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Financial literacy: We need to take it a step further

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Many existing financial literacy programs are designed to teach individuals and families how to manage credit, loans and spending; increase savings; and budget and reduce debt. Although these form a good foundation for building financial literacy, they miss one of the greatest factors affecting Americans' personal finances and retirement planning today: health care.

Given the evolving health care environment in the United States, health care education and planning should be a key consideration in personal finance and financial literacy efforts.

I believe that more comprehensive employer-based financial literacy programs are critical to improving retirement readiness in America. The financial services industry has a responsibility to educate its communities and the employers it serves, and we must do so to improve employee outcomes. It is simply not enough to tell people to save more or spend less; we need to empower them to become self-advocates.

GUEST OPINION

Financial literacy is also good for business, since poor employee decision-making is having a growing impact on corporations' bottom lines, decreasing productivity and increasing absenteeism. An Integrated Benefits Institute study in September 2012 indicated that poor health has cost the economy an estimated $576 billion, with $227 billion of that as a result of lost productivity. Studies like these have shown that financial worry is one of the most common predictors of workplace absence.

Employers need to understand that employees may be unable to retire due to a serious lack of savings and inability to afford today's health care costs. The Employee Benefit Research Institute reported recently that a 65-year-old couple with median drug expenses would need approximately $166,000 in savings to have a 50 percent chance of meeting medical expenses throughout retirement and roughly $287,000 to have a 90 percent chance. From an employer's perspective, employees who delay retirement could add to overall health plan costs.

To offer some perspective, nearly 80 percent of baby boomers have cited uncovered health care expenses as their "top concern" in retirement. Yet studies show that only about 12 percent of workers have a financial plan for retirement that even considers health care. This is where I encourage employers to fill a significant gap.

How are employers supposed to educate employees on health care costs as a new retirement risk? First, they need to understand how to get back to the essentials of setting objectives. The first question should be: What is the goal of your benefits plans?

Rather than making reactive changes in health care plans, employers should proactively communicate the objective of a total employee benefits strategy. Setting objectives is a twofold task that includes identifying the corporate goals an employer hopes to achieve as well as employee behaviors that need to change. Ultimately, any plan design changes should further the benefits objectives. All members of the employer's benefits team—health brokers, retirement advisers, and human resources and service providers—should be working together toward a common goal.

Together, employers and their benefits teams should create a benefits-dollar allocation strategy that includes incentives to affect employee behaviors. Simple, actionable instruction on retirement and health benefits should be communicated consistently throughout the year. Annual open enrollment is simply not enough.

As the CEO of a local financial institution, I believe it is our responsibility to educate the community and the employers we serve on matters of personal finance, which now include health. We need to see the next generation of financial literacy as both opportunity and responsibility for employers.

The benefits of a more holistic approach to financial literacy are twofold: a population that is better prepared for future life events such as retirement and, ultimately, improved growth for our community.

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