Edelman Financial Engines®

Thought Leadership Series, 2nd Issue

Closing the Financial Advice Gap

The Unique Role of Employers – and Why They are Key to Getting Working Americans the Financial Advice they Need and Can Trust

Edelman Financial Engines 2020 Thought Leadership Series

Building the case for more financial help through the workplace

Core problem Financial stress	**1st issue: Covid-19 and Financial Well-being** 1 in 2 employees has “a lot of financial stress”, which many say has a detrimental impact on their job.[1]
Compounding problem Lack of access to financial advice	**2nd issue: Closing the Financial Advice Gap** Only 22% of employees have a professional financial advisor, resulting in many turning to the wrong source for advice when they are stressed and need help.[1]
Resulting Action Poor/regrettable decisions	**3rd issue: Tapping retirement assets early** 44% of plan participants have accessed retirement assets early or are considering it, compromising their long-term financial security.[2]
Solutions Policy updates & enhanced advisor access	**4th & 5th issues: Policy POV & Default Sequencing** Policy makers and employers can evaluate policies, benefits, and auto-enrollment opportunities to enhance employee access to financial advice and ensure they’re benefiting from it when they need it most.

[1] Edelman Financial Engines Research. April 2020.
[2] Edelman Financial Engines Research. August 2020.

Table of Contents

Executive Summary

Employee financial stress is at record levels, and it's impacting every facet of their lives – including their productivity at work. Part 1 of our series, *Covid-19 and Financial Well-Being*, revealed that 1 in 2 employees is suffering "a lot of financial stress", and 60% of them admit that their stress is damaging their job performance – to their employer's detriment.

This paper shows that the problem is compounded by workers' lack of access to trusted advice regarding their personal finances – and this lack of advice is compounding their problem. Research by Edelman Financial Engines has discovered that employees are stuck in a cycle of financial stress. It is typically due to poor financial decision-making, which itself is often exacerbated by misguided reliance on unqualified sources (i.e., the internet and well-meaning family and friends) and conflicted sources (i.e., financial sales reps who are not fiduciaries, such as stockbrokers and insurance agents). The result has enormous consequences for American workers and their efforts to achieve financial security.

Employees overwhelmingly agree their employers can help. Our survey made astonishing findings:

- That many of the hurdles cited by employees as reasons they don't work with a fiduciary financial advisor could be easily solved by their employers;
- that employees would highly value professional financial advice that's offered through their employer; and
- that employees are confident that the advice they would get would produce many positive outcomes.

In short, employers are key to helping working Americans get the financial advice they need and can trust.

Key Findings

Many employees feel they cannot afford professional financial advice – causing them to seek help from less-qualified sources

- One in 3 employees fear they can't afford to hire a financial advisor, or that they don't have enough money to work with an advisor.
  - Only 22% of employees have a professional financial advisor – only some of whom serve as a fiduciary (meaning, they are obligated by law to serve the employee's best interests). With 78% lacking a trusted professional financial advisor, the vast majority of employees are influenced by unqualified sources for financial advice.
  - Indeed, 2 in 3 employees named the internet or family members as their #1 source of help for their personal finances. This typically results in poor financial decision-making.

Many employees are caught in the cycle of poor financial decision-making and high financial stress

- Employees who do not have a financial advisor are 1.3 times more likely to have "a lot of financial stress" than those who have one.
- Employees with high financial stress are 1.6 times more likely to receive and act on "bad financial advice" than those with lower stress levels, while those who received and acted on "bad financial advice" are 1.4 times more likely to report "a lot of financial stress" – a vicious cycle.

The vast majority of employees believe professional financial advice offered through their employer would decrease their financial stress

- If offered a "financial advice benefit" at work, 84% of employees would consider it valuable and:
  - 74% of them say it would likely reduce their financial stress, and
  - roughly 80% of them say they would likely make better financial decisions and be better prepared for retirement as a result.
  - One in 2 say they'd be more likely to stay with their employer.

