



Financial Education in Living Color:

Eliminating Inequities in 401(k) Plan Participation

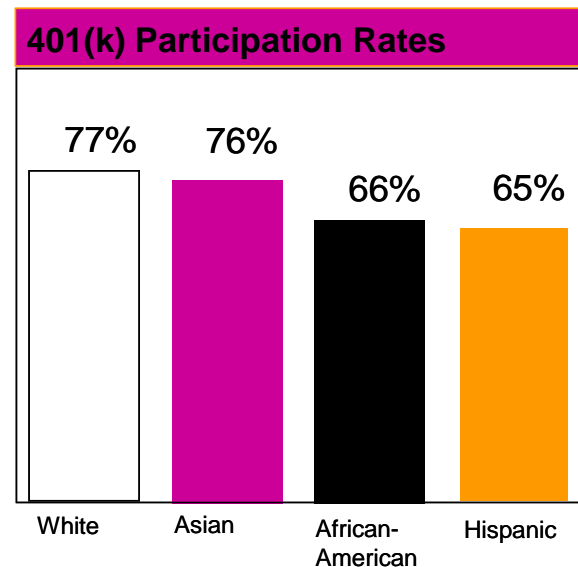
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By Lisa Horuczi Markus

Employees may have equal access to 401(k) plans, but participation is anything but equal. The recent release of Ariel Investments' and Hewitt Associates' *401(k) Plans in Living Color* study confirmed what individual client studies have shown for years—that ethnicity is the number one predictor of 401(k) behavior. Supported by the data of 3 million 401(k) eligible employees, researchers concluded that African-Americans and Hispanics save less, invest less aggressively in stocks and, as a result, have lower 401(k) balances compared to their white and Asian colleagues.



SOURCE: 401(k) in Living Color, Ariel Education Initiative and Hewitt Associates, 2009

These findings have broader implications beyond retirement readiness, as 401(k) participation has a positive correlation to employee retention, engagement, wellness and productivity.

Why Does Ethnicity Influence Investing Behavior?

Ethnicity is core to personal identity, and cultural factors deeply influence saving and investing behaviors. Cultural differences related to target, time horizon, truth and trust play a major role with saving for retirement.

Target

Contrary to what the financial services industry says, retirement is not the universal number one financial goal. For African-Americans, retirement competes with saving for their kids' college education, achieving lifestyle parity, and taking care of adult children and elderly parents. Not only is retirement not the number one financial goal for African-Americans, but the very definition of *retirement* has a different meaning in the African-American community.

For whites, retirement is usually depicted as an endless solitary stroll on the beach with one's spouse. According to more than 10 years of data in the Ariel Black Investor surveys, African-Americans see retirement as a launch pad for a second career or starting a business that is more aligned with the individual's purpose and passion. Retirement also tends to be more often coupled with the care of adult children or elderly parents, thereby extending the horizon of financial responsibility for African-American workers.

For Hispanics, the number one financial goal is taking care of family needs. Hispanic birth rates are triple that of whites, and they index family as a higher value than do whites, according to *Time* magazine's "2008 America by the Numbers."

Although the Ariel/Hewitt study shows Hispanic 401(k) participation at 65% for those who work for Fortune 100 companies, the average Hispanic 401(k) plan participation across the U.S. is closer to 30% and the average 401(k) balance is \$5,000, according to the National Council of La Raza. Hispanics' highest-ranking financial goal is saving for medical and dental benefits, according to the 2008 Wachovia and CFA America Saves study.



Like African-Americans, Hispanics have a different picture of retirement than whites. Instead of that solitary stroll on the beach, they generally see retirement as being in the center of a large, loving family. And to create and support that large, loving family takes more of a present-day investment and leaves less resources to save for retirement.

