



Pension and Health Benefits Committee Agenda Item 11

June 14, 2016

Item Name: Financial Literacy Update

Program: Pension

Item Type: Information

Executive Summary

This agenda item provides an update on the California Public Employees' Retirement System (CalPERS) financial literacy education and awareness efforts.

Strategic Plan

This agenda item supports Strategic Plan Goal C to engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs. This agenda item also supports the 2015-17 Business Plan to develop a plan to enhance members' understanding of key concepts related to financial literacy and retirement security.

Background

In addition to the Strategic Plan, this agenda item also supports the following Pension Beliefs:

- Pension Belief 1 – A retirement system must meet the needs of members and employers to be successful
- Pension Belief 3 – Inadequate financial preparation for retirement is a growing national concern; therefore, all employees should have effective means to pursue retirement security
- Pension Belief 10 – A retirement system should offer innovative and flexible financial education that meets the needs of members and employers

It is essential for individuals to be more aware of their financial well-being, especially in planning for retirement. As a result, individuals should consider what their retirement goals are and how much they need to save to reach those goals. Financial literacy impacts knowledge that may improve financial behaviors leading to a more secure retirement.

In 2013, staff explored retirement planning best practices and strategies to improve retirement readiness. In September 2014, staff published *Strategies to Improve Retirement Readiness* highlighting the 2013 research results. These strategies included:

- Boosting financial literacy
- Leveraging behavioral economics
- Tailoring retirement education
- Being a key source of information for individuals

Research findings also revealed that providing individuals with basic retirement plan information and educating individuals on inflation, numeracy, and the importance of saving early may boost financial literacy.

Analysis

In April 2016, the United States Department of the Treasury released the National Strategy for Financial Literacy (National Strategy) Update¹. The National Strategy's vision is "Sustained financial well-being for all individuals and families in the United States." To achieve this vision, the National Strategy strives to increase awareness of and access to effective financial education. The National Strategy recognizes that even though an individual receives financial education, there is no guarantee the individual will be financially successful. However, the National Strategy supports the importance of ensuring all individuals are aware of and have access to clear and effective financial information and educational resources.

CalPERS currently provides education on basic retirement plan information, which supports the National Strategy's goal of increasing awareness of and access to effective financial education. CalPERS members can access this information through our website, CalPERS Benefit Education Events, instructor-led training, webinars, and computer-based training. Staff worked collaboratively with key stakeholders to solicit input on CalPERS' financial literacy education and awareness efforts. Based on stakeholder input, CalPERS will continue to leverage all of our existing outreach channels, including social media, to educate our members on basic retirement plan information, including our defined benefit plan, supplemental savings options, social security, and retiree health care. In addition, CalPERS will help our members increase their awareness on topics, such as expenses and changes in retirement (i.e., no member contributions, no social security and Medicare taxes, etc.) to consider when setting their retirement goals. CalPERS will also continue to review and update resources to ensure they are relevant to members at various career stages.

Budget and Fiscal Impacts

There is no budget or fiscal impact. Staff will leverage existing resources and materials to provide basic retirement plan information and general information regarding the importance of saving for retirement.

Benefits and Risks

The benefit of increasing CalPERS' members' knowledge of their retirement benefits and access to financial education materials is to provide them the opportunity to plan for their own secure retirement based on their individual needs.

There is minimal risk to CalPERS. CalPERS already provides education on basic retirement plan information. CalPERS plans to increase CalPERS' members' awareness of and access to the education materials and resources.

¹ Department of the Treasury. *Federal Register Notices*. 81 vols, No 69. 11 Apr. 2016: 21445-21447. Print.

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