The Cycle of Poor Financial Decision-Making and Financial Stress

Only 22% of employees have a professional financial advisor. The 78% who don't cite a variety of reasons including:

- "Too expensive"
- "I don't think I have enough savings to use one"
- "Lack of trust"
- "Lack of education on who to use"

Lack of Professional Financial Advice

78%

of employees could benefit from professional financial advice

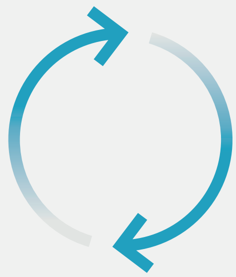
Regardless of why they don't have a professional financial advisor, employees who don't have one are 1.3 times more likely to report having "a lot of financial stress" than employees who do have an advisor. Moreover, their stress has been shown to exacerbate poor financial decision-making, creating a cycle that many employees cannot escape.

> **"I believe financial advice is very important for discovering new ways to relieve financial stress."**
>
> –26-year old male, less than $5,000 in retirement savings[1]

In fact, employees with high financial stress are 1.6 times more likely to report they "have received and followed bad financial advice" than those with lower stress levels. At the same time, employees who "have received and followed bad financial advice" are 1.4 times more likely to report they have "a lot of financial stress" compared to those who have not.

Financial Stress

1.4x
more likely to report "a lot of financial stress"



1.6x
more likely to "receive and follow bad finanical advice"

Poor Financial Decision-Making

For many employees, poor financial decision-making begins when (often while stressed) they have personal finance questions. Turning to the internet or family/friends often leaves them with misinformed and unqualified opinions – which employees mistakenly believe to be objective and comprehensive advice. Yet, they act on it nonetheless.

This is demonstrated by the fact that 1 in 5 employees across the U.S. admit they have "received and followed bad financial advice," with 72% of that "bad advice" coming from the internet, the media, and well-meaning family, friends and co-workers. Employees get "bad advice" on every aspect of their personal finances, most prominently including:

- Retirement-related savings, investments and distributions;
- budgeting;
- career transitioning;
- education planning and student loan repayment;
- tax preparation and planning; and
- estate planning.

The majority of employees who made poor financial decisions say they could have avoided their mistakes if they had consulted a professional financial advisor.

The Causes of Poor Financial Decision-Making

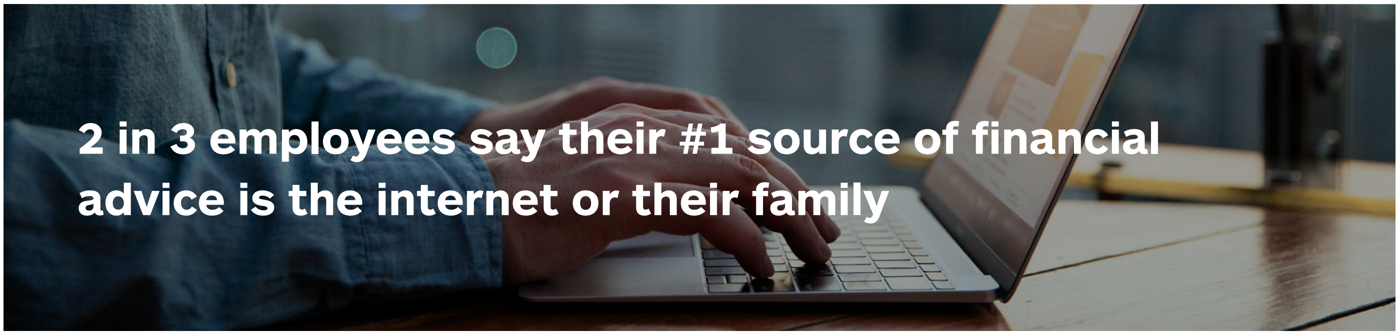
Employees are more likely to make poor financial decisions when they get advice from unqualified or conflicted sources.