Time Horizon

Planning for retirement requires a long-term focus. Generally, whites consider 30 to 40 years to be "long term," whereas Hispanics are more likely to answer three to five years. Louis Barajas, author and advocate of the underserved, calls this "the *mañana* syndrome" in his book *The Latino Journey to Financial Greatness*. Part of the underlying reason for this is attributed to Hispanic immigrants coming from hyperinflation countries where political and financial stability is uncertain. Under these conditions, you can't predict the return of the stock market over a 40-year investing horizon, as you can in the U.S. Children raised by immigrants of financially unstable countries tend to have a more "live for today" attitude, because back home it didn't make sense to invest for the future—the value of your money was only guaranteed for today.

African-American households also tend to have a shortened time horizon and a phased view of retirement planning (because of retirement being a launch pad to a second career, as mentioned earlier). As the average net worth of African-Americans is one-tenth that of whites, according to the National Urban League's

annual report *The State of Black America*, African-Americans are more likely to have experienced poverty in their communities, families or personally. In A Framework for *Understanding Poverty*, author Ruby Payne explains that experiencing poverty, even peripherally, shortens a person's time horizon because money flow is perceived as more uncertain and there is more of a temptation to spend today when you're faced with a constant flood of people who need your financial help.

Truth

Hispanics and African-Americans index faith higher as a value than do whites according to The Multicultural Marketing Equation: Media, Attitudes, Brands, and Spending; Florida State University. However, faith-based orientation varies by ethnicity and has a different impact on retirement planning. Hispanics tend to be fatalistic; African-Americans tend to be evangelistic.

Among Dutch psychologist Geert Hofstede's dimensions of how cultures differ is the area of internal and external control. For whites, language cues, such as English being the only language that capitalizes personal pronouns such as "I" and phrases such as "God helps those who help themselves" and "pull yourself up by your own bootstraps," betray an internal control orientation.

Compare and contrast that with Spanish language cues, Heavily influenced by Catholicism, the Hispanic tendency is to assign that the locus of control to an external force—such as God, nature or the situation at hand. This shows up in common Spanish sayings such as "el querer de dios" (God willing) or "que será, será" (whatever will be, will be). This influence tends to dampen the desire to save for retirement because of the belief that there is little one can do to influence the future, and that planning is futile in the face of God's ultimate plan.

For African-Americans, the faith orientation tends to be more active, outward and transcendent than for Latinos and whites. While whites tend to consider religion more of an inward, private journey and keep to themselves during church services, African-Americans tend to create a religious service environment where the congregation is free to express their emotions. During the sermon, there is often more of a dialogue going on between the pastor and the congregation through a call and response approach, according to Janice E. Hale, author of *Black Children: Their Roots, Culture, and Learning Styles*. The music and worship in African-American church services tends to be more interactive and invites group participation. Even giving the offering may be more active, as members are invited to get up from their



seats and go to the front of the church to leave their offering in a basket by the pulpit.

Church is often the center of African-American family life and influences more of their actions. For example, African-American women's number one form of stress relief is prayer, according to Yankelovich's "2008 Top 10 Things to Know About African-Americans." The more deeply you are involved in a faith-based community, the higher the expectation is to tithe and help others financially. Coupling this with the fact that poverty, unemployment and home foreclosures are higher in the African-American community makes the expectation to give even more intense. In fact, according to the 2008 Wachovia and CFA America Saves study, African-Americans cited their primary barrier to saving as being the pressure of friends and family to spend.

Trust

Lack of trust also plays a primary role in 401(k) saving and investing behaviors, especially among African-Americans. According to more than 10 years of Ariel Black Investor Survey data, African-Americans consistently rank distrust of financial planners and the financial planning community as a barrier to investing.

Currently, the financial services industry is more than 80% white and male according to Financial Planning Association® data, and trends indicate that demographic diversity in the financial services industry lags that of the U.S. as a whole. So African-Americans are unlikely to have access to diverse financial planners.

In addition, it's commonly believed that decades of financially discriminatory practices such as "redlining" (unequal access to loans and mortgages based on geographic and demographic factors) and lack of exposure to diversified investment instruments (presence of 'mom and pop' banks in African-American communities) and lack of full-spectrum financial planning firms has affected African-Americans' investment in the stock market and has created distrust of financial planners in general. Ariel's research shows not only that retirement saving balances and contribution levels are less for African Americans compared to whites, but also that African-Americans more often are saving to purchase real estate or to start their own businesses rather than investing in the stock market.



