Personal Finance Education For Employees: Evidence On The Bottom-line Benefits

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Employers who offer personal finance education to employees convey that they are concerned with their long-term welfare. Employers offer financial education because of poor participation by employees in 401(k) retirement plans and fear of lawsuits from former workers claiming negligence for having a poor pension plan. As a result, employers typically offer narrowly focused financial education about retirement. Employers should offer comprehensive personal finance employee education because the cost is low and the benefits are high. To strengthen the case, more research on the bottom-line benefits of personal finance employee education should be accumulated.

Key Words: *Financial education, Employee education, Savings, Investment, Retirement, 401(k), Cafeteria plan, Credit management, Money management, Work-family*

There has been a tidal wave of employers deciding to offer personal finance education to their employees over the past five years (Lee, 1997). Today, 56% of employers offer employees financial education on saving and investing for retirement (KPMG, 1997). An Ernst & Young research study of large employers in the United States found that 65% of companies offer long-term retirement planning to employees, and 45% offered retirement planning immediately preceding retirement (Fee-based education favored, 1997). This contrasts to 17% of large employers offering education on day-to-day finances, 14% providing information on planning for major life events, and 12% offering education on debt management.[a] "Nearly 80% of all companies with more than 5,000 employees are planning to conduct some sort of financial education program by the end of next year" (Arnone & Pape, 1997).

Part of the reason for increased financial education for workers is that, "Employers are recognizing that employee financial education can have a positive, tangible impact on the bottom line, says James E. Buckley, national partner-in-charge of KPMG Peat Marwick's Compensation & Benefits Practice." (KPMG..., 1997). "Employees empowered with the knowledge and tools necessary to help maximize the retirement programs that employers are offering are likely to become a more confident, motivated and productive workforce" (KPMG, 1997).

This article offers several reasons why employers are offering financial education to employees. It argues that employers should offer comprehensive personal finance employee education rather than narrowly focused financial education about retirement. It concludes with a discussion of research needs on the bottom-line benefits of personal finance employee education.

Why Employers Offer Financial Education

There are several reasons why employers offer employees financial education:

1. Financial education is the right thing to do.
2. Many workers are not participating in employer-sponsored retirement plans.
3. Participation by highly compensated employees in an employer-sponsored plan may be limited by regulations when non-highly paid employees do not participate.
4. Employees who are not well educated about the benefits of retirement plans choose not to participate,
5. Department of Labor (DOL) regulations encourage financial education.

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6. Employers fear negligence claims.
7. Personal financial concerns may be carried to the workplace with negative results for the employer.

It Is the Right Thing to Do

Many employers, especially those with a large number of employees, increasingly believe that they are responsible to their workers for more than a paycheck. Now facing labor shortages, employers are shifting away from viewing employees as an easily replaceable unit of labor and toward seeing employees as valuable people who could benefit by employer policies that are pro-family and pro-worker. Employers now are making serious efforts to keep their best employees on the job. The definition of a good employer has changed (Purcell, 1997).

Employers have moved from old-fashioned paternalism to trying today to be an employee's employer of choice (Hackett, 1997). Some employers have for many years taken a paternalistic view toward their workforce. Samsonite Luggage, for example, banned smoking in work sites in the 1960s, partially because of the assumed negative effects on health. Other employers, such as R. J. Reynolds, provided pastoral counseling at the work site believing, in part, that workers who are experiencing serious personal stresses in their lives sometimes have those problems spill over into the workplace.

Companies with pro-family and pro-worker perspectives — typically about time off for family needs, telecommuting, wellness programs, on-site child care, and casual dress—are trying to strengthen the relationship between employer and employee. Such companies are "vigilant and proactive" in trying to "evaluate and improve the circumstances which affect" their employees (Wallace & Karlak, in press). Such employers appreciate happier employees in the workplace. *Working Mother* magazine says that these kinds of employers are "role models for American business, creating workplaces that offer employees both the opportunity to advance in their careers and to have a good family life" (Moskowitz & Townsend, 1997).