Reliance on unqualified sources

Every employee has financial questions. When professional financial advisors aren’t available (or sought), employees seek help elsewhere – ending up with information provided by unqualified sources.

Online search engines are great if you want to know who’s starring in an upcoming movie, but they are a dangerous way to seek information that could impact your future financial security.

The media is no better – despite their claims to the contrary, they are pundits, writers, editors, reporters, producers and talk-show hosts. They are not financial experts. Worse, many Hollywood celebrities and personalities are paid pitchmen offering testimonials in the support of questionable investment, mortgage and insurance products – the most infamous case being an actor who once proclaimed in a commercial, “I’m not a doctor, but I play one on TV.” Many employees naturally turn to those they trust – family and friends – for answers to their financial questions. Although one’s inner circle is certainly trustworthy and well-intentioned, they are rarely qualified to provide objective, well-informed financial advice – and relying on it exposes employees to bad outcomes.



Inadvertently turning to advisors who have conflicts of interest

Even those employees who seek advice from financial advisors are often led astray. That's because the majority of "advisors" in the financial services industry are merely sales reps – stockbrokers licensed by FINRA and state-licensed insurance agents, both of whom typically earn commissions selling investment and annuity products. Brokers are legally called "Registered Representatives," meaning they represent the interests of their brokerage firms, while insurance agents, as their name implies, are agents of their insurance companies. In neither case is the client at the forefront.

This is why knowledgeable consumers turn to Registered Investment Advisors. Every RIA, regulated by the Securities and Exchange Commission (or their state regulatory agency), is required to act as a fiduciary – meaning they must serve the client's best interests at all times. Most consumers assume that all advisors act in this capacity, but only RIAs actually do.

This is why 1 in 4 employees who "received and followed bad financial advice" cited a professional financial advisor as the source. They thought they were getting trustworthy advice, but later, likely discovered the advice they got was conflicted, because their advisor was focused more on selling them something than in giving them advice in their best interest.

> **"I think people offering me financial advice are really just trying to sell me something."**
>
> –Millennial male, more than $100,000 in household income[1]

Conflicted advisors seeking commissions and fees, or trying to meet quotas imposed by their sales managers, often encourage employees to roll money out of their 401(k) and into an IRA, for example – even though IRAs often cost more, might lack the 401(k)'s benefits and definitely lack some of the 401(k)'s protections. This helps explain why the White House Council of Economic Advisers has estimated that conflicted advice costs Americans $17 billion a year.[2]

Small wonder, then, that many employees express such sentiments as, "I can look out for my own best interests better than anyone else," and, "It is hard to find [an advisor] who truly has your best interests at heart."

“ I have had dealings with some financial advisors. Most are out for themselves.”

– Gen X male, over $200,000 in retirement savings[1]

The SEC attempted in June 2020 to improve the situation by implementing “Regulation Best Interest.” It’s a regrettable name, because although the rule does not require stockbrokers and insurance agents to act as fiduciaries, it does allow them to say they “conform to Reg BI” – potentially misleading consumers into believing their best interests are being served even when they are not. Therefore, employees are now at more risk than ever that they might receive conflicted advice under the guise of it being delivered “in their best interest.”

The Unique Ability of Employers to Help Employees Access Financial Advice

Workers rely on their employers for a multitude of benefits, ranging from paid leave to retirement savings. Employers rely on their benefits package as well, to recruit and retain skilled workers.

One of the most in-demand benefits among employees is the ability to obtain professional financial advice through their employers. But only 39% say their employer offers a “financial advice benefit” today, which offers comprehensive financial guidance similar to what they would receive through their health, dental and vision benefits.

An overwhelming majority of employees, 84% in fact, want a “financial advice benefit,” according to our research, and:

- Three in 4 of them say it would likely reduce their financial stress;
- 79% say they would likely make better financial decisions;
- 85% believe they would become better prepared for retirement; and
- One in 2 say the benefit would make them more likely to stay with their employer.