Banks have historically avoided low-income markets because of being risk-averse and not wanting to engage in social engineering. When creditworthiness is in question, bank agents heavily rely on their own personal feelings about the

borrower. Even today, whites tend to get the benefit of the doubt, while African-Americans and Hispanics do not, according to Farai Chideya, author of *Don't Believe the Hype*. Numerous sources also cite that when people of color do get a loan, it's often at a significantly higher interest rate and less favorable terms than a white borrower.

Among Hispanics, the trust problem is different. Hispanics have a higher trust in authority figures, such as the police, financial planners, employers and government officials. But this often leaves them vulnerable to being taken advantage of, according to Louis Barajas. In *The Latino Journey to Financial Greatness*, Barajas talks about "the *compadre* problem" where Latinos' trust of those in power may lead to their believing that someone else will take care of them rather than taking action on their own.

So Now What?

Ariel Investments has been calling attention to the wealth gap for years through its Black Investor Survey. In fact, Ariel called the 2008 report a "black paper" (instead of a white paper), because over the decade of reporting the results, blacks' net worth actually decreased. Ariel stated that things will change when companies and the government take a more active role in educating employees and citizens and automating participation in retirement plans.

The few employers that heeded Ariel's call to action delivered more broad-based financial education, which largely appeals to the self-study learning preference and independence-focused communication style of white men. Research shows that what moves people of color to better saving and investing behaviors is advocacy, face-to-face interaction, cross-culturally competent workshops, and learning from the experiences of others. Unfortunately, large mutual fund companies (often the sole source of financial education because it's provided to employers for free) generally don't account for cultural preferences in their financial education and communication approaches. Instead, their plain-vanilla approach is geared to steer lower net worth employees to Web sites and call centers.

However, there are simple ways companies can better meet the education and communication needs of diverse audiences. Here are some proven methods for engaging diverse employees in better investing behaviors:

- **Listen to them.** Hold focus groups with key audiences to help them articulate the barriers to investing and design an approach to hit the mark. Have the focus groups facilitated by someone who is the same ethnicity or cultural background as the target group. For example, National Black MBA collaborated with Hewitt Associates in the development of "Show Me the Money" financial

education workshops that were offered to all participants of the 2008 national convention.

- **Partner with employee resource groups.** Generally, employee resource groups have goals around empowering the target population. Have a meeting with the group's leadership to see if financial empowerment could be added as a presentation topic. If the group has a Web site, see if it's possible to post articles having to do with positive saving and investing behaviors. Add direct links to the company's 401(k) Web site so that employees can promptly act on the information. For example, Hewitt Associates sponsored Ariel President Mellody Hobson to kick off Women's History Month with a speech on financial empowerment of women, and sponsored "The Art of Financial Success" workshops in seven states, reaching more than 500 women, which produced results including a 50% increase in knowledge retention and positive saving and investing behaviors (see *Don't Forget About Gender* on page 8).
- **Create a cross-cultural financial education approach.** Develop workshops, Web sites and print materials that speak to financial topics in a way that resonates with target populations. Test the materials with your target audience before they're made public. Feature these targeted approaches during cultural celebrations—for example, recognizing Juneteenth (the oldest known celebration commemorating the ending of slavery) with a workshop that helps people become financially free of debt. Beyond photos and colors that appeal to the targeted group, frame financial education in the worldview of the audience. For example, there are efforts under way to build a multicultural financial education Web site that would feature financial planners of diverse backgrounds. Participants would simply click on the financial planner of their choice and would be led through a virtual financial planning discussion designed to more closely align with the communication style and learning preference of the participant.
- **Don't be afraid to bring faith into the equation.** In companies across the nation, faith is coming out of the church and into the work place. Employees are meeting for Bible study over lunch hours and forming faith-affiliated employee resource groups. As work life becomes more uncertain and economic conditions worsen, more employees are searching for meaning beyond the material world. Since faith indexes as a higher value for African-Americans and Hispanics, addressing faith in aspects of financial planning can increase the likelihood that the message will resonate and that action will be taken. For example, instead of focusing financial workshops on materialism and the self gratification of getting more, acknowledge that one can experience life in many ways—including spiritually—and that we can use our resources in a way that takes care of our families today while keeping our eyes on eternity. A project by The Sentinel Group in coordination with South County Outreach (SCO) offered financial planning workshops to SCO's housing and food assistance clients. Clients were then taken through a 'makeover day' where they received a hair