Workers Need Encouragement To Participate In Plans

Many workers are not saving for retirement and are going to have extreme difficulty finding the money for retirement (Swoboda, 1997). Only one-third of workers have tried to calculate how much they will need to save by retirement, and only one-third of these were very confident about their estimate (The reality...,1997).

Todd and DeVaney (1997) reported that only 24% of households listed retirement as an important reason for saving. A Kemper-Roper Retirement Monitor nationwide poll found that 65% of Boomers said they were not saving enough for retirement (Jones, 1995). According to a study by Access Research, average participation rates for 401(k) plans are about 78%, compared to 30 to 35% for 403(b) plans (Harrison, 1997). "While three out of four workers in firms with over 1,000 employees participate in a pension plan, only one in four workers in firms with fewer than 100 employees participate in a pension plan" (Berg, 1997). Fully half the people who do retire do so with no pension plan (Berg, 1997).

The Public Agenda/Fidelity study titled *Miles to Go: A Status Report on Americans' Plans for Retirement* found that, "three in 10 of the Americans closest to retirement say they have personally saved less than $10,000 for the years they are no longer working" (30% of Americans..., 1997). A Consumer Federation of America - NationsBank study on financial planning found that Americans are goals such as retirement (Bailey, 1997). The *Workforce 2020* report of the Hudson Institute concludes that increasing numbers of workers will be "forced to stay on the job because they cannot afford to retire" (Swoboda, 1997). The Kemper-Roper Retirement Monitor found that nearly 60% of Americans said they they would have to work, at least part-time, during retirement to make ends meet (Jones, 1995). Smart employers are well aware of these trends and are offering retirement education programs for their employees.

Participation by Highly Compensated May Be Limited

Discrimination tests are required to ensure that defined-contribution pension plans do not unfairly benefit only the highest paid employees. The regulation requirements state that when too few of the non-highly paid employees participate in the pension plan, the highly compensated are not allowed to contribute the maximum amount otherwise permitted under law, which is $9,500 a year. If, for example, a highly compensated employee could only invest $8,500 a year for retirement, instead of $9,500, "by the time they retire, that could be a nest egg of literally tens of thousands of dollars less than they might have been able to save for retirement," says Martha Priddy Patterson, director of employee-benefits policy at KPMG Peat Marwick (Schultz, 1997).

A KPMG study of 1,251 companies "with at least 200 employees shows an enormous difference between participation rates among the highly compensated and non-highly paid workers: 90% of highly paid employees contribute to their 401(k) plan, compared with only 64% of all other workers with such plans" (Schultz, 1997). Further, "highly paid workers contribute, on average, 6.79% of income, while the non-highly paid contribute only 4.73%" (Schultz, 1997). In non-profits, the "gap is 25 percentage points between the 77% participation rate by the highly paid and 52% participation by all other employees" (KPMG, 1997).

Employees Educated About Plan Benefits Participate

The Kemper-Roper Retirement Monitor found that "about one-third of both Xers and Boomers and one-fifth of pre-retired [workers] feel 'uncertain' or 'at a total loss' when it comes to planning for their own retirement" (Jones, 1995). William E. Chapman, executive vice president of Kemper Financial Services, says that despite an abundance of information on retirement, "Americans are still clamoring for help" (Jones, 1995).

Employers who have shifted the financial decision making responsibility of retirement planning to employees "are now realizing that most employees, including some of their highly educated employees, have little or no financial education" (Patterson, 1997). In one firm "the average 401(k) plan permits employees to contribute 14% of their compensation, [but] employees actually contribute only about 5% of their compensation" (KPMG, 1997).

KPMG Peat Marwick is the U.S. member firm of KPMG International, a worldwide professional services firm. Although KPMG conducts employee financial education seminars, it has an external firm, Merrill Lynch, conduct such education for its own employees. The Merrill Lynch financial education seminars for KPMG resulted in "a 12.14 percentage point (not percentage) increase in participation among lower-paid employees (non-highly compensated employees as defined by IRC section 414(q))" compared to a participation increase of 6.6 percentage points among highly compensated employees (Patterson, 1997).

