Human-Centric Investing Podcast

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Episode 20: Retirement Plan Trends: Interview with Patrick Murphy, CEO at John Hancock Retirement Plan Services

Host: John Diehl, Sr. Vice President, Strategic Markets, Hartford Funds

Featured Guest: Patrick Murphy, CEO at John Hancock Retirement Plan Services

Intro: This is the Human-centric Investing Podcast with John Diehl where we look at the world of investing through the eyes of our clients. Take it away, John.

John Diehl: Hello, financial advisors. This is John Diehl, Senior Vice-President of Strategic Markets at Hartford Funds. Welcome to episode 20 of the Human Centric Investing Podcast. Joining me today is Patrick Murphy. Patrick is the CEO of John Hancock Retirement Plan Services. Welcome to the podcast, Pat.

Patrick Murphy: Thanks, John. Glad to be here.

John Diehl: Well, today we know that a lot of the advisors that we speak to and that listen to this podcast sometimes have both a wealth management business but also dabble in the retirement plan space.

Other advisors that we work with are more dedicated and concentrated on the retirement plan space. And so what we thought we'd do with the podcast today is, hey, go to someone that knows a lot more than I do about the retirement plan space.

That being Patrick Murphy, who as I mentioned is CEO of John Hancock Retirement Services. Because we really want a firsthand glimpse at at least his high level thoughts about the direction of the retirement plan business and the more specifically what John Hancock is doing in response to some of those trends.

So with that, Patrick, I know we just mentioned that you joined John Hancock earlier this year but I'm sure this wasn't your first gig, so give us a little bit of an idea about your career path, how you got here and what the special opportunities are here at John Hancock.

Patrick Murphy: Well, I have a 30-year career in the retirement plan business, so I won't bog us down in the detail of all those 30 years.

But I will say that I started in this business as an enrollment specialist, an education specialist, working with plan participants to help them understand what this new-fangled thing called a 401K is, back in the '80s.

And it was a time when companies were transitioning from the traditional pension plans to the defined contribution plans, really shifting the burden of having a comfortable retirement from the company to the employee.

And so it was an interesting time to enter the business and it was an interesting time, from an economic perspective. There were lots of things going on there. There was tax reform, there were market crashes, there were lots of things going on right when I was getting into the business.

But I had had a real sharp focus on helping people understand how to save for retirement in the context of all that was going on in the world and really bringing it down to what's going on in their own individual lives. And from there, I've had a varied career in sales and in relationship management, in operations.

You know, I've performed most jobs within the retirement plan business at some point in my career and I'm excited to be leading a company like John Hancock because I feel like I'm right back where I started, with us having a real laser focus on helping make participants' lives better.

John Diehl: Absolutely. I mean, I can imagine you've seen a lot change in the industry since you mentioned you started in the enrollment specialist role.

But we know that retirement -- when you mention the topic 401K, most people say we know it's a good thing. The struggle is how do we get more people involved in it. In the context of today's retirement business, Patrick, what's the direction of the record-keeping business?

And what is your focus now at John Hancock Retirement Services in terms of -- is it developing new product? Is it creating new communications? What would you say is the primary focus today?

Patrick Murphy: It is a complex business and it's getting more and more complex every day. The regulatory environment certainly is a whole other realm of complexity.

But you have technology advancements, you have the longevity of the individuals that are saving for retirement, they're living longer so you could potentially have someone that has a 60-year retirement if they retired in their early 60s. I mean, think about that.

And then you have the expectation of consumers today. The end user, the end customer really dictates what we do and how we're perceived. And technology certainly enables that and has expedited that.

So with all the constituents that we serve, advisors and third party administrators and plan sponsors, we need to serve those customers really well but ultimately, John Hancock has a focus of putting the participant first in all that we do.

Then really assembling a strong team of advisors and third party administrators and plan sponsors to collectively work together as a team to serve the needs of those participants.

John Diehl: No, that makes a ton of sense. And when you think about those participants, one of the things that interests me -- and you mentioned that this extending longevity (of) the folks we work with at the MITAgeLab tell us that many of those plan participants may spend their 8,000 days in retirement.

And when you say that to participants, they shake their heads a little bit until I explain that if we broke out our calculators, 8,000 days is just shy of 22 years.

