THE BENEFITS OF BUILDING A CULTURE OF FINANCIAL CONFIDENCE

WINDGATE
WEALTH MANAGEMENT

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BUILDING A CULTURE OF FINANCIAL CONFIDENCE

One of the most important things an organization can do to ensure success in both the short and long term is to foster a happy workforce: A happy workforce is a loyal workforce is a productive workforce. But "happiness" is a big, fluid term that can vary wildly from individual to individual, and trying to create it out of whole cloth—through supplementary programming and unconventional perks—can cause a strain on management and resources and offer unpredictable results. A more efficient approach is to determine the bedrock factors that influence employee happiness, and solve to those. And perhaps the biggest foundational component of employee happiness is also one that's often thought of as a taboo subject in professional settings: money.

At a fundamental level, money is the reason most people work. Ironically, though, it also has the potential to be one of the biggest barriers to employee productivity. In the post-Great Recession era, financial anxiety has become one of the biggest reported sources of stress for employees: More than half of employed individuals report being stressed about their finances, while 45 percent cite it as the biggest source of stress in their lives[1]. This anxiety extends across all generations of the workforce, from younger Millennials up through Generation X and the Boomer Generation: The national economic unrest of the last decade has taken a huge toll on individuals' confidence in their financial futures, regardless of how far off that future may be. That uncertainty can result not only in a stress-related decline in productivity, but also high turnover, as individuals chase opportunities that offer more perceived stability.

Organizations with a vested interest in developing a happy, stable workforce should actively facilitate a system wherein employees are educated and encouraged to manage their finances in an intelligent and thoughtful manner.

Salary is only one piece of the financial-anxiety puzzle, and focusing solely on employee compensation as a means of solving that anxiety is a short-sighted and unsustainable approach. Throwing more money at the problem doesn't make it go away, it merely complicates it further: Increased income demands more sophisticated income management, something many employees, particularly those in fast-growing and volatile industries such as tech, are not prepared or equipped to take on without guidance. Organizations with a vested interest in developing a happy, stable workforce should therefore actively facilitate a system wherein employees are educated and encouraged to manage their finances in an intelligent and thoughtful manner—to build a culture of financial confidence.

1 PWC Employee Financial Wellness Survey, 2016

THE IMPORTANCE OF CULTURE

Culture, or the shared values and beliefs that define an organization and its members, has a huge impact on the growth, productivity, and perceived value of that organization. Company culture is often thought of solely as a talent or human-resources issue, but it's a business issue as well. A positive corporate culture can have a huge benefit not just on an organization's employee attraction and retention rates, but also on its public perception and investment potential.

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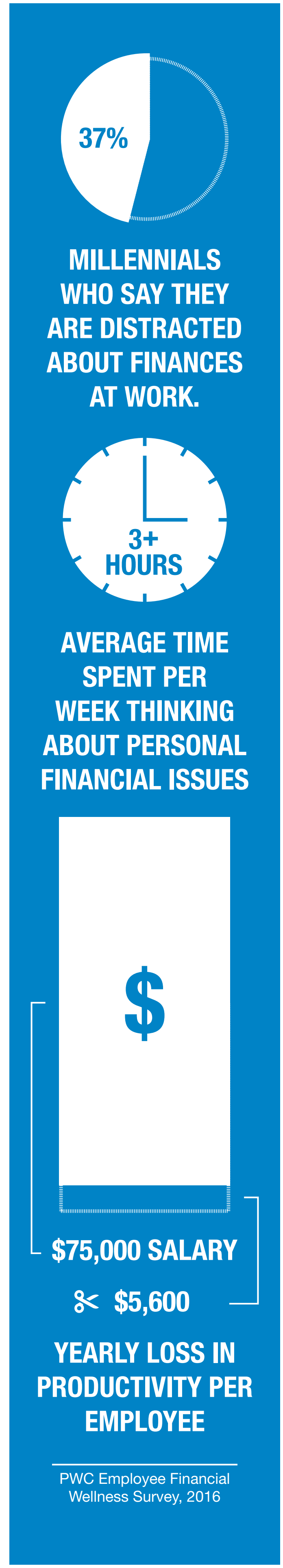
"Culture has significant impact on our ability to impact top and bottom line results. It frames how we behave, what we care about and how we make decisions. Naturally, we work hard to leverage it as an asset, prioritize and measure it just like other business objectives. A good corporate culture extends beyond unusual or attention-grabbing perks—the ping-pong tables, kegs, cereal bars, etc. A great corporate culture is one that helps drive the business strategy. For us, the magic happens when there is alignment between our values and our behavior," Cynthia Hiskes, Chief Human Resources Officer, Cars.com