Based upon internal survey data, KPMG has found that while providing a match (partially or fully putting funds into the employees' retirement account) has a "weak link to participation" offering financial education has a "strong link to participation" (Patterson, 1997). In fact, providing financial education is "cheaper than matching contributions, and, in some cases it seems to be more effective at increasing both participation and the amount contributed" (Patterson, 1997). Thus, providing financial education for employees about the benefits of retirement plans is an inexpensive way of increasing both participation and contributions.

Bayer and Bernheim's recent study, *The Effects of Financial Education in the Workplace: Evidence From A Survey Of Employers*, found that "participation in and contributions to voluntary savings plans are significantly higher when employers offer retirement seminars" (Lee, 1997). The Bayer and Bernheim study also found that financial education has a stronger effect on the non-highly paid employees than on the highly compensated (Lee, 1997). Moreover, the national study by Bernheim and Garrett found that, "employer-based retirement education strongly influences household financial behavior" (Bernheim & Garrett, 1996). They concluded that, "significant numbers of employees rely heavily on employer-based financial education when it is made available to them" (Bernheim & Garrett, 1996).

DOL Regulations Encourage Financial Education

As recently as 1990, employers were hesitant to offer employees anything beyond minimal information about their retirement plans and investment options within such plans. This reticence was based upon the lack of legal protection from employee lawsuits claiming that the employer gave them faulty advice, unsatisfactory investment choices, and/or injurious financial education.

While employers are "legally constrained from offering investment *advice* [italics added]," the law covering retirement plans "requires firms to give workers educational material on the basics of investing" (Egan, 1997). In addition, the 1996 Department of Labor *Final Interpretative Bulletin* regulations have "created a safe harbor for virtually all the commonly used forms of participant education" (Berg, 1997). The TCW Group, a funds-management company, "has asked the U.S. Department of Labor for permission to provide investment advice to 401(k) plan participants and allow them to invest" in its own group of mutual funds (Egan, 1997). TIAA-CREF also is planning to offer investment advice (d'Ambrosio, 1997).

Reduce Chance of Negligence Lawsuits

Even with broadened protections from the government, many employers remain concerned about investment education. "Public policy is moving toward making employers more accountable for their employees' retirement funding deficiencies" (Harrison, 1997). Some law firms currently specialize in "workplace stress claims resulting from negligence, rather than deliberate victimization," and in the U.S. "nine out of 10 are successful" (Midgley, 1997). Leading-edge employers, if they are not doing so already, need to take proactive steps to avoid lawsuits, including class-action lawsuits, from present and former employees claiming that the employer was negligent for having a poor pension plan, for not teaching them how to invest, and for not offering a comprehensive personal finance employee education program. In his book, *The Excuse Factory*, Walter Olson portrays today's workplace as "paralyzed by laws aimed at protecting workers" (Saltzman, 1997).

Dee Lee, president of Harvard Financial Educators, says that, "an employee's satisfaction with [his/her] retirement nest egg is going to determine the amount of litigation the industry will face in the future. Education is the key to that employee's satisfaction" (Lee, 1997). Unisys Corporation will be defending itself from such litigation in a retrial this fall (Lee, 1997).

Employees Carry Problems to Workplace

KPMG's Martha Priddy Patterson says that "a financially uninformed employee cannot manage personal finance efficiently and they certainly cannot understand how their work duties affect the employer's finances and profits and losses in the big picture" (Patterson, 1997). The Ford Foundation study titled *Relinking Work and Life* concludes that "paying attention to employees' personal lives increases corporate productivity" (Kleiman, 1997). A Colorado bank president recently said that, "People who plan and manage their finances well tend to have less stresses which can hinder job performance" (The HR Battlefield, 1997). A key question is, "How much productivity?"

A research study by the Military Family Institute (MFI) concludes that the indirect costs of poor personal financial behaviors of U.S. Navy service members is conservatively estimated to be "$172 million annually in overall productivity costs" (Luther, 1997; Luther, et al., 1997). "In addition, direct costs alone are conservatively estimated at $36 million, or 891 man years" (Luther, 1997; Luther, et al., 1997). Therefore, the total annual costs (both indirect and direct) to the U.S. Navy for the poor financial behaviors of service members is calculated to be between $208 million ($172M + $36M) and $294 million ($258M + $36M). With 430,000 personnel, the cost is between $483 ($208M/430,000) and $683 ($294M/430,000) per year per service member.