That may be an average. We spend 35 years, we may spend 15 years but nonetheless, if we hit retirement unprepared, it could be a lot longer than we wished it to be, in an odd sort of way.

But given that, I'll just share with you. One of the surveys we did was we asked people who recently retired how they felt about being retired. And almost two-thirds said they were either bored, the majority said anxious and then another part said scared. Flat-out scared.

So it reminded me -- I remember reading about the John Hancock financial stress survey. And I was wondering if you could tell us a little bit about that -- I know it's been going on for some time now -- and what the major findings are that have come out of that survey that have helped guide you in terms of the services you all provide.

Patrick Murphy: Sure. And I'll just say, I think we're in our fifth year of conducting the survey. And it was really born out of a desire to better understand why participants -- why people aren't acting in their own best interest.

And so I was telling you earlier, we sat around a conference room table asking the question and asking ourselves the question. And it's all a bunch of executives who are in the retirement plan space and it dawned on us that we should probably -- if we want to know the answer, we should just ask them rather than guessing.

So what a concept, right? And so we wanted really to just basically understand what were the roadblocks, what were the issues that they were facing that was preventing them from doing what's right.

And so we launched the survey and we discovered some things that we expected to discover and then we uncovered a lot of other great granular levels of detail. The one thing that was really encouraging -- when we asked, they answered. And answered, and answered.

John Diehl: Really? Wow.

Patrick Murphy: So the real big result of this, the big headline is that participants want help. They want it. They don't always know how to get it, but they want it and they want that help typically through the institutions that they trust.

So their employer, their benefits provider, it could be a 401K record-keeper, it could be a health plan provider, it could be an advisor, a family friend, the bank that they do business withy down the street.

So these institutions that they know and trust, that are familiar, they expect to access information through those channels.

And the other – the other big thing that we noticed or that we discovered and this was kind of the good news part of it – one of the good news parts of it. People know they should be doing more, they know they should be saving for retirement; they know that they should know more about investing.

So the problem there is that we don't teach them that in school. So when you think about my – how I started my career in this business, I'm standing in front of a group – a group of people conducting a 401K education seminar, talking about dollar cost averaging and tax deferral, et cetera, et cetera, et cetera.

And most of the people in that room don't understand the value of compound interest. They haven't had a basic finance course ever in their lives. And so now we expect them to be investment experts and create a plan for retirement.

So we've heaped a lot of responsibility on folks who really aren't well prepared. So it shifted our thinking of how we communicate to participants, rather than trying to overwhelm them with all of the concepts and all of the things that can seem complex in saving for retirement and basic financial planning.

We shifted our approach to just small, simple, bite sized steps. And that really has flown – flowed through our entire product development strategy for the past several years. And we even start thinking about the word product, and we've shifted it to really being about a solution.

And so because the solution is really helping people get to their goal, and what product you use to help facilitate that process is almost irrelevant. But when you understand what their goals are and where you – where they want to be and need to be, then you can start approaching them in a much more holistic way.

And so that's the other evolution of our business is we're a retirement plan provider, we're known as a well known, one of the largest record keepers in the country, and what we really are shifting ourselves to is from that record keeper that offers OK advice in different solutions.

We want to really migrate ourselves into a really high quality advice provider that offers very efficient high quality record keeping as well. And so what that means is when a participant comes to us, the experience is more about them and their goals and their needs and how they're doing towards achieving their different goals.

And then if they want to take a loan or a hardship withdrawal, it's there, but it's not the first thing they see when entering a website about retirement.

John Diehl: So Patrick, you mentioned that stress surveys gone on about five from now, I guess two questions. One, did you find that people really are stressed and at what level would you put them?

And the second question connected to that, any change over those five years in terms of the amount of stress that people are feeling or is it pretty consistent?

Patrick Murphy: So we finally had about two thirds of people out there that responded, and its pretty representative across industries, income levels and et cetera. About two thirds of the people out there admit to being stressed about their finances.

And we know there's lots of other studies besides ours that will (bare) this out, but stress is the number one cause of illness and productivity declines and other health issues. And financial stress is the biggest form of stress out there.

