Financial Engagement
For the New World of Retirement

Don Harris, Sr. Vice President, VALIC

October 18, 2012
Is it a sign or a Rorschach test?
Signs of the times???
Today’s Agenda

- Retirement Re-Set Study: *The changing face of retirement*
- Financial education for a diverse workforce
- Building financial engagement
- Improving your communication efforts
- Some practical steps for today
- Looking to the future
Background

  - Look beyond basic financial and demographic issues at the emotions, attitudes, expectations, and behaviors of pre-retirees and retirees
- 2011: Baby boomers have begun turning 65.
  - During the decade, the hopes, worries, and needs for retirement-related planning and guidance have changed.
  - A new generation of pre-retirees and retirees with different economic conditions, attitudes, and expectations
- The *Retirement Re-Set* Study examines how the mindset, lifestyle expectations, and planning for retirement have changed over the past decade.
In 2001, most viewed retirement as a winding down/continuance of life.

Which statement best represents retirement to you?

- 22% A winding down of life
- 38% A whole new chapter of life
- 40% A continuance of what your life was
Today, there’s a new retirement game plan: most view retirement as a new chapter in life.

*Which statement best represents retirement to you?*

- 19% A winding down of life
- 27% A continuance of what your life was
- 54% A whole new chapter of life
Retirement 3.0
A new era of leisure, work and purpose

• **Retirement 1.0** (1935-1975):
  • Short, frugal period of rest after a life of hard work
  • Modest lifestyle expectations

• **Retirement 2.0** (1976-2010):
  • Lengthening, sought-after period of leisure,
  • Multiplying entitlements

• **Retirement 3.0** (2011- ??):
  • Productive, purposeful, challenging new chapter in life
  • Blending of work and leisure
  • Personal reinvention and continued social engagement.
Retirement 3.0
People now intend to delay retirement 5 years

At what age did you expect to retire 10 years ago & do you expect to retire today?

10 Years Ago: 64
Today: 69
## Retirement 3.0
Changing expectations to delay retirement

<table>
<thead>
<tr>
<th>Age Category</th>
<th>1991</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retire before age 65</td>
<td>50%</td>
<td>23%</td>
</tr>
<tr>
<td>Retire at age 65</td>
<td>34%</td>
<td>26%</td>
</tr>
<tr>
<td>Age 66 or older / never</td>
<td>11%</td>
<td>44%</td>
</tr>
</tbody>
</table>

*EBRI and Matthew Greenwald & Assoc., 1991 - 2011 Retirement Confidence Surveys*
Retirement 3.0
In the past decade, only age 55+ cohorts increased in labor force participation

Labor Force Participation by Age

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2001</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-34</td>
<td>84%</td>
<td>82%</td>
</tr>
<tr>
<td>35-44</td>
<td>85%</td>
<td>83%</td>
</tr>
<tr>
<td>45-54</td>
<td>82%</td>
<td>81%</td>
</tr>
<tr>
<td>55-64</td>
<td>60%</td>
<td>65%</td>
</tr>
<tr>
<td>65+</td>
<td>13%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
Retirement 3.0
The ideal retirement now includes some work

**Does your ideal retirement include some work?**
(% Yes)

- **All**: 65%
- **Age 55-64**: 79%
- **Age 65+**: 56%
Retirement 3.0

Why work? Stimulation, satisfaction outrank money

If you work in retirement, which of the following would be the main reason why?

- 54% Stimulation & Satisfaction
- 46% Money
Retirement 3.0
Working for pay in retirement

Stay active and involved 92%
Enjoy working 86%
Money to buy extras 72%
Decreased investments 62%
Make ends meet 59%
Keep health insurance 40%

-EBRI and Matthew Greenwald & Assoc., 1998 - 2011 Retirement Confidence Surveys
Retirement 3.0
Most seek balance between work and leisure

Which represents your ideal plan for balancing work and leisure in retirement?