Other research shows that "approximately 15% of workers in the United States are currently experiencing stress from poor financial behaviors to the extent that it negatively impacts their productivity" (Garman, Leech & Grable, 1996; Garman & Leech, 1996). The nation's elder statesman on financial counseling for employees, R. J. Reynolds Company's recently retired pastoral counselor Rodney Brown, reported this year that, "No company is immune to the effects of financial entanglements, no matter how good the pay and benefits" (Brown, 1997). Brown (1993) deduced that "employees with financial problems cost their employer no less than 10% of their salaries per year in lost productivity ... The waste factor could be 15-20 percent!" One manufacturing employer recently said that, "40 to 50% of my employees are over-stressed about their debts, such that it reduces their productivity, and that is a very conservative estimate" (Garman, 1997).

Employees take time away from productive labor to confer on the telephone with creditors, seek sources of additional credit, converse with co-workers about stresses, talk with supervisors about financial problems, and place gambling wagers. Employees sometimes call in sick to their employers so they can make court appearances, talk with attorneys, and meet with others (e.g., creditors, collection agencies, co-workers, relatives) concerning their personal financial problems. Some take occasional extended work breaks, supposedly to use restroom facilities or to eat a meal, but instead spend the time dealing with financial matters.

The negative costs incurred by employers include lower job productivity, absenteeism,[b] tardiness, loss of customers who seek better service, loss of revenue from sales not made, accidents and increased risk taking, health care costs for stress-related illnesses, disability and worker compensation claims, thefts from employers, time lost from the job dealing with personal finance matters, and employee turnover. Rachel Hubska, president of Rachel's Bus Company, says that "she has learned there is a strong link between people being in control of their financial lives and making it to work on time" (Grimsley, 1997a).

An employee who misses 4 days of work in one month personally experiences a 20% loss in productivity (4 days missed divided by 20 working days). This does not include any related costs for temporary labor, worker's compensation, employee health care, and increased insurance premiums. Nor does it include the opportunity cost of the disrupted productivity of other workers inconvenienced by the financially troubled employee.

If the decline in worker productivity is 20%, the cost to an employer of 1,000 people is estimated at $900,000 annually. This is calculated as follows: $30,000 (annual employee wage) X 150 (current number of financial troubled employees) X .20 (lost productivity). This amounts to $6,000 per financially troubled employee, and it is based upon the assumption that workers experience personal financial problems to the extent that their productivity is reduced 20%, a fair estimate.

Why Employers Should Offer Comprehensive Personal Financial Education

Personal finance employee education is information, education, and services provided by an employer to help its employees make informed decisions about (1) employer-sponsored retirement plans, (2) cafeteria plan employee benefits, (3) credit and money management, and (4) consumer rights. This definition comes from the Personal Finance Employee Education (PFEE) project, an outreach effort sponsored by the Commonwealth of Virginia and Virginia Tech, a major research university.[c]

Information, education and services on financial wellness that can be offered to employees are (1) preventive information and education for those facing money challenges, (2) remedial assistance for those experiencing a financial crisis, and (3) productive information for those considering financial opportunities.

Reason: It is Less Expensive to Educate Workers on the Value of their Employment Benefits than it is to Give them Higher Salaries

Martha Priddy Patterson says that employers can compete for quality workers by enriching benefits in "two ways—directly by offering richer benefits (difficult to do in economically lean times) or indirectly, by educating employees on the value of what is being offered, and by helping employees enrich those benefits even more through their own savings and investment decisions" (Patterson, 1997). She further says that, "if employees do not have the financial skills to maximize the benefits being provided to them, they will: push for more benefits, be less financially secure, and be more likely to be dissatisfied with their compensation" (Patterson, 1997). Employees should learn how to make well- informed decisions about all types of employer-provided benefits, such as dependent care, dental, mental health, and wellness, as well as retirement. They also can learn how to use these benefits in ways that are cost-effective for their employers, too.