So our survey revealed what a lot of other surveys reveal, two thirds of people are stressed. Over half of those admitted to losing time on the job dealing with financial issues.

The Department of Labor, I know there's some statistics that I've seen historically estimate that financial stress costs U.S. businesses roughly $300 billion a year in lost productivity and absenteeism.

Our – some of our study, it's roughly about $2,100 per employee per year in lost productivity and absenteeism. And then that's just really the current day impact.

When you think about the impact stress has on people's health and their longevity, then that starts to impact the employer in a whole different way, because healthcare premiums are obviously one of the biggest expenses that company's have today from an employee benefit perspective.

And if you have stressed out, unproductive, unhealthy employees, your healthcare expenses are just going to keep increasing exponentially over time.

John Diehl: Well then that brings us to the topic, and I hesitate to say these words, because as I mentioned, I'm not really all that deep in the retirement plan business.

But I – sometimes I talk to advisors who are, and when I bring up the topic of financial wellness, I've had some advisors say if you say those words one more time, I'm going to throw you out of my office.

Where I've had other advisors say that's the direction of my practice. Can you help me understand a little bit, Patrick, what is financial wellness or maybe better define how does John Hancock regard financial wellness?

Patrick Murphy: It's a phrase that obviously we're all using. Some in the business use it as a means of getting people to focus just on retirement or just on their financial goals. And obviously the word financial is in there.

A lot of the clients that we work with don't necessarily even use the word financial wellness or the phrase financial wellness in a silo anymore.

They're talking about an overall holistic wellness program for their employees, and that includes healthcare, it includes financial benefits like a 401K, a pension plan or stock plans, other savings – type of savings plans.

And they're also incorporating emotional and spiritual wellness programs into the overall benefits program as well. And so that whole idea of serving the whole individual, the whole employee in a way that makes them more productive, makes them better able to serve the customers of that employer, that's really how it all comes in.

So financial wellness really is just a component of an overall wellness suite of services that companies are – especially the more progressive companies are getting really aggressive and making sure that when their employees show up to work in the morning, they could show up to be the best versions of themselves that they can to – again, they're more productive and they serve their customers in a better way.

John Diehl: So when we talk about all those different components, how does that get coordinated at a company level?

Is there usually a team of people that are both making decisions on retirement plan funding options or design as well as other benefit programs? Who makes those decisions in a typical company that maybe many of your advisors might call on?

Patrick Murphy: So the – and by the way, this is – this is a great opportunity for advisors to differentiate themselves in the marketplace because you have the ability through this wellness approach to satisfy the need of a human resources professional or a benefits professional who is trying to create a program that attracts talent, retains talent and motivates that talent.

But you can also really hit on the things that a financial professional in the company will gravitate towards in terms of increased productivity, lower healthcare premiums, things that go right to the bottom line that are more tangible for the company.

So I answered the question a little bit differently, but the bottom line is it's a team of people internally at the company that typically involves HR and benefits professionals but more and more involving the finance and CFO function because there is a connection between the wellness of the employee and the bottom line of the company.

John Diehl: So trying to create a win-win for ever body involved financially, health-wise, productivity, the whole works.

Patrick Murphy: Exactly. And so, for the advisors out there who are looking for a way to differentiate themselves, roughly two-thirds of companies that we survey have indicated that financial wellness is becoming a bigger part of their overall holistic benefits and wellness package.

So if you're not thinking about this as and advisor, you're going to be missing out on opportunities where you won't be able to have a real meaningful discussion with the decision makers at the companies you're targeting because this is what they care about.

John Diehl: So one of the things we talk about all the time, which came out of the MIT research that we've done, is that creating value in the financial services space today is largely about – first of all, you have to deliver on your core competency. You have to deliver on what that client expects of you, but beyond that it's two things.

Educate me and connect me to resources that can help. So maybe, for example, sharing with some of your clients as an advisor some of the results of the John Hancock Stress Survey, right, Financial Stress Survey.

And then connecting them with resources whether John Hancock, Hartford Funds, or whoever may be available that they might share with plan sponsors to say, how do I as and advisor deliver more than just what's expected"?

