't believe this concept should be put on hold until the larger issue of income inequality is resolved because even a small account balance could help a low-income worker in times of an emergency.
8) Employer Interest. Is there interest among the employer community? As with any benefit, some employers will be more interested than others. Overall there is a general feeling that this type of account could be helpful in dealing with financial wellness issues. The ease of implementation could be a factor for employers, particularly smaller ones.

On October 26, the Brookings Institution is hosting an event where a paper on Sidecar Savings Accounts will be presented of which David is one of six authors.

The Use of Health Savings Accounts to Cover Retiree Medical Costs

The last speaker was Jack Towarnicky, Executive Director of the Plan Sponsor Council of America. Jack's presentation focused on how employers can offer a new benefit – retiree medical – facilitating funding through employee contributions to Health Savings Accounts (HSAs). Jack referred to an article he wrote for Benefits Quarterly in 2016 that discussed how one employer transitioned from retiree medical using a defined benefit structure, to a defined dollar structure and ultimately to a defined contribution method using HSAs – lowering costs, unfunded liabilities, while helping employees successfully save for medical costs in retirement.

Jack said the real retirement crisis is the lack of employers who have adopted tax favored savings programs designed to fund medical costs in retirement. Current research by EBRI shows that between $160,000 and $350,000 will be needed to fund medical costs in retirement. There has been a 35-year trend of reducing access to employer sponsored retiree medical benefits. Because of the cost to the federal budget, Congress has acted more than once in the past to reduce, not add, tax favored options for retiree medical.

Today, the best practical option for employer-sponsored retiree medical results from coupling Medicare Advantage options with HSAs for funding.

All workers are eligible to save for retirement either through an employer's 401(k) or through an IRA. Currently HSAs are available to workers only if their employer offers and they participate in a high deductible health plan (HDHP). This is a missed opportunity according to Jack. The most recent figures show that 25% of workers are enrolled in an HDHP and consequently are eligible to contribute to an HSA. Only 75% of those eligible actually contribute and only a small percentage of those contribute enough so as to accumulate monies and invest their assets.

Most people treat HSAs as an enhanced health flexible spending account instead of looking at it as a way to save for future out of pocket and health insurance expenses.

Another missed opportunity results from failure to deploy Behavioral Economics tools and processes. While auto enrollment is frequently used for retirement savings accounts, it is infrequently used for HSAs. Most employers also don't use contributions as a savings incentive in the form of a match. Finally, in the investment community, most HSA service providers don't view these accounts as investment vehicles and consequently limit or discourage the investment of the assets in these accounts.

Instead of looking at savings in HSAs **or** 401(k)s, Jack proposed that we look at it as saving in HSAs **and** 401(k) to garner the tax preferences available in each account. HSA, distributions are tax free if they are used for health care expenses including premiums for employer-sponsored Medicare supplement coverage, long term care or out of pocket expenses. Jack also stated that once workers obtain the maximum match in the 401(k), the next dollar might be better allocated to the HSA. While most employers who offer HSA-qualifying health options don't offer a match today, that may change as the number of employers who offer these types of health plans increases. Also, once the Cadillac Tax starts to apply in 2020, more employers are likely to offer a HSA-qualifying high deductible health plan. .

Current evidence does not suggest that HSA contributions crowd out 401(k) contributions in well-designed plans and when automatic features are included in the 401(k)s and the HSAs. A study out of Fidelity Investments showed that employees with access to both plans had higher saving rates than those with access to only a 401(k). Between 2014 and 2016 there was a 21% increase in workers contributing to both a 401(k) and an HSA and the 2016 average savings rates for those in both types of plans was 10.6% while the average savings rate for those in just a 401(k) plan was 8.2%.

In addressing how these HSAs may be difficult for low-income workers to use if they don't have the money to save in the accounts, Jack quoted a statistic that 80% of workers who indicate they are living payday to payday are also saving in their employer-sponsored 401(k) - so perhaps if HSAs were more widely available, contributions and investments would be greater.

Jack suggested that the best options for improve preparation and savings for post-employment medical costs would be to increase the number eligible for HSA-qualifying plans and to support legislation to expand Medicare to include an HSA-eligible HDHP.

Partner Updates

Ted Beck with NEFE said Brent Neiser has been appointed to the Consumer Financial Protection Bureau (CFPB) Advisory Board.

Judy Chappa with Financial Services Roundtable said FSR and member companies are launching with the CFPB a Wellness Resource Guide designed to offer employers a tool kit to put together a financial wellness program through their human resources departments. The guide is available on both website.

Lois Vitt with the Institute for Socio-Financial Studies said she is finishing a report for the Social Security Administration on how people learn about Social Security.

John Turner with the Pension Policy Center said he is working on a research project with co-authors from Canada and Ireland on workers' expectations of future Social Security benefits. Their research, which shows that many U.S. workers underestimate their Social Security benefits and overestimate their pension benefits, will explore the differences among the countries and the patterns that occur.

Jeremy Smith with the Aspen Institute said they are working on a number of initiatives including a paper about sidecar savings accounts, a project looking at the implications of income volatility on the ability to save for retirement and a project examining the effects of rising levels of debt.

Ted Daniels with The Society for Financial Education and Professional Development announced it will host its Annual Financial Literacy Leadership Conference in Alexandria, Virginia on October 2 and 3. This year's theme is: "Financial Reality vs. Financial Behavior."

Alan Sorcher with the Securities and Exchange Commission reminded the group that the SEC's Public Service Campaign reminds investors to check the background of their financial advisors and that they continue to issue bulletins and alerts on a variety of topics relevant to individual investors. Alan also mentioned an October 3 event the SEC is co-hosting with the Federal Retirement Thrift Investment Board for federal employees and members of the uniformed services who are considering retiring or leaving Federal Service. The event, which requires registration in advance, will cover topics such as TSP distribution option, withdrawals, roll-outs and topics related to investment fraud and choosing financial advisors.