Employers Need to Attract and Retain the Best Workers

Leading-edge employers increasingly must compete to attract as well as retain the very best employees by offering top quality, comprehensive personal finance employee education programs. "Companies are beating the bushes for knowledgeable, good employees, and...," in part, that is what is fueling financial wellness and similar family-friendly benefits (Grimsley, 1997b). In addition, both employers and employees have a common interest to increase participation in and contributions to employee-sponsored retirement plans. When employees are satisfied with their compensation, including benefits, they are more likely to stay with their employers.

Participation in Retirement Plans Rises
It can be argued that perhaps one-half of those who do not participate in a pension plan fail to do so because they are uninformed about the existence of the need, and they lack the motivation to make it happen. "Education significantly stimulates participation in and contributions to 401(k) plans" (Bernheim & Garrett, 1996). The Bernheim & Garrent (1996) report concludes that employer-provided financial education increases the both the rates of saving and for the purposes of retirement—In other words, education works. Also, it can be argued that the other pension non-participants cannot save appropriately because they have credit and money management problems.

Inexpensive Family-Friendly Benefits
The movement toward employers offering comprehensive personal finance education to employees exists because it makes smart business sense. The additional components in personal finance employee education (beyond the retirement plan education component)—cafeteria plan, credit/money management, and consumer rights—are an inexpensive family-friendly benefit to offer employees. Oftentimes, it is these areas which will help "uncover" the money needed for an employee to participate in a retirement plan.

Offering comprehensive personal finance employee education can be a very low-cost employee benefit. It is inexpensive for a Litton Poly-Scientific Company to offer workshops to employees on how to choose among cafeteria plan benefits. It is not costly for a Great Western Life Insurance Company to put a notice into each pay envelope a notice that says, "If you know anyone with debt and money problems, tell them to call 1-800-388-2227 for non-profit credit counseling." (This is the correct number for any local member of the National Foundation for Consumer Credit.) It is not extravagantly expensive for a Mrs. Giles Country Kitchen to place display racks of consumer information brochures next to soft drink machines for employees.

More Confident, Motivated, and Productive Workforce
Comprehensive PFEE also helps improve employees' financial wellness, thus creating, in the words of KPMG's James E. Buckley, "a more confident, motivated and productive workforce" (KPMG, 1997). Employers across America are sharing "what works," as demonstrated throughout 1997 by numerous financial education seminars in New York, Chicago, and Atlanta, sponsored by The Conference Board; at a seminar in New York, hosted by TIAA-CREF and ASEC (American Savings Education Council); and at a conference in San Diego, sponsored by the Association for Financial Counseling and Planning Education.

Employees Will Have More Discretionary Income
Employees who learn how to make informed decisions about the cafeteria plan employee benefits save money when they make satisfactory choices on health benefits, life insurance, long-term disability and dependent care. Employees who learn how to make personal assessments about how much credit to use, how to manage personal and family finances, and, if necessary, how to get out of financial difficulty have a greater capacity to save for retirement. Employees who learn how to use consumer protection laws know how to avoid consumer ripoffs and frauds, and if they have experienced an economic loss in the marketplace, they learn how to reduce or eliminate its impact. The result is that consumers have more money available to spend, save, and invest.

Without PFEE Many Employees Will Fail to Reach Retirement in Good Shape Financially
Employers who offer minimal financial education programs about their pension plans will see little change in worker participation in, and contributions to employee-sponsored retirement plans. With little or no genuine employee education on investing for retirement, many workers will continue to fail to set realistic retirement goals, fail to take action to increase savings, and fail to select appropriate investments to achieve retirement goals. Without a comprehensive personal finance employee education program, many workers will remain mired in personal debt, and face consumer problems unsuccessfully.

Employers Should Have Two Goals

A number one goal of employers should be to provide comprehensive personal finance education that will change employee behaviors and motivate 100% of them to participate in retirement plans. A participation rate at, or near 100% is attainable, as evidenced by Duke Power Company and other employers (Kazel, 1997). This is very much to the advantage of employees because it is obvious that "the earlier participants become involved in retirement-income planning, the more they will benefit in retirement" (Educating pension..., 1995).