- 36% Going back and forth between periods of work and leisure
- 31% Never working for pay again
- 25% Working part time
- 4% Working full time
- 4% Not sure
- 4% Not sure
The four faces of retirement:
A decade ago (2001)

- 32% Worried Strugglers
- 27% Ageless Explorers
- 19% Comfortably Contents
- 22% Live for Todays

- 54% Having Serious Difficulties
- 46% Enjoying Retirement

- Enjoying Retirement (46%)
- Comfortably Contents (19%)
- Ageless Explorers (27%)
- Live for Todays (22%)
- Worried Strugglers (32%)
- Having Serious Difficulties (54%)
The four faces of retirement today:
More uncertainty, struggle, and caution
Re-setting expectations for a long life (and how to pay for it)

67% would like to live to 100

Top benefits of living to 100:
- Remaining active and productive
- Building family relationships

Top longevity worries:
- Health problems
- Being a family burden
- Running out of money
Re-setting financial solutions and advice

80% seek education and advice for saving and investing for retirement at work*

*Among people age 55+ currently employed

93% say financial management should be a standard part of high school education
Building a foundation for retirement readiness on your campus
Building a foundation for retirement readiness

- Retiree security
- Investments
- Financial education
- Plan administration & compliance
<table>
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<tr>
<th>Preferred approach to financial decision making</th>
<th>2010 Higher Education Retirement Confidence Survey, TIAA-CREF Institute</th>
</tr>
</thead>
<tbody>
<tr>
<td>One size doesn’t fit all for making financial decisions</td>
<td>-EBRI and Matthew Greenwald &amp; Assoc., 1991 - 2011 Retirement Confidence Surveys</td>
</tr>
<tr>
<td>□ H Ed - Need financial professional to make decisions</td>
<td>8%</td>
</tr>
<tr>
<td>▪ Have the professional manage your investments</td>
<td>13%</td>
</tr>
<tr>
<td>□ H Ed - Actively partner with financial professional</td>
<td>30%</td>
</tr>
<tr>
<td>▪ Follow recommendations from a professional</td>
<td>18%</td>
</tr>
<tr>
<td>□ H Ed - Make decisions after considering advice from others</td>
<td>45%</td>
</tr>
<tr>
<td>▪ Get guidance from a professional, but make own decisions</td>
<td>47%</td>
</tr>
<tr>
<td>□ H Ed - Research on your own and make your own decisions</td>
<td>16%</td>
</tr>
<tr>
<td>▪ Research on your own and make your own decisions</td>
<td>20%</td>
</tr>
<tr>
<td>□ H Ed - Don't know / Refused to answer</td>
<td>1%</td>
</tr>
<tr>
<td>▪ Don't know / Refused to answer</td>
<td>2%</td>
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Money Attitudes and Retirement Plan Design: One Size Does Not Fit All

> MacFarland, Marconi, Utkus (2003)

Most financial education assumes rational participants should act like a financial planner
- Maximize their understanding and opportunity to accumulate and distribute

> 5 identifiable clusters with distinct money attitudes and behaviors

<table>
<thead>
<tr>
<th>Segment</th>
<th>%</th>
<th>Vision</th>
<th>Interests &amp; Info Sources</th>
</tr>
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<td>Successful planners</td>
<td>21%</td>
<td>Strong vision, clear goals</td>
<td>Enjoys planning, seeks info</td>
</tr>
<tr>
<td>Up &amp; coming planners</td>
<td>26%</td>
<td>Similar but w/ uncertainty</td>
<td>Disciplined, enjoys finances</td>
</tr>
<tr>
<td>Secure doers</td>
<td>20%</td>
<td>Saves but not goal-focused</td>
<td>Risk averse, limited info</td>
</tr>
<tr>
<td>Stressed avoiders</td>
<td>19%</td>
<td>Worried – future &amp; money</td>
<td>Confused, least confident</td>
</tr>
<tr>
<td>Live-for-today avoiders</td>
<td>14%</td>
<td>Not focused at all: “too far”</td>
<td>No interest in planning</td>
</tr>
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Implications for financial education efforts:
- Over 50% not disposed to planning, goal-focused, making informed decisions
- 33% not saving, interested or sure of what to do
**Comparing Money Attitudes with EBRI results**

- Identifiable clusters with distinct money attitudes and behaviors
- Interesting overlap with decision making orientation

