

# the financial education imperative



Employee financial health has a direct impact on the financial health of America's corporations. The challenge is one of execution.



Financial education in the workplace is central to the success or failure of American workers to save adequately for their retirement. However, it is becoming increasingly clear that the success of financial education is a function neither of print-based education nor of technology but is, instead, dependent on a more personal level of interaction with advisors who can execute a more complete financial education approach and help bridge the growing divide between employers and employees in the benefits arena. *PLANSPONSOR* talked to three American Express Retirement Services executives about the role of advisors in the workplace: Ward Armstrong, president of American Express Retirement Services; Rusty Field, vice president, and Kellie Richter, vice president of products and marketing, both with American Express Financial Education and Planning Services.



From top: Kellie Richter, Rusty Field, Ward Armstrong

**PS: When it comes to benefits, we seem to be in the midst of a sea change in the relationship between employers and employees. What has happened to bring that about?**

**Armstrong:** There have been some dramatic shifts. At a macro level, there's been this transfer of responsibility and risk to employees—the most obvious indication of that has been the growth in defined contribution plans but you are also now seeing it in the employer approach to health care. More recently we have seen a shift away from reducing costs in the workplace—which many employers have focused on to the exclusion of all else in the last few years—toward a focus on attracting and retaining talent. The challenge for employers is to deliver a benefits package centered on a defined contribution solution that also really delivers retirement security to employees.

**Field:** The hard truth is that too many DC plans don't deliver and, for the first time ever, many employees are entering the workforce with an expectation to live and retire less well off than their parents. Now, the general trend toward shifting this responsibility from the employer to the employee is not going to be reversed, but many employers are beginning to understand the high cost of having financially unhealthy employees. There's a significant cost if your employees are preoccupied with their financial health, or their lack of it, and a significant cost to the company if you can't retire employees and bring new employees in.

**PS: If the problem is that DC plans, as presently constituted, don't deliver what they should, what's the solution?**

**Armstrong:** Financial education is the solution, but we're talking about an approach that's very different from what we've seen in the past. For a start, you have to provide advice using a variety of media and, perhaps most importantly, you have to be able to deliver it face to face.

**Field:** If you think for a moment about the decisions we have to make as employees today—vital decisions on benefits that our parents never even had to think about—these are not decisions that can be made easily: Choosing from multiple health-care coverage plans and handling ever-increasing costs versus the basic, all-inclusive medical coverage of the past, or choosing among 15-plus 401(k) investment options and a self-directed account versus a traditional pension plan. All of our research leads us to believe that, if you're going to help participants make these decisions, you need to be able to interact with them when and how they prefer. Moreover, all these financial decisions are interconnected; they can't be made in isolation. Our own experience has shown us that the best way to help people make these decisions is by giving them face-to-face



support leveraging a financial planning approach.

**Armstrong:** In the late 1990s, all of us scrambled to get our information online, and we all found third parties to do Web-based advice and education, but the end results were that only a small percentage of participants chose to go that route. The fact is, it is live interaction—advice delivered in person or on the phone—that changes participant behaviour for the better.

**Richter:** And not just for the better for the employee. You also can give employees a much better understanding and appreciation of their benefits package, and that can change the way they regard their employer. Companies invest heavily in their benefits packages; the right education delivered the right way gives them a return on that investment. It is counterproductive for a company to be paying for a benefit that is not being utilized.

**Field:** Unfortunately, many companies have become inured to this. However, if you look at some of the companies we have worked with where we have been able to bring into the plan the breadth of financial education that we can harness now, the results have been eye-opening. Just to cite one example: We recently dealt with a pension termination that affected some 1,500 employees, and we had 45 days to help each of them through the decisionmaking process. We picked 300 of what we call our Platinum Advisors—they're the American Express top advisors around the country—and gave them 15 to 20 hours of training on the particulars of this extremely complex pension fund. The end result was that we were able to get 650 of these employees to do a formal financial plan on that pension elimination decision. The client had hoped for perhaps 300 at most to do that—we got 650 to do it.

**PS: Most providers will claim that they do financial education right: Presumably, very few can claim a financial advisor capability that comes close to American Express.**

**Richter:** It's the number one differentiator for us. Of course, you need to deliver a consistent advice message—as we have done with our advice platform and Morningstar relationship, but the key is delivering that message in a way that a participant will act on it. The best way to do that is in person or on the phone, and we can do that nationally without skipping a beat.

I don't know anyone else who can say that, and what is so compelling about these in-person relationships is that they go beyond the traditional, single-issue education such as 401(k) investment allocation and encompass any and all aspects of a person's financial picture. You really have to get into more life-event issues like college funding or insurance needs to help give people the best possible financial road map and put decisions related to their workplace benefits in the proper context.