A second goal of employers should be to seek out employees experiencing stress from personal financial management difficulties and provide them with assistance. These employees, and possibly members of their families, need information, education and perhaps counseling to help them make better financial decisions.

The time has never been better for employers to offer comprehensive personal finance employee education programs. Many employers have heard the wake-up call. Employers who offer personal finance employee education convey to their employees that they are concerned with their long-term welfare. Such employers are saying to employees, "I care about you and your family" (Grimsley, 1997a).

Employers who want to take proactive measures can guide employees toward organizations and agencies that can provide them with financial help, such as credit unions, non-profit credit and budget counseling services, and reputable providers of information, education, and services, such as the U.S. Department of Agriculture's Cooperative Extension Service, The PFE Group, Asset Management Group, EDSA, and American Express Financial Advisors Services. Key national leaders are asking that financial education be mandatory for all employees (Salisbury, 1997).

More Research Needed on the Bottom-line Benefits

Some employers still need to be convinced that offering comprehensive personal finance education to their employees makes good business sense. To successfully make that argument, evidence on the bottom-line benefits of personal finance employee education needs to be accumulated in one or more of six areas: (1) increasing employee motivation, self-confidence and job productivity, (2) decreasing absenteeism due to matters associated with personal finances, (3) decreasing health care costs, particularly for stress-related illnesses, (4) saving work time from not attending to personal finances during the workday, (5) securing employee loyalty and retention, and (6) avoiding lawsuits from employees claiming employer negligence.[d]

Employers and researchers can work together to place values on these factors. The best way to obtain the information is to bring the key people together—employers, along with providers of information, education, and services—so that they can agree on methodology, data analysis, and solutions.

After offering work site educational programs, such as seminars, workshops, and classroom instruction, as well as face-to-face interactions, it is vital to measure the results, and share the findings with employers. Calculating the numbers should reveal that the personal financial wellness of employees is something that can be turned from a cost into a positive contributor for employees, employers and shareholders.

Proponents of comprehensive personal finance employee education must be able to make a dollar-based economic impact statement such as, "A PFEE program valued at X dollars will save the company Y dollars per year and yield Z additional benefits." The return-on-investment calculation will do little good, however, unless the information is publicized. Findings from such research can add to the literature base that will conclusively demonstrate that personal financial wellness increases employee productivity.

"Once employers come to believe that what helps people in life will help them in work, they will be more likely to set up and administer successful and equitable benefits programs," such as personal finance education for employees (Starcke, 1997). Then more employers will come to understand that "an effective financial education program can successfully fulfill regulatory requirements, increase employee productivity, establish and promote a competitive strategic advantage for the sponsoring company, and promote self reliance among the participating employees" (Wallace & Karlak, in press).

Endnotes

a. The problem of excessive household debt is serious, even though the nation is experiencing the best economic times in 40 years. "Two-thirds of Americans say they have trouble paying their bills and worry about money" (Coping with money woes, 1996). A national survey reveals that 3 out of 4

Americans faced at least one significant financial problem recently, such as being unable to save for future needs, delaying medical care, or having problems with a collection agency. Personal bankruptcies last year rose to "1,242,700 filings, up 35%" over the previous year (Criticism..., 1997). VISA U.S.A. estimates that consumers filing for bankruptcy will reach 1.44 million in 1997—an additional 12% increase (McDonnell, 1997).

b. According to a 1996 *Unscheduled Absence Survey* by CCH, Inc., "absenteeism costs $603 per employee...and more absences are now attributed to family responsibilities" (cited in "Work-life programs reap business benefits," by Martinez, M., in the June 1997 issue of *HR Magazine*, page 10 [from web site]).

c. PFEE is a COTA outreach project designed to exhibit model information and education programs for employees, conduct research, and host meetings to share knowledge about the best practices at the Hotel Roanoke and Conference Center. A "PFEE Best Practices and Collaborations" conference was held in November, 1997 and one is scheduled May 14-15, 1998 (see the PFEE web site at **http://www.chre.vt.edu/~/pfee/**).

d. Jill Landauer in the July 1997 issue of *HRFOCUS* (pp. 3-4) describes the first five broad areas, using similar but different terminology, as useful to demonstrating the benefits of work/life programs for employees.

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