3 in 4 employees who would value a financial advice benefit through their employer say it would likely reduce their financial stress

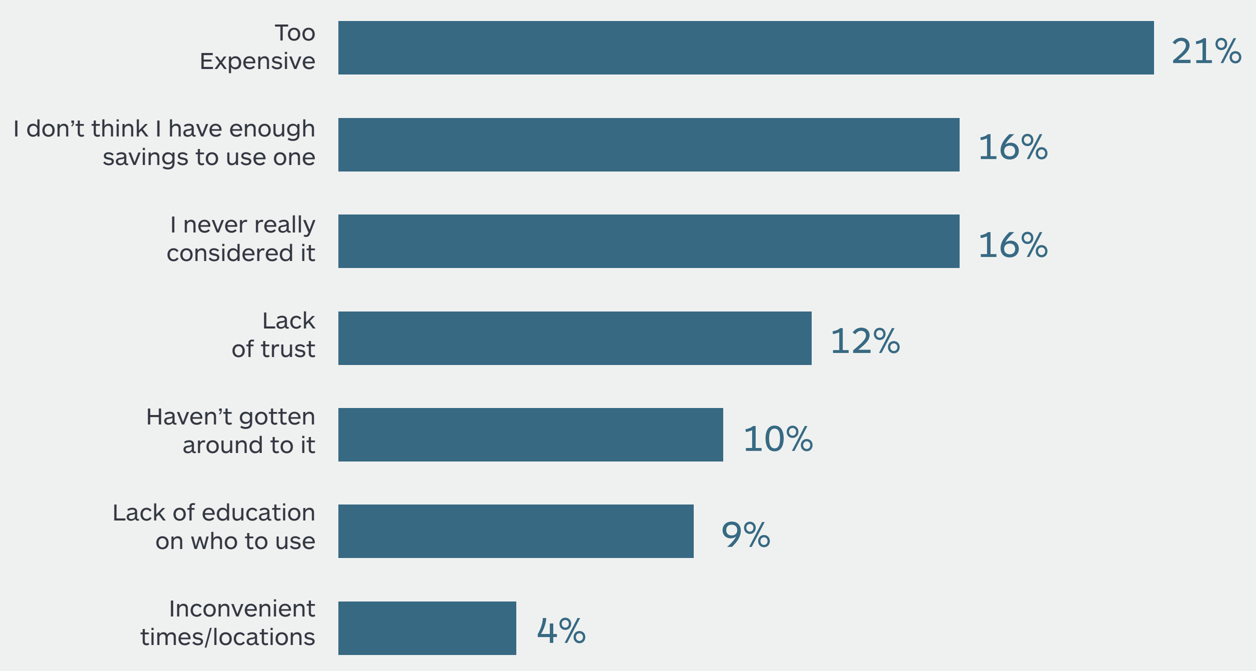
Remove the barriers to entry so employees can access professional financial advice

Employees place a lot of value on their employer's help in obtaining financial advice – because most say getting it on their own has proven to be "out of reach."

> **"It is very hard to get help to find solutions to our financial problems."**
>
> –Gen X female, more than $100,000 in household income[1]

Indeed, the most common barriers preventing employees from getting financial advice are easily eliminated by their employers.

What are the main reasons you do not have a professional financial advisor?



1. **“Too expensive”**

   The #1 reason employees don’t have a financial advisor is because they think it costs too much. But thanks to a company’s institutional buying power and economies of scale, employers can typically provide many services at no cost to employees, while offering others at steep discounts.

2. **“I don’t think I have enough savings to use one”**

   Employees correctly believe they need to be wealthy to become a client of a financial advisor. But by contracting with an advisory firm for all employees, an individual employee’s (lack of) savings would not be an impediment to being served by a professional financial advisor.

3. **“I’ve just never really considered it/Have not gotten around to it”**

   Ric Edelman, founder of Edelman Financial Engines, has long said that procrastination is the #1 cause of financial failure. Everyone wants to focus on their finances; most get distracted. But when financial information, education and advice are provided via the workplace, employees are more likely to get started – and starting is the crucial first step to improving their situation and reducing their stress.