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<th>Decision making</th>
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**Considerations for financial education efforts:**
- 20% disposed to planning, goal-focused, making informed decisions
- 80% varying degrees of help
- Frightened, confused or dismayed ???
- Simpler decisions, less information, reduced complexity, fewer choices
Resources for financial education research

Employee Benefits Research Institute
  www.ebri.org/

Pension Research Council (Wharton School)
  www.pensionresearchcouncil.org/

TIAA-CREF Institute
  www.tiaa-crefinstitute.org/institute/index.html

Financial Literacy Center (Rand Corp., Dartmouth, Wharton)
  www.rand.org/labor/centers/financial-literacy.html

Michigan Retirement Research Center
  www.mrrc.isr.umich.edu/

Center for Retirement Research at Boston College
  crr.bc.edu/
What does financial education research tell us?

Consistency of findings

> Improving communications boosts participation
> Frequency directly correlates with results
> Seminars improve voluntary participation, contribution rates and asset allocation
> Internalizing retirement realities (cost of goals) can motivate changes in behavior and/or goals
> NHC employees benefit most from financial education

Additional benefits cited

> Reduced stress; improved financial decisions
> Improved job performance and productivity
Why is financial education not enough?

Ignoring reality

> If I don’t think about it …
> 58% have not calculated $ needed for retirement
> 39% for higher education employees

Can’t relate to the numbers

> What does this mean to me? …and my lifestyle?

- EBRI and Matthew Greenwald & Assoc., 1991 - 2011 Retirement Confidence Surveys
- 2010 Higher Education Retirement Confidence Survey, TIAA-CREF Institute
Building financial engagement
Personal financial needs hierarchy

with apologies to Abraham Maslow and A Theory of Human Motivation

- **Physiological**: Food, shelter, utilities, basic money needs
- **Safety**: Stable income, budget, saving, insurance, emergency fund
- **Belonging**: Goal planning, credit, investing, will, mortgage
- **Esteem**: Wealth creation, investment management, advanced planning
- **Self Actualization**: Financial independence

- Need: (Pay)
- Get: (Recognition)
- Give: (Stimulation)
- Enrich, Enhance: (Add value)
Building financial engagement

Financial engagement is …

> **Responsibility**: the focus is on outcomes
  - Am I on track for retirement readiness?
  - What is my responsibility for the outcome? …my employer’s?
  - What can I do to influence my results?

> **Involvement**: saving more, saving longer, saving smarter
  - What can I control? (… and not control?)
  - Where do I turn for assistance?
  - What planning resources are available to me?

> **Action**: how do I take the next step?
  - What do I need to do today?
  - How do I build on prior decisions/actions/inactions?
  - How can I increase my confidence in achieving my goals?
Turning financial education into financial engagement

Start with clear objectives

1. Develop employees’ responsibility for financial future
2. Improve employees’ financial decision making
3. Build / deepen employees’ trust and loyalty
4. Traditional objectives:
   - Increase employee participation and contribution rates
   - Improve asset diversification
   - Adequacy of assets to support retirement needs
   - Develop effective communications, channels, activities
   - Minimize loans and in-service distributions
Creating and implementing your plan

- Analysis of workforce and needs assessment
  Demographic, behavioral, financial and attitudinal
- Analysis of available resources and identify gaps
  Partners, professors, channels, budget, facilities
- Determine objectives and ownership
  Develop messages, processes, activities and metrics
- Integrate elements needed to reach all employees:
  Channels, feedback, creativity, convenience
- Plan, schedule, advertise, confirm & remind
- Measure, analyze results & feedback, learn & improve
  Phase-in new approaches, new messages, new tools
Improving your communication

*The Pension Communications Project 2010*

> Spence, Johnson Ltd., 2010

> 90 DC communication campaigns from 9 countries

**14 key communication themes:**

1. Simplification of complex ideas
2. Creative ideas / graphics
3. Call to action
4. Segmentation of audiences
5. Personalization of messaging
6. Multi-channel approach
7. Latest technology
8. Communicating in person
9. Earning of trust
10. Research drives the message
11. Low-cost approach
12. Adaptability and flexibility
13. Testing and refinement
14. Phasing of initiatives
Improving your communication