cut, makeup instruction, an outfit, jewelry and resume and interview coaching by volunteers from a Saddleback Church small group headed by Andrea Thorlakson. Participants were invited to fill out prayer cards which were distributed to small group members who prayed for a participant and contacted her every other week. The program resulted in 70% of participants affording their own apartment or condo, getting jobs and starting an emergency fund.

Don't Forget Gender!

Although the *401(k) in Living Color* study focuses on ethnicity, gender is the second-best predictor of saving and investing behaviors. In addition, women make 80% of the purchases in North America and the majority of the household budgeting, saving, investing and health care benefit decisions. Hewitt's women's workshops resulted in a 50% increase in knowledge retention and positive investing behaviors for the following reasons:

- **It was marketed as a women's event.** The financial empowerment topic was picked as the theme for Women's History Month. Although men could attend, women said the focus on the female side of wealth was refreshing and inspiring.
- **The campaign revolved around collaboration.** Women prefer to learn in groups and to share stories. Face-to-face and online forums allowed women to learn from each other through real life stories.
- **Participants appreciated the follow-up.** Instead of having one-off events and stopping there, women were asked to commit to a financial action and were sent a personal e-mail note to check in on their progress. This simple, caring act was not only met with appreciation from the participant, but was the tipping point to positive action.

About The Sentinel Group

The Sentinel Group is a boutique financial life-planning firm in Laguna Hills, Calif. and is a financial education think tank in the area of diversity and investing behaviors. Unique in the financial services industry, The Sentinel Group's staff is 90 percent female. The Sentinel Group not only services the financial planning needs of hundreds of families and businesses, but also is expert at developing corporate solutions that bridge the retirement-readiness gap between underserved groups and the majority population, resulting in improved employee attraction, retention and engagement. For more information, please visit www.sentineloc.com.

About the Author

Lisa Horuczi Markus is the author of *Living a Blessed Life: Walking in Faith, Growing in Wealth* and is a partner at The Sentinel Group, a boutique financial life planning firm in Laguna Hills, Calif. A financial education consultant, SOUL MAG's personal finance writer, and mother of two preschoolers, Lisa's personal mission is to economically empower all people to live purposeful lives.

For more than a decade, Lisa worked with *FORTUNE 500* companies as a consultant for Hewitt Associates and Fidelity Investments, as well as for nonprofits, churches and public organizations, researching the impact of ethnicity, gender and age on investing behavior, developing solutions to build financial security among diverse populations, and improving retirement readiness. Lisa partnered with black associates at Hewitt Associates and National Black MBA to develop the "Show Me the Money" financial education workshop featured at the 2008 National Black MBA Annual Conference. She developed an integrated solution with South County Outreach (SCO) and local church groups that included financial education workshops, a makeover day, and a prayer support program for women on SCO's housing and/or food assistance program. The integrated solution resulted in 70% of participants being able to afford their own housing, acquire jobs, and start emergency funds within six months.



An award-winning journalist, Lisa has a bachelor's degree in journalism and a master of business administration degree from Michigan State University, where she graduated with the school's highest honor in journalism. She traveled around the world researching the emergence of the independent press after the fall of Communism. Lisa is a member of the Financial Planning Association's Diversity Taskforce and started the "Financial Freedom for Women" workshop at Saddleback Church, where she volunteers for the women's ministry and Saddleback@Work Business Connection. Lisa will lead two sessions at the 2009 Financial Planning Association convention on shifting demographics of financial consumers and how to connect with emerging wealth groups.

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