4. **“Lack of trust”**

   Personal experience – and stories of others’ experiences – can make employees reluctant to seek out an advisor. As their employer, employees have a natural trust in you, increasing their willingness to take advantage of the financial advice benefit you’re providing to them.

5. **“Lack of education on who to use”**

   Many employees don’t understand the differences – or even that there *are* differences – between RIAs and those who are merely stockbrokers and insurance agents. As the employer, you not only have the knowledge many employees lack, you are far more capable of conducting a prudent search for a fiduciary who will put your employees’ best interests first.

Ensure that any financial advisor serving your employees acts as a fiduciary at all times

Only Registered Investment Advisors act as fiduciaries, serving the client's best interests. As the employer, you can ensure that this standard is upheld for all financial advice provided to your employees.

The following list of questions can help you make sure your employees are being served by a fiduciary for any financial advice provider you partner with.

Is the firm registered as an RIA?

Your company should only hire a firm that is an RIA, because only RIAs are required to act in the best interests of each employee. Firms with FINRA-licensed stockbrokers should not be retained to provide a financial advice benefit for your employees because of the inherent conflicts of interest their business models impose on your employees.

Is the firm SEC-registered, or is it registered with a state regulator?

Only firms that manage $100 million or more are registered with, and regulated by, the SEC (including audits and inspection). RIAs managing smaller amounts of money are regulated by state regulators, considered in many cases to provide less robust oversight.

Is the firm and all of its advisors registered solely as an RIA?

Many firms are dually licensed, meaning their advisors hold FINRA brokerage licenses in addition to being registered as RIAs. This poses a problem for employees because it is difficult to know when the advisor is acting as a fiduciary as opposed to a commission-based sales rep. To avoid any risk of such conflicts of interest, your company should not partner with a firm that is dually licensed.

What is the firm's reputation and regulatory record?

It's important, of course, to vet any advisory firm you're considering as a service provider for your employees. It's remarkably easy, too. Simply search online for the firm and its key employees and advisors ("NAME scam," "NAME fraud" and "NAME reviews" will present you with a quick look at consumer comments. You should also search the SEC and FINRA databases on advisors at https://www.sec.gov/check-your-investment-professional and https://brokercheck.finra.org/

How is the firm and its advisors compensated?

Advisors who receive commissions on the sale of investment and insurance products have an inherent conflict of interest: is their advice best for you, or best for them?

This is why you should consider hiring an RIA whose sole compensation for investment advisory services is a single annual fee, paid directly by the company or its employees. By avoiding advisors who are compensated for the sale of products, and those who receive third-party compensations (such as payments from mutual fund and insurance companies), you and your employees avoid the risk associated with conflicted advisors.

When the RIA's fee is based on the employee's account value, the RIA's motivations are aligned with the employee: both want the account to rise in value, and both suffer when the account value declines. This helps ensure that the RIA will act in the employee's best interest.

Does the firm promote proprietary products?

Some advisors receive higher forms of compensation for selling certain products over others. This compensation is sometimes provided in the form of trips, dinners and tickets to concerts and sporting events.

Some advisors also recommend investment or insurance products that are proprietary, meaning available only from their firm. These products often provide the advisors or their firms with higher compensation than they'd earn by recommending products that are available throughout the financial marketplace.

Your company should avoid advisors that recommend proprietary products. However, your company should have no concern with firms that have developed and provide proprietary *services* that use generally available financial products, such as stocks, bonds, and mutual funds. For example, a trademarked or proprietary service that helps employees generate income in retirement, using investments readily available in the 401(k) plan, and for which the advisor receives no additional or special compensation, could be viewed as providing unique and valuable services to your employees.

What do the firm's internal training documents say regarding 401(k) rollovers?