**Field:** We were working with a client that had 4,000 employees and 15 major locations around the US. The client also had smaller sites and a remote sales force and were concerned about providing consistent financial education to all employees. We were able to overlay a map of their locations with our own map of where our specially trained advisors are located, advisors who live and work in these same locations and are available for consultations with their employees. On a grander scale, American Express has some 10,000 financial advisors nationwide; we have sifted through them to find whom we view as the best and



have equipped almost 1,000 of them to act as specialty advisors in the workplace for our retirement clients. That's an unmatched capability.

**PS: Isn't face-to-face interaction of the kind you are describing very expensive?**

**Field:** Our experience bears out that, if our financial advisors really do their job well in helping participants meet their financial challenges, there will be no shortage of interest in creating a more in-depth relationship with an advisor. That is very much an employee-driven phenomenon, but it's a natural way to demonstrate an advisor's competence and that makes the economics of servicing these plans in such a people-intensive way worthwhile.

**Armstrong:** We also think that relationships with first-rate advisors—who, by the way, we monitor on an ongoing basis—should give plan sponsors comfort: the comfort of knowing that, when their participants choose to, they can access a trusted financial advisor to get professional help at those stages of their career when it is most needed. It seems to me that that's a very effective way to help fulfill their fiduciary obligations and, if I were a regulator, I would share that view.

**Richter:** There's another point about the economics of this approach—it is very expensive to maintain a group of trained advisors who fly about the country from client to client. In our case, with an existing and trained network of advisors already in place, we can deliver a different cost proposition to our clients.

**Field:** Plan sponsors historically have been concerned—and rightly so—about giving financial firms access to their participants. Yet, I believe the views on that are evolving, because the importance of professional advice is becoming clearer and clearer every day. In the past, plan sponsors picked vendors for their recordkeeping capabilities—now, that's becoming a commodity. Then, plan sponsors picked vendors for their



## Employee Financial Health and the Bottom Line

**E. Thomas Garman is a renowned author, advisor, and academic—he is a Fellow and professor emeritus at Virginia Tech University. Garman is identified particularly with research linking the financial fortunes of corporations with the financial health of their employees. He talked to PLANSPONSOR about this linkage, and what it means for corporate America.**

**PS: What has your research told you about the state of personal finances of American workers?**

**Garman:** It is not a happy story. One-third to half of employees say they are dissatisfied with their personal financial situation—three in 10 are very or somewhat concerned about paying the monthly rent or mortgage, and half say they live paycheck to paycheck. More to the point, some 85% use work time to deal with personal financial matters, and one-third typically waste more than 20 hours a month. In addition, about 40% of financially distressed employees say their financial problems have affected their health negatively. In a way, financially troubled employees are like sharks swimming around the workplace taking bites out of the bottom line.

**PS: How should American corporations deal with this?**

**Garman:** I will go so far as to argue that the financial organization that provides sound financial education is the single most important tipping-point resource for employers today, and that includes the CFO who is doing what needs to be done to bring more profits to the table. Workplace financial education has almost boundless value to employees, and that spills over on the positive side for employers.

**PS: Is this widely appreciated?**

**Garman:** Not as widely as it should be, although a study by the Florida Department of Financial Services found that two-thirds of employers "said they feel worker productivity would be enhanced by financial literacy training." The research done on this indicates that an employer's return —on investment for workplace financial education is at least three to one. My message to employers is: "Don't give employees a raise; instead, give them access to quality financial information, education, and advice." Ten years from now employers will realize they were crazy not to spend \$200 to \$300 per year per employee on workplace financial education, including face-to-face counseling, because financial education is so good for the employer's bottom line.

E. Thomas Garman is one of several featured authors in *The American Express Guide to Workplace Financial Education and Advice*.

### American Express Financial Education and Planning Services\*

Number of Large Company Financial Education Clients:	143
Number of Small Company Financial Education Clients:	947
New Corporate Clients added in 2003:	658
Number of employees with access to programs:	2 million
Number of American Express Financial Advisors:	10,500

\*Information as of 12/31/2003

funds but, with open architecture, you can get to whatever funds you want. Today, perhaps the best reason of all to choose a vendor is for the ability to get participants invested appropriately to meet their own particular goals—retirement and beyond. That's where we believe we're most competitive.

**Armstrong:** We're a financial planning company—and that's what retirement plans require. It's in our DNA—setting goals for people and making sure they make them. Somehow, that's gotten lost in the DC world but that logic is inherent in everything we do—every communication, every interaction. People think success or failure here is about 401k education—it's not, it's about financial education. ■

*The American Express Guide to Workplace Financial Education and Advice* is a valuable resource to benefits, human resources, and pension professionals, as well as to senior management. The 2004 Guide provides up-to-date information on the latest developments and industry trends related to workforce financial issues, education, and employee engagement. To obtain your free copy of The 2004 Guide, contact American Express by calling 1-800-437-0600, or send an e-mail to [financialeducation@aexp.com](mailto:financialeducation@aexp.com).

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