Financial matters such as salary and benefits are often considered separate from a company's culture, but they're actually a different side of the same coin. Seventy percent of HR professionals surveyed indicated that financial challenges have a "large" or "some" effect on overall employee performance[2]; therefore, it stands to reason that a sense of financial stability and well-being can contribute greatly to employee satisfaction and performance. An organization building the idea of financial confidence into its culture telegraphs to employees that they are valued, and indicates to investors and customers that the organization is invested in the long-term health and prosperity of its workforce. "Building a strong, healthy organization culture is vital to keeping employees longer and giving them the tools to be more productive. It's also central to the organization's reputation in the community. Happy, hardworking talent and positive public

2 Society For Human Resource Management Financial Wellness in the Workplace Survey



perception can increase a company's investment potential," Alida Miranda-Wolff, Associate Manager, Hyde Park Angels.

Surprisingly, though, most organizations fail to take a proactive approach toward easing employees' financial anxieties, the assumption being that such matters should be left in the hands of individuals. But this traditionalist thinking lacks both foresight and innovation, and can have a pronounced effect on an organization's talent base. Less than half of employees across all generations believe their employer cares about their financial well-being, while a much higher percentage (77 percent of Millennials, 73 percent of Gen X, and 55 percent of Baby Boomers) indicate that they are more likely to be attracted to a company that does care. Additionally, more than half of Millennials say their loyalty to an employer is influenced by how much the company cares about their financial well-being.[3] Fostering a culture of financial confidence communicates to potential and existing employees that an organization is invested in its employees' financial health, making that organization a more appealing venture in the eyes of both talent and investors.

PUTTING FINANCIAL CONFIDENCE IN PRACTICE

There are concrete ways an organization can develop this culture, which can be considered in two methods: those that help ease employees' financial stress in the present, and those that ease their financial anxiety about the future.

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One of the most straightforward ways organizations can ease employees' financial stress in the present is through a benefits system which is likely already in place. A robust benefits package is a key factor in both attracting and retaining talent, and the financial component of that package should be strongly considered: 62 percent of employees say they look to their employers for help in achieving financial security through benefits, particularly when it comes to unexpected health issues and the costs they can incur. But medical benefits are only a part of the story when it comes to easing financial anxiety. Because medical benefits are a given for the vast majority of employees, non-medical benefits are a realm where organizations can distinguish themselves through innovative, unique offerings that help project their culture of financial confidence.

3 MetLife Employee Benefit Trends Study, 2016

FINANCIAL PLANNING BENEFITS

One such emerging non-medical benefit is financial planning, whereby employees receive comprehensive, individualized guidance from a financial planner who has been vetted and selected by company leaders. These programs can empower employees to make smart choices about their money and work confidently toward their personal financial goals. By extension, these benefits also help employees maximize their time and focus at work—time and focus that is currently being lost to personal worries about money troubles. In fact, more than one in four employees (and 37% of Millennials) report being distracted at work by personal finances. Of these, 46% spend three or more working hours per week thinking about or dealing with personal financial issues[1]. Put differently: an employee earning $75,000 could be unintentionally costing a company approximately $5,600 in lost productivity per year. Companies that proactively build a culture of financial confidence by offering emerging financial benefits are able to reduce that number.