Marketing brochures and verbal claims during sales presentations are fine. But to truly understand the *modus operandi* of advisors, you should ask the RIA to provide you with internal training and compliance documents pertaining to key recommendation areas, such as 401(k) rollovers.

Many advisory firms actively encourage employees to rollover their 401(k) assets to IRAs as a standard practice, because firms and their advisors often earn high fees and commissions for managing IRAs than money held in 401(k) plans. It's important to confirm what the advisory firm's internal policies are – and to periodically review advice provided to employees to confirm advisors are adhering to their firm's policies.

What is the advisory firm's position regarding advice pertaining to pre-retirement withdrawals or loans from 401(k) accounts?

Leakage is a major problem. It's not only a challenge for plan sponsors trying to maintain and grow 401(k) assets, leakage dramatically reduces the ability for workers to achieve retirement security – creating massive public policy challenges.

As the employee's primary source of advice regarding their 401(k) plan, the financial planner has a crucial role in this situation. It's not enough for an advisor to respond to questions or to facilitate transactions; you want an RIA that will proactively educate employees about the importance on not making withdrawals or taking loans from their 401(k) accounts.

How often does the advisor provide complete information to both the employer and each employee about fees and expenses, including commissions; sales, maintenance and service charges; transaction and redemption fees; and penalties?

This information should be provided to each employee in writing *before* any investment is made, and on an going basis at least annually.

Do the firm's advisors personalize the advice, financial plan and investment portfolio for each employee based on their individual circumstances, needs, goals, time horizon and attitude about risk?

Some advisory firms give every client the same recommendations. How effective and appropriate can the advice be if every employee in your company is being told to own the same mix of investments as everyone else? You should evaluate the RIA's methodology for delivering investment management and financial planning services as part of your vetting process.

Are the firm and its advisors agnostic regarding the custodian of the assets in the 401(k) plan?

Some advisory firms have relationships with certain custodians that can create conflicts of interest. You should hire an RIA that works with every leading custodian without preference.

Closing the Financial Advice Gap

This report has revealed that a large majority of American employees suffer from a financial advice gap. The gap exists because most employees believe financial advice is "out of their league," forcing them to turn to questionable internet content and the well-meaning but uninformed advice of family and friends. The result: poor financial decision-making and higher stress, leading to reduced workplace productivity (and higher absenteeism, presenteeism and turnover).

Employers can close this financial advice gap. Companies have long provided valuable benefits to their employees, and the employees, in turn, have long relied on these benefits. Indeed, employees trust their employers to have vetted the benefits being provided – including access, cost and convenience – giving employees the confidence they need to rely on these services – services that employees often cannot get on their own.

Financial advice should be no different.

> **"It would be good for employers to provide an outlet so their employees can have a real discussion with a professional, instead of becoming stressed."**
>
> –Millennial male, less than $25,000 in income[1]

Affordable wealthcare is as important as affordable healthcare, and it's up to employers to meet this crucial employee need. Here's how employers can begin:

Step 1: Survey your employees.

Ask your employees about their financial health. Questions can include:

- Their financial stress levels;
- how much time they spend on their personal finances while at work;
- whether they have a financial advisor, and if not, why not;
- the degree to which they would value a financial advice benefit; and
- the financial issues that are most important to them.

Edelman Financial Engines would be happy to assist you in conducting this survey at no cost. We can also help you compare your findings to benchmark data compiled by our research – to help you determine if offering a financial advice benefit is worthwhile for your employees, and if so, what those benefits ought to include. You may also find it valuable to overlay these results with other data available to you to directly tie financial stress to lost productivity and other costs that could be impacting your bottom line.

Step 2: Decide what a financial advice benefit should offer, and what you want from the benefit provider.

Most companies already offer their employees a retirement plan. Is that enough?

