Financial Wellness

Holistic planning today for retirement tomorrow

RETIREMENT & BENEFIT PLAN SERVICES

The recent economic downturn has crystallized a problem that has been building for years: many people haven't saved enough for retirement. Compounding the problem, fewer and fewer employers are able to offer defined benefit plans, matching contributions, and other benefits due to cost.

Yet concerned employers want to help prepare their employees for retirement while also considering their overall financial health. Many of those employers are rethinking their benefits programs to include components such as targeted education programs, savings vehicles, and actionable advice tools. While these financial wellness-focused programs can range from basic to robust, all are designed with the same goal: to provide a way to help employees develop their own holistic financial strategy so they are better prepared to manage both everyday expenses and long-term goals.

"It's no longer enough for anyone to look at their retirement plan in isolation; it's important to see it as one piece in the larger financial picture," says Kevin Crain, managing director of Institutional Client Relationships at Bank of America Merrill Lynch. "Employers may want to consider offering their employees a full spectrum of benefits solutions. This is important for employees' financial wellness, and important for companies who want to retain the best talent."

People have become more focused on their overall financial health, and many are changing their attitudes about spending and saving. For example, a recent report[1] of plans serviced by Bank of America Merrill Lynch showed that of the 401(k) participants who took action within their plan in 2009, 69% took a positive action to enroll in the plan, while 39% took a negative action to stop contributing to the plan.

Employee Ranking of Financial Concerns[2]

Managing retirement plan investments	52%
Paying off credit cards and other debt	41%
Meeting current household expenses	35%
Preparing for retirement in 10+ years	33%

Further exploration suggests that this focus extends beyond retirement. Another Bank of America Merrill Lynch report[2] revealed that the top four financial concerns of employees are evenly split between everyday expenses and retirement. "While people want to save for retirement, many are realizing they can't save adequately if they can't fund their everyday expenses first," says Michelle L. Godfrey, director of Workplace Programs and Advice at Bank of America Merrill Lynch. "The problem is that so much of the financial guidance out there is a patchwork of money-saving ideas, stock market tips, and other 'recommendations,' which are often conflicting, biased or, at the very least, confusing."

continued

[1] Source: Bank of America Merrill Lynch Retirement & Benefit Plan Services November month-end report of proprietary 401(k) business.

[2] Source: Bank of America Merrill Lynch Workplace Financial Programs Topline Research Findings for Client Advisory Council Meeting, November 2009.

The role of the employer in financial wellness

Investing for retirement has moved toward a model where the employer provides guidance but the employee takes responsibility for investment choices. Many employees may not fully understand the degree to which they are in charge of their own financial futures — and even those who do may not know how to invest their money properly. According to Crain, "The fact that so many employees fail to take full advantage of their retirement benefits is a good indicator that they could use some help." On the most basic level, employers can help by providing access to the necessary vehicles for saving money. However, to truly make a difference in employee financial wellness, employers should examine a much broader spectrum of benefit offerings and educational opportunities.

The advantages of offering strong benefits, such as a retirement plan or financial wellness program, are not just one-sided. Many employers see them as useful in maintaining productivity, as well as recruiting and retaining employees. For instance, a 2009 Deloitte Consulting survey[3] revealed that "more than three-quarters (79%) of employers are still fairly confident that their 401(k) plan is effective for recruiting talent, and 68% say it helps with retention."

Employers who are considering offering solutions to improve holistic financial wellness should first evaluate their company's existing benefits. Some employers will find it useful to work with service providers who can help them redefine their benefit solutions and offer the tools and advice their employees want. Here are three areas in which to concentrate:

Rethinking plan design

"Start by assessing your current retirement plan design. Make sure it's working for your employees so they can get the most out of what you offer," says Crain. "Employers should try to ensure that their employees use the benefit plans available to them, whether they are defined contribution, equity awards or nonqualified programs." To maximize the effectiveness, employers should try to tailor benefit solutions to meet the needs of the business as well as the needs of the employee. Some plan sponsors are finding that they get better participant response if they offer dual enrollment of 401(k) programs with the annual health enrollment process. Others offer auto-invest or auto-increase programs. Those working with a service provider often find their participants appreciate the flexibility of open architecture with an array of investment options that provides employees the opportunity to customize their investment menu according to their personal financial goals.