And maybe actually provide some helpful insight to those HR and benefits professionals that, hey, if it comes down to a jump all, because let's face it, we're in a very competitive industry, wouldn't we want the people sitting around that table to say, hey, you know what?

Those guys at John Hancock, those guys with Hartford Funds, they were very helpful to us in this respect. Why don't we take a closer look at what they're offering? I assume that's kind of what you're sharing with me.

Patrick Murphy: Absolutely. And I think the benefit of the Harford Funds and John Hancock and working with firms like ours is that we are investing millions and millions of dollars in technology – by the way, if you're a record keeper in this business and you're not viewing yourself as a technology company, you're going to be left behind, right? So that's a big focus of ours.

With a specific focus on advanced analytics and making sure that we are leveraging the data that we have, the behaviors that we see with the participants that are in the 401(k) plans that we serve.

I mean, we serve 57,000 companies across the country, run different kinds of retirement, 401(k), pension plans, non-qual plans for them. So we have lots of data about what those participants do, what they care about, how they behave, how they interact with the plan.

And so, we have lots of observations and insights that we glean from that, and that information is available to help advisors be more thoughtful about how they serve their customers that they may have wit us but also about how they approach new prospective customers of theirs, again, to have a more relevant conversation to what those companies might care about.

And we collect that data and we have it by industry. We have it by company size. In some cases, we have it by different states so we can really provide insights into, for example, what a large multinational law firm might think differently from a small, mom and pop law firm.

John Diehl: Yes, and just even for advisors that aren't specifically retirement plan advisors, being able to talk with someone about the range of plan sponsors that are out there. I mean, I say it jokingly, but we've all dealt with those plan sponsors. Usually at the smaller end of the scale, they're more about how much can I put away for me than necessarily my employees?

And the we have kind of the complete other side of the spectrum, which is we're about attracting and retaining talent. Therefore, what kind of plan designs should we think about or what do we have today? How could we improve on it?

And I think the advisor could really be the quarterback in some of these conversations with a little help from the resources that surround them.

Patrick Murphy: Absolutely. So, I mean, that is the key to this, right? Because we, at John Hancock, we're not working with plan sponsors directly, and I don't know if that was ever really clear in any of the conversation that we have with people, but we work with financial advisors, third party administrators, and some of the big national consulting firms.

And because we believe in the concept of the team that is the team is better suited to serve the needs of the employer and then bringing that employer as part of the team with the record keepers and the advisors and third party administrators collectively using our knowledge and experience to then create the plan design that meets the needs of the participant.

And then you can get to creating education, guidance, and advice programs that then meet the individual needs of the participants in the plan. But when we think about advice, we think about it really on two fronts.

We think about the teams of experts that we assemble that provides the advice to the sponsor, and then, again, that advisor and John Hancock together, figuring out how to best provide the advice services to the participant because we – I talked about transitioning into this really becoming more of an advice provider. That doesn't mean that we're the sole provider of advice to the participant.

There are lots of folks out there that have advice as the core component of their business model, so our platform is flexible to enable us to have the advisor provide that service, but we also recognize that there are different business models out there.

So where the – it doesn't make sense for the advisor to provide advice to a certain level of employee, that's where we can step in to make sure that everyone that works for those companies get the right level of advice that they want.

And that's the one thing we learned from the – not the one thing, but one of the important things that we learned from the Financial Stress Survey. People want that advice, and there's a big segment of the population out there that wants advice from and advisor.

And when they have advice from – when they get advice from an advisor, they have better contribution rates, they have better asset allocation, they have better retirement readiness scores, and they're less stressed, by the way, because they have a plan and they're sticking to it.

Then there's the millennials, if you will, the younger generation that wants to get information and get advice more online. So you have to have the right approach for the different generations and how people want to interact with you.

John Diehl: Absolutely. Well Patrick, this has been great. If it's OK with you, I actually have a few questions that I still want to ask you, but we're running short on time…

Patrick Murphy: Sure.

John Diehl: … for this episode. Would it be OK if I asked you to rejoin me on another episode?

Patrick Murphy: Absolutely, sure.

John Diehl: All right, well great. Well, for all of those listening, thanks so much for your time today, and we hope to hear you or have you join us again for a future episode of the Human Centric Investing podcast. Thanks very much and have a great day.

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