

Retirement Planning

by Liz Davidson, Founder
& CEO, Financial Finesse

Financial Helpline: A Growing Employee Benefit

EDITOR'S NOTE

In the June 2001 issue of "Sharing Ideas" we interviewed Ed Ferrigno, Vice President, of The Profit Sharing/401(k) Council of America about how EGTRRA (The Economic Growth and Tax Relief Reconciliation Act of 2001) changed how employers can offer financial education and advice services to their employees. Ed stated: "Qualified retirement planning services provided to an employee and his or her spouse by an employer maintaining a qualified plan are now excludable from income and wages. The exclusion is intended to allow employers to provide advice and information regarding retirement planning. The exclusion will not be limited to information regarding the qualified plan, and, thus, for example, will apply to advice and information regarding retirement income planning for an individual and his or her spouse and how the employer's plan fits into the individual's overall retirement income plan."

How well an employee applies the basics of good financial management will affect how well they will experience their retirement. Services that help employees manage their finances today for a more secure tomorrow can be considered retirement planning, and thus qualify to be excluded from taxable income and wages under EGTRRA.

How Employees' Financial Issues Are Impacting Employers

We live in a world where employees' financial issues can have a huge impact on their company, and vice versa.

Where there was once a separation between employees and employers, now the fates of their finances are inextricably linked. Consider these statistics:

- Last year alone, there were over 11,000 lawsuits initiated by employees who felt that their company breached its fiduciary responsibility by mishandling their retirement plans.¹
- According to a poll by the Profit Sharing/401(k) Council of America, 17% of companies failed discrimination testing due to a lack of participation by lower compensated employees and nearly 40% had to limit or refund highly compensated employee contributions in order to pass the test.²
- Participation in 401(k) and other retirement plans is down, and average balances are woefully

insufficient to cover expected retirement expenses.³

- Over 80% of pensions were underfunded and companies are scrambling to find ways to deal with huge shortfalls.⁴
- A Virginia Tech study found that up to 15% of employees are in such dire financial straits that they spend up to 27 hours a month dealing with their personal finances at work.⁵

If you are an HR manager, chances are you receive more questions about your company's financial benefits and your employees' personal finances than ever before. Eighty-five percent of HR managers surveyed by the International Society of Certified Employee Benefits Specialists admitted that they regularly dealt with employees soliciting advice as to how to invest within their plans—advice that could cost their companies millions of dollars down the road if employees make unwise investment decisions based on that advice and decide to sue for breach of fiduciary responsibility.⁶

One Solution: A Financial Helpline Service

Increasingly, companies are adding financial helpline services to their list of employee benefits in order to address the myriad of financial questions they are hearing from employees. A financial helpline offers employees access to financial experts who provide them with critical information and guidance on their most pressing financial issues. The best services employ retirement professionals who are able to cover many topics—from serious debt to complicated estate planning issues. Companies offer a financial helpline to their employees for a wide array of reasons, which may include:

- **Increasing plan participation, particularly among lower compensated employees and pre-retirees.** Employees who are unable or unlikely to attend workshops, or older employees who are more comfortable using the phone than the Internet, respond well to this kind of service.

...continued on page 12

Articles Continued

Financial Helpline...
continued from page 5.

- **Addressing at-risk employees whose financial problems are causing performance issues.** Callers who are days away from foreclosure or are in serious financial trouble can find solutions that allow them to focus on work.
- **Reducing fiduciary liability.** HR managers need a resource for employees who ask questions that they should not answer.
- **Facilitating changes in benefits plans.** The service can take pressure off the HR department and provide employees with an independent resource.

Results

The following are some of the results we have achieved with our clients:⁷

- **Increases in plan participation in as little as four months.**
- **An eighty percent decrease in the amount of time spent dealing with retirement and other financial questions.**
- **Significantly fewer complaints from employees.** Recently, we worked with a company that transitioned a large group of employees from a defined benefit plan to a defined contribution plan and had no complaints because they offered financial counseling. In fact, many employees thanked the company for subsidizing the counseling as it helped them make informed decisions about their new plans.
- **Strong employee appreciation.** Virtually all who use the service say they are better prepared to make a financial decision and have a better understanding of their benefits plans.

Finding a Provider

Results vary for every company and depend on the quality of the provider. If you are interested in offering a financial helpline service, you should look for a provider who meets the following criteria:

- **Ideally providers should not be affiliated with a financial institution and should be entirely independent.** Look for a firm that sells financial education services to plan sponsors, rather than financial products and services to individuals.
- **Retirement professionals with at least 10 years experience should answer the calls.** Beware of firms that use only lawyers or credit counselors.
- **Callers should receive follow-up materials and resources to help them take the next steps.**
- **Fewer than five percent of callers should receive voice mail or get put on hold.**
- **The average call should be at least 15-20 minutes or longer to adequately deal with the issues raised.**
- **The service should be customizable to handle questions about the plan sponsor's specific benefits.**
- **You should receive regular reporting on both utilization and employee feedback to evaluate the success of the service.** On a quarterly basis, your provider should benchmark actual results to goals.

Conclusion

A financial helpline service can be a critical component of any company's overall benefits package and is an excellent tool for enhancing the value of the benefits you already provide. In today's workplace, it is increasingly becoming a popular solution for employers who are dealing with the effects of employees' financial problems. By partnering with the right helpline provider, HR managers can

make an enduring impact on both their employees and their company.

ABOUT THE AUTHORS

Liz Davidson founded Financial Finesse in 1999 to address the need for unbiased financial resources for people to educate themselves on investing and financial planning. Today, Financial Finesse provides unbiased financial education and counseling programs for over 300 clients. More information about Financial Finesse is available at www.financialfinesse.com.

¹Otto, Al, *Whitehorse Advisors*, 2003

²Profit Sharing 401(k) Council of America, 2000

³Profit Sharing 401(k) Council of America, 2003

⁴Wilshire & Associates, 2002

⁵Garman, Tom, *National Institute for Personal Finance Employee Education, Virginia Tech*, 1997

⁶*International Society of Certified Employee Benefits Specialists, Census, December 2001*

⁷*Financial Finesse, 2004*

Liz Davidson may be reached at ldavidson@financialfinesse.com, or by phone at 415.865-5302