Financial wellness solutions

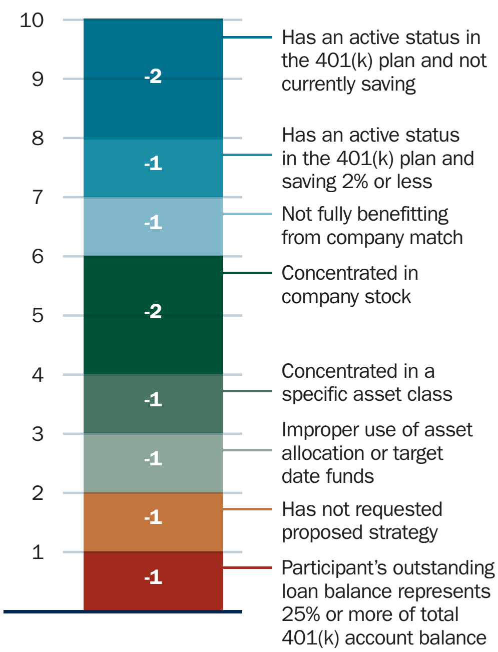
There are numerous types of offerings that can fit into the category of financial wellness solutions. For instance, an easy-to-use online site that helps employees gain an integrated view of personal financial information can help them avoid making their financial decisions in isolation. Some plan sponsors offer products that provide employees with banking, savings and credit solutions, preferably at some sort of corporate discount, such as an @work program. Another option to consider is providing a discount on an insurance policy, mortgage or college tuition plan.

An important factor in helping employees succeed is to not only provide the solutions, but also provide the proper education to help ensure employees are aware of their benefits and know how to use them. For example, a company with an aging workforce may consider a targeted communication program to help older employees make decisions about retirement income. Because most companies' employee base consists of individuals at varying life stages, each with different levels of income, assets and goals, educational programs must be flexible enough to accommodate a range of simple to complex needs.

[3] Source: Deloitte Consulting LLP, 401(k) Benchmarking Survey, 2009 Edition.

"You need to know your audience," says Crain. "In addition to listening carefully to your employees, you can also use more formal data-gathering methods." For instance, Bank of America Merrill Lynch recently released the Financial Wellness Monitor,™ a tool that helps plan sponsors determine how participants are using their 401(k) plan. This report measures whether employees are using the savings plans, diversifying adequately, taking advantage of the company match, and several other factors. By understanding employee saving behaviors, employers are in a better position to develop targeted communications and education programs.

FINANCIAL WELLNESS MONITOR™



The Financial Wellness Monitor™ reveals the degree to which plan design and directed education are driving employees into doing the right thing for creating wealth for retirement—but in the context of the here and now. We believe that if we can drive more employees to exhibit positive savings and investment behaviors today, the likelihood of their retirement income needs being met would increase.

Each participant receives a score on a scale from 0 to 10, with 10 representing the highest positive wellness level. Points are deducted from 10 based on "symptoms" associated with common and measurable at-risk behaviors as shown in the table above. A score of 7 or higher is regarded as being "well."

Currently, the Financial Wellness Monitor™ is being provided only for plans that have adopted our Advice Access service.

Delivering holistic advice

Consider rolling out an advice tool that can help employees make investment decisions. "At Bank of America Merrill Lynch, we believe financial advice is a foundational component to a more effective retirement plan, which is why we provide it as part of our 401(k) services to plan sponsors and employees at no additional charge," Crain explains. An advice tool is different from the educational programs that many employers run, because employees can get specific advice based on their individual needs. These are often online-based and administered by a third party.

"Employers need to recognize the difference between education and advice," says Godfrey. "It's a significant change from the way financial benefits have worked in the past. With education, you give people general information to help them make informed decisions. With advice, you can give them actionable ideas for their particular situation. Employers should consider offering both." Godfrey advises that plan sponsors use multiple channels to reach participants: local meetings, phone, one-on-one sessions, email and print communications. Employees may want recommendations about how much to contribute, how to choose investment solutions, and how much to save for retirement. What's more, employees should feel confident that they are receiving fact-based insights, rather than just random opinions. "Many people simply don't know where to begin," says Godfrey. "That's where their employer can really help, by making sure their plan offers an advice tool or service to participants."

Case Study:

Rethinking plan design with employees top-of-mind

New Hampshire-based Goss International is an industry-leading manufacturer of web offset presses and print finishing systems, with a history going back to 1885. Given the global migration to digital media in recent years, it is no surprise Goss has felt the effects, having to downsize their staff significantly.

"All you have to do is look at the number of newspapers that have gone out of business to know that our industry has been significantly hit by the change in technology," says Amber Barbere, Goss's senior manager of Benefits and Compensation. Even through tough times, however, Goss continues to consider their employees' financial well-being a high priority. "Financial planning is an expertise that many people don't understand. When you are focusing upon paying your mortgage this month, it's hard to think where you'll be in 15 years. We have a major responsibility to help our employees prepare by working with a good financial institution that provides proper tools and education."