You might consider adding additional financial advice benefits, provided by real people, not just online algorithms – professional financial coaches and financial planners working 1:1 with each of your employees in private meetings, calls and video conversations. You could have your financial advice benefits provider help your employees with all these areas of personal finance:

- Credit and debt
- Income and expenses
- Building cash reserves
- Buying vs. leasing automotive vehicles
- Home ownership and mortgages
- Insurance
- Taxes
- College planning
- Wedding planning
- Retirement planning
- Estate planning
- Long-term care
- Elder care, including hospice and palliative care
- Caring for family members with special needs
- Social Security
- Employee stock options
- Investment management
- Focused help for the 401(k)
  - Increasing participation rates
  - Increasing plan contributions
  - Reducing plan loans, and repaying outstanding ones
  - Selecting and managing investments in the account
  - Minimizing withdrawals prior to retirement
  - Generating income in retirement

Step 3: Conduct a search – even if you have an existing provider.

After identifying your employee's attitudes and needs, you can create an RFP to seek the ideal service provider. If you already have a provider, let them participate in the RFP so you can compare them to other providers.

> **"I wish I had more access to financial help. My dad did his best to teach me about finances growing up, but... he's not professional. I want someone who has years of experience and training to teach me. But I don't know where to begin...and I wish my employer made it easier."**
>
> – Millennial female, Less than $50,000 in household income[1]

With employers' involvement, employees can obtain the financial advice they want, deserve and need, helping them improve their financial lives, while helping your organization gain a happier, less stressed, and more productive workforce.

About Edelman Financial Engines

Since 1986, Edelman Financial Engines has been committed to always acting in the best interest of our clients. We were founded on the belief that all American investors – not just the wealthy – deserve access to personalized, comprehensive financial planning and investment advice. Today, we are America's top independent financial planning and investment planner, recognized by both InvestmentNews[3] and Barron's[4] with 150+ planner offices across the country and entrusted by more than 1.3 million clients to manage more than $220 billion in assets. We create access to everyone – no matter the size of their account or level of expertise. The average balance of our clients in the workplace is $151,000 and the median balance is $63,000. Thousands of America's employers have entrusted Edelman Financial Engines to provide financial help to more than 10.7 million retirement plan participants. Our unique approach to serving clients combines our advanced methodology and proprietary technology with the attention of a dedicated personal financial planner. Every client's situation and goals are unique, and the powerful fusion of high-tech and high-touch allows Edelman Financial Engines to deliver the personal plan and financial confidence that everyone deserves.
Data as of June 30, 2020.

Please contact Edelman Financial Engines for more information on how we can help provide independent, unconflicted financial advice to your employees.

EdelmanFinancialEngines.com

Survey Methodology
Edelman Financial Engines conducted an online survey of America's employees on April 6-10, 2020, focusing on subjective measures of financial well-being and financial advice across 1,077 employees, including 782 retirement plan participants. Qualified survey participants were full- and part-time employees. Aggregate data is reported at 95 percent confidence with plus or minus 3 percent margin of error Fielding was conducted on the Qualtrics Insight Platform. Demographics are available upon request.

[1] Edelman Financial Engines Research. Based on a survey of 1,238 retirement plan participants fielded on the Qualtrics platform in November 2019. Individual respondent quotes represent a sampling of feedback received.
[2] The Effects of Conflicted Investment Advice on Retirement Savings. February 2015. https://obamawhitehouse.archives.gov/sites/default/files/docs/cea_coi_report_final.pdf
[3] *InvestmentNews* ranking and status for 2020. For independence methodology and ranking, see *InvestmentNews* Center.
[4] The 2019 Top 50 Independent Advisory Firm Ranking issued by Barron's is qualitative and quantitative, including assets managed, the size and experience of teams, and the regulatory records of the advisors and firms. Firms elect to participate but do not pay to be included in the ranking. Investor experience and returns are not considered. The 2018 ranking refers to Edelman Financial Services, LLC, which combined its advisory business in its entirety with Financial Engines Advisors L.L.C. (FEA) in November 2018. For the same survey, FEA received a precombination ranking of 12th.

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