Because these services are not yet a common benefit that employees expect, or even understand, a pro-active approach is required when adopting and implementing such programs. While only 14 percent of organizations currently have a budget for financial planning, an additional one in four are considering adding one, while one in three of those with budgets plan to increase them in the next 12 months[4]. Clearly, this is a small but growing trend, one forward-thinking organizations interested in cultivating a culture of financial confidence should strongly consider, or even incentivize.

RETIREMENT PLANS

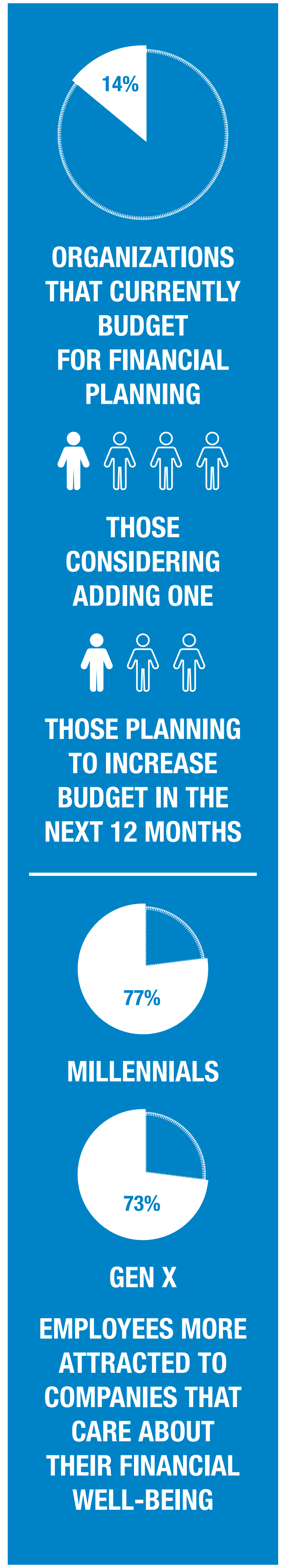
Financial planning programs have a direct effect on employees' current financial concerns, but they also help lay the foundation for a successful financial future. Delivering on the promise of that future is the purpose of another pillar of a culture of financial confidence – employer-sponsored retirement plans. A small variety of retirement plans exist which might be right for your organization – SEP IRA or Simple IRA, for example – but by far the most prominent is the 401k.

There are now $4.4 trillion in assets in 401k plans in America with 52 million workers participating[5]. The median age for someone to start contributing to their 401k is 22 years old. The average worker in their twenties already has $16,000 saved for retirement; for thirtysomethings, average retirement savings is $45,000[6]. "Providing a 401k

4 International Foundation of Employee Benefit Plans Financial Education Survey Results, 2016

5 Investment Company Institute, A Close Look at 401(k) Plans, 2014

6 Transamerica Center for Retirement Studies: Transamerica Retirement Survey of Workers, 2015



is now table stakes for technology companies. Recruiting top talent without one would be nearly impossible. And, although entry-level employees might need to be educated on why the quality of your 401k plan matters, experienced hires are definitely taking a look at their full benefits package," Trisha Degg, ITA Director of Talent Programs.

More than 50 percent of employees report being worried about outliving their retirement savings, with Gen X and younger Boomers reporting the greatest concern[7], and less than half of employees are confident they'll be able to retire when they want to.[8] Even more alarmingly, fewer than half of employees surveyed—45 percent—know how much income they will need in retirement, and a full 25 percent are not currently saving for retirement at all, instead funneling their money toward present expenses and debt-reduction. These figures underline the need for education and advisement in a culture of financial confidence. Employees benefiting from financial planning and educational programs not only feel more confident about saving for retirement, they begin to understand and rightly value the savings opportunity being provided to them by an employer-sponsored plan, leading to greater participation and financial success.