With this in mind, Goss worked with Mark Shapiro, a Bank of America Merrill Lynch relationship manager, to review their 401(k) plan design. They were disheartened, because not only were they failing their nondiscrimination testing, but many employees were not taking advantage of the benefits available. "We needed to find a creative approach that would benefit our employees but also help us close the gap on our noncompliance testing," says Barbere. In 2006, Goss decided to establish auto-enrollment for all new employees, hoping to increase participation, and Barbere and the benefits committee were pleased to find that over 18 months, the participation rose from 66% to 73%.

Another change Goss made that same year was to roll out Advice Access, a service that provides actionable advice on participants' savings and investment decisions. One early positive result of the rollout was the improved diversification as the average investment holdings per participant increased from 4 to 4.76 in the same time period.

Barbere stressed the importance of strong two-way communications with employees, explaining that the main reason for introducing a Roth 401(k) option was because participants asked for it. "Goss employees in general are sophisticated, and they ask a lot of the right questions," said Shapiro. "They wanted opportunities to be able to contribute in different ways."

In 2008, although Goss had made significant changes already, participation was still not as high as they had hoped and the benefits committee decided to go one step further. "We decided that by enrolling all our existing employees as well as auto-enrolling new employees, we could not only close the nondiscrimination gap, but also help reinvigorate their retirement savings," says Barbere. According to Barbere, feedback has been positive. Only 28 employees have opted out since auto-enroll was established.

By the end of 2008, the participation rate spiked to 90%. Also, about 25% of employees were taking advantage of Advice Access, now established as the plan's qualified default investment alternative. According to Shapiro, about 20% of those employees who use Advice Access also take advantage of it for a more holistic view of their finances. "They might include their spouse's data, such as their 401(k), pension, banking and brokerage accounts helping provide a more robust financial picture for the participants and families."

The use of Advice Access is proving beneficial from an employee financial wellness standpoint as well. Bank of America Merrill Lynch's Financial Wellness Monitor™ rates Goss's participants who are enrolled in Advice Access with an above-average score of 8.2.

As with many companies, in 2009 the economic downturn resulted in employee layoffs and unpaid furloughs and Goss's plan participation decreased, settling in the mid-80% range. However, as the economy continues to strengthen, Barbere is pleased to provide employees an improved fund lineup and lower fees overall in 2010. She explains that this is Goss's theme for open enrollment this year: offering people choice in both health plans and financial wellness.

"We're excited to offer our employees options," says Barbere. "By providing an exciting fund line up, Advice Access, and a Roth 401(k), we've given our participants the options they need to prepare and save in ways that work for them. Even though we can't offer pension plans and a 401(k) match the way we did in the past, we can still assist people in preparing for their financial future."

This case study is not intended to serve as advice since any strategy is dependent upon your plan's individual facts and circumstances. Results will vary.

Your provider of choice in retirement and benefit solutions

One of the world's most innovative financial institutions, Bank of America Merrill Lynch stands today among the leaders in retirement and benefit plan services. We are committed to providing corporations, institutional investors, financial institutions and government entities with retirement solutions and personal service. At Bank of America Merrill Lynch, this promise includes tailoring our approach to address the unique needs of the organizations we serve. We do so by offering unprecedented access to a global open architecture platform, one that balances the very best in independent thinking with nearly a century of prudent investment advisory experience.

For more information, please contact your Bank of America Merrill Lynch representative.

The Advice Access service uses a probabilistic approach to determine the likelihood that you may be able to achieve your stated goals and/or to identify a range of potential wealth outcomes that could be realized. Additionally, the recommendations provided by Advice Access do not consider your comfort level with investment risk, and may include a higher level of investment risk than you may be personally comfortable with. You are strongly advised to consider your personal goals, overall risk tolerance, and retirement horizon before accepting any recommendations made by Advice Access. You should carefully review the explanation of the methodology used, including key assumptions and limitations, which is provided in the Advice Access disclosure statement. It can be obtained through Benefits OnLine® or through a Participant Service Representative.

IMPORTANT: The projections or other information shown in the Advice Access service regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Results may vary with each use and over time.

To use Financial Wellness Monitor™ is not to suggest that a plan sponsor would dispense with using retirement income replacement modeling at the employee level. Only an employee knows their overall household circumstances for retirement income planning, and tools like Advice Access can help build awareness about their future income needs and aiding in his or her preparation for that income.

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