• One size does not fit all
  ➢ Segmentation, personalization of experience
  ➢ Building trust with employees

• Matching technology, message and customer
  ➢ Convenience, multi-channel access
  ➢ Interactivity through new technology

• Meet the customer where he/she is most receptive
  ➢ Simplification, illustrations and graphics
  ➢ Creativity, “edutainment”

<table>
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<tr>
<th>Most effective communication channels</th>
<th>Work email</th>
<th>Home mail</th>
<th>Group meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public 4-Yr</td>
<td>78%</td>
<td>43%</td>
<td>24%</td>
</tr>
<tr>
<td>Private 4-Yr</td>
<td>86%</td>
<td>48%</td>
<td>13%</td>
</tr>
<tr>
<td>Community College</td>
<td>84%</td>
<td>42%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Spectrem, 2010 403(b) Not for Profit Segment Survey
Practical steps for today

Two-way communication

> Periodic employee surveys on financial concerns
  - What topics they want to know about
  - How they want to receive the information
  - Additional services they would find helpful

> Periodic tweets or email blasts with links
  - Calculators, videos, articles on retirement and financial issues

> Retirement “inbox” for employees
  - Allow retirement providers to offer solutions to questions

> Departmental meetings
  - Smaller group meetings, more informal, better attended
Practical steps for today

Targeting opportunities

- **New hires** -
  - 1-page provider summaries in orientation packets
  - Senior leader quotes or article emphasizing importance
  - Encourage 1:1 retirement counseling early

- **Promotions, grade changes, salary increases**
  - Simple message, illustrate tax savings
  - Email with paycheck comparison calculator link

- **Special messages for low / non-contributing**
  - Illustrations, calculators, individual counseling

Create an identity

- **Brand your retirement plan to your institution**
  - Use for website, email, articles, posters & mail
  - Consider an employee branding contest
  - Eliminates confusion about who provides the benefit
Practical steps for today

Put it on the calendar & send it out (often)

- Quarterly or semi-annual retirement fair
- High-traffic exhibits, information tables
- Ongoing seminar series on various financial topics
- Monthly office counseling days – each vendor

Set a good example

> Create a culture of saving and financial responsibility
  - 100% participation in benefits office and campus leaders
  - Senior leaders – provide periodic quotes on importance
  - Prominent retired faculty testimonials
Practical steps for today

Get Creative
> Link financial health to wellness campaign
  – add health activity points for voluntary contributions
> Try an employee video contest

Appeal to your audience
> Watch your wording in subject lines
  – who responds to “retirement” vs “financial wellness”
> Food, fun, convenience

Catch someone doing something nice
> Nominate employees for a weekly Starbucks card
  – build online followers and recognize positive contributions
Looking ahead: social learning - just a fad?

Social networks: peer-to-peer learning channels
> 800 million Facebook users
> Generational divide, or not?

Learning moves to mobile devices
> By 2015 more users connect by mobile than desktop PC
> Instant Q&A, real-time search

There’s an app for that!
> Over 500,000 apps for iPhone, iPad
> Custom app development for financial education:
  – Retirement planner; benefit selector; savings calculator
  – Workshop scheduler; enroll/increase deferrals; expert locator

Meister and Willyerd, 2010, Looking Ahead at Social Learning, ASTD.org
More learning possibilities with social technology

Games & simulators for virtual learning
> FarmVille: over 80 million players; real-time farm simulator
> Creates “experience” with the inaccessible or abstract (retirement?)

Public ratings of people, products and information
> Rateyourprofessor.com; Glassdoor.com; Amazon.com
> Application of social feedback to help guide others
> Ultimate social case study tool
> Immediate feedback on education programs, tools, etc.

Meister and Willyerd, 2010, Looking Ahead at Social Learning, ASTD.org
A word about social media

Define your purpose for every communication

- Increase inquiries/response (taking action)?
- Customer service (deadlines and events)?
- Building awareness (introducing resources, services)?

“Listen” to what is being said

- Watch the tweets, replies, and re-tweets

Communicate regularly, but provide value

- Find thought leaders and business resources to follow
- Use the informality to your advantage
- Avoid “spammish” communication
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