GETTING STARTED

Offering an employer-sponsored retirement plan is a necessary step in building a culture of financial confidence, but organizations with a vested interest in its workers' financial health can and should go further. Empowering that workforce to understand and utilize retirement savings in an educated, thoughtful manner is increasingly important in the post-Great Recession era, when investment confidence is lower and personal debt is higher. Offering financial planning and retirement-planning services to employees, particularly in tandem, projects an investment in their financial present and future, and by extension benefits the long-term health of the entire organization.

7 MetLife Employee Benefit Trends Study, 2016
8 PWC Employee Financial Wellness Survey, 2016

HOW TO LAUNCH A 401(K) PLAN

1. **Find an Unbiased Provider:** The market is crowded with financial firms that offer 401(k) administration services: including mutual fund companies, brokerage firms and insurance companies. Many providers offer their own funds or insurance annuity products within the 401(k) plans they sell, creating a conflict of interest and unnecessarily high fees. Ideal providers should offer an open investment platform, an established business and technology infrastructure, and transparent fees.

2. **Examine the Costs:** The costs of administering a 401(k) plan can be paid by the employer or they can be allocated among employee accounts. But the investment costs – fees for using funds in the plan – are paid entirely by your employees. These fees matter: low investment fees translate into higher account balances and more money in retirement for your employees. According to a study by Vanguard[9], participants in a plan consisting of low-cost investments end up with $216,000 more in retirement than the industry-average. Make sure you or your investment advisor are offering a cost efficient fund line-up for your employees. For plans already in place, ask your provider for the recently required annual 404(a)(5) disclosure, which clearly outlines your plan's expenses.

3. **Measure your Funding Obligation:** As with any new project, you should have a clear idea of how much cash flow will be needed to offer a 401(k) plan before launch. Your provider or investment advisor can show you the annual cost of funding a plan under different scenarios including future staff growth, salary increases, or additional profit sharing. The cash outlay can be very flexible based on your company's needs. For example, while matching contributions are a great benefit for employees, providing a match is entirely optional. Many small companies chose to start a plan without providing a match so that their team can at least begin to save on their own. This keeps plan costs to a minimum, which for start-up plans can be just a few hundred dollars per employee.

4. **Protect Yourself with a Fiduciary:** Due to their significant tax benefits, 401(k) plans are strictly governed by the Employee Retirement Income Security Act (ERISA). As a "sponsor" of the plan, a business owner (or named individual(s) at a firm) has a set of responsibilities in caring for the plan, for which they can be personally liable. A sponsor's Fiduciary duty is to act solely in the interest of employees in the plan, including selection of the investment line-up, monitoring funds, and running the plan in line with an investment policy. You can work with an independent Registered Investment Advisor (RIA), who can support you by managing the plan and taking on this Fiduciary role.

5. **Claim Your Tax Incentives:** The government offers generous tax breaks to founders who offer retirement plans. Companies don't pay any tax or payroll tax on contributions to a retirement plan, and they receive a $500 annual tax credit to offset any plan administration costs over the first three years. Founders and team members also receive personal tax breaks for every dollar they put in a plan, so you can save more, pay less, and enjoy rising financial confidence for yourself and your team.

9 Vanguard Low Cost Can Actually Mean More for Retirement, 2015

For founders who believe in supporting the financial well-being of their employees, Windgate Wealth Management's Employee Fi-*Care* Planning Program provides your team members with a Certified Financial Planner® to help them achieve their personal financial goals and maximize time and focus. Chicago-based and having worked with business owners for over 25 years, Windgate also manages company retirement plans, including 401(k)'s, to help you provide for your employees, reduce your tax liability and grow your personal wealth. Windgate Wealth Management operates as Perritt Capital Management, a Registered Investment Advisory Firm.

Past Performance does not guarantee future results.