Leah Szarek with the Municipal Securities Rulemaking Board announced the online resources available to educate investors, state and local governments, and others interested in learning about the municipal securities market. The resources include information to help investors understand basics about investing in municipal bonds and how to make sure they get a fair price. The newest resource is a 45-minute free online course that simulates decision-making for bond investors.

Lee Gimpel with LifeWise Strategies highlighted a game-like tool his company has developed called Money Habitudes. It functions as a money personality assessment and financial conversation starter. They have just released an online version (more info at Money Habitudes). Money Habitudes is used by financial educators, financial advisors, coaches, universities, and companies.

Cailin Crockett with the Administration for Community Living mentioned their retirement security projects for older adults particularly the National Resource Center for Women's Retirement.

Jan Jacobson with the American Benefits Council announced that the Council is, as part of the celebration of their 50th anniversary, sponsoring a career-building opportunity for benefits professionals. Emerging benefits leaders can submit forward-looking ideas on benefits design, communication and public policy in the future for a chance to win cash prizes, industry recognition, and a PLANSPONSOR feature. Awards will be announced at the Council's 50th Anniversary Symposium on November 30, in Washington, DC.

Jack Towarnicky with the Plan Sponsor Council of America highlighted their ongoing research into 401(k) plans and a recently published paper on how the 401(k) plans can be used as a lifetime solution to financial wellness.

Chris Carousa with Fidicuary News said they are currently working on a documentary featuring a roundtable "reunion" discussion with the surviving members of the very first 401k plan. They will also be airing an interview with Ted Benna about his idea for companies to create sophisticated IRAs for their employees that act like 401(k) plans without employers having to assume the fiduciary responsibility. Chris also announced the upcoming publication of his book, *"Cradle to Retirement - The Child IRA: How Every Newborn Child Can Become a Multi-Millionaire,"* expected to be released September 12, 2017.

Louisa Quittman with FLEC announced that the new assistant Treasury Secretary for the Office of Consumer Policy is Jovita Carranza and that the next FLEC public meeting will be in the fall.

Chelsea Richwine with GFLEC announced GFLEC is currently engaged in the early stages of several new research projects. They recently submitted a letter of interest for a grant to examine phased and bridged retirement solutions for a heterogeneous workforce. The aim is to address the wide range of employee, employer, and legal/regulatory barriers that inhibit the creation of flexible working options for older workers. They are also working on a new research agenda that investigates financial literacy among investors. Preliminary findings suggest that levels of individual financial literacy are low not only in the general population, but also among those with financial investments or self-directed retirement accounts.

Gretchen Holthaus with GLFEC announced a project that is looking at the barriers to promoting financial education in schools and by using the PISA data they hope to be able to direct resources to the areas where financial knowledge is lowest.

Jaclyn Walkins with ACLI announced ACLI is working on research that is exploring four generations at different stages of life to provide a high-level snapshot of America's current state of financial and retirement security. By studying the financial habits of different households, this work seeks insight into the ways Americans rely on public and private sector tools to prepare for the future. The goal is to help policymakers and thought leaders visualize how successful households practice good financial behaviors and utilize key private sector tools, and how to better support those households that need minor or major improvement for greater financial and retirement security.

Kathy Stokes with AARP announced AARP's launch of an Ad Council Campaign that focuses on workers in their 40s and 50s with access to employer sponsored retirement savings plans. The campaign is designed to give action items for individuals and directs them to a new website - www.aceyourretirement.org. The website is designed primarily to be accessed on mobile devices. The program uses a digital friend "Avo" to guide users through their online experience.

Bobbie Gray with FDIC highlighted the free financial education resources the FDIC offers for all ages. The Summer 2017 issue of their Consumer News spotlights how to protect yourself from bank scams. The FDIC has also launched with the CFPB the updated Money Smart for Older Adults 2.0 curriculum that is designed to help older adults and their caregivers make financial decisions with confidence and to avoid financial exploitation. Bobbie also mentioned the FDIC's Youth Savings Program that combines traditional financial education classroom programs with the hands-on learning and opportunity to open a low-cost saving accounts at a local financial institution. The results from the two-year pilot program and a roadmap for those interested in forming a relationship can be found on the web site. Resources can be downloaded through the FDIC Online Ordering Catalog.

Amina Carter with Jumpstart mentioned their Annual National Educators Conference to be held November 3 – 5 in Washington, DC. Jumpstart Partners can attend as an exhibitor.

Lindsay Ferguson with America Saves said they are working on the annual report from America Saves Week 2017 and will share the highlights as they are available. They are also starting work on America Saves Week 2018 and invited ASEC Partners to work with them on this week.

Cindy Hounsell with WISER announced their 2017 symposium, The Gender Story: A Symposium for Retirement Solutions for Women, on September 19 in Washington, DC.

Tony Hausner with the American Association of Individual Investors DC Metro Chapter announced their September 16 meeting on "The Principals of Factor Investing" by Alberto Rossi from the University of Maryland Smith School of Business and the AAII Annual Conference in Orlando on November 3 – 5 where the Keynote Speakers will include Bruce Johnstone from Fidelity Investments.

Bob Patterson with Social Security Administration highlighted the My Social Security Statement program which gives individuals online access to their social security accounts to see their earnings and projections for their Social Security benefits.

Erika Karell with FINRA announced that the fourth wave of the FINRA Foundation's National Financial Capability Study has been approved by the Foundation Board of Directors and also mentioned that FINRA has set up a fintech resource page on the FINRA website which includes links to two reports on fintech issues and links to investor pieces on related topics.