Financial Education In The Workplace… It's Critical To Our Future!

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As studies have shown that relationships exist among financial-related stress and decreased workplace focus, productivity and profitability, it makes good business sense for employers to invest in effective workplace financial wellness programs. These programs should be focused on a few key objectives: increasing participation in the employer-sponsored retirement plan, increasing job and pay satisfaction among employees and enhancing the overall personal financial stability of the work force. By successfully accomplishing these objectives, the employer will likely experience lower employee absenteeism, employee turnover and training costs as well as higher levels of employee productivity, morale, loyalty and company profitability.

Virginia Tech's National Institute for Personal Finance Employee Education (NIPFEE) has conducted a number of research studies regarding workplace financial education. A key finding is that the primary reason employees are not saving for retirement is they have money and credit problems. The second reason is employees have yet to fully understand how important saving for retirement is to their long-term security.

Employees with credit delinquencies are particularly difficult for their employers. One study shows that 90 percent of employees are dissatisfied with their financial wellness, 75 percent are insecure about retirement and 50 percent hold a part-time job. Anywhere from one-third to one-half of these employees waste approximately 20 hours a month dealing with money matters at work.

NIPFEE calculated that the potential first-year return on investment in workplace financial education, even for employees who only make slight improvements in their financial wellness, is more than $400 per employee. NIPFEE estimates that the potential return on investment for employers who provide workplace financial education is at least 300 percent.

Another study, comparing those who attended the financial education workshops with those who did not, found that employees in attendance reported a number of other positive outcomes. They reported better financial wellness, higher satisfaction with personal savings and savings for retirement, better health, positive performance ratings from their employer, an improvement in their financial situation throughout time, increased confidence about having a financially secure retirement and a greater tendency to initiate or increase their retirement plan contributions.

Why Financial Education Is Increasingly Important

Throughout the last two decades, there has been a rapid transfer of responsibility for pension funding and asset management from the employer in the traditional defined benefit (DB) pension plan to the employee in the more contemporary defined contribution (DC) pension plan.
DB plans generally offer life annuities based on a formula including an employee's final average salary, years of experience and age at retirement. (For example: An employee retiring at age 60 with 30 years of service and a final average $40,000 annual pay, may receive

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a monthly lifetime income of $1,000.) Because these benefits are clearly defined, financial risk and investment responsibility remain with the employer.

In the early 1980s a new and revolutionary DC plan, the 401(k), was introduced. This new plan allowed employees to defer a portion, up to a defined contribution limit, of their annual income on a pretax basis and invest for tax-deferred growth and income. As participation in these accounts is voluntary and investments are generally self-directed, investment is primarily the employee's responsibility.

Current economic and market conditions have made the need for financial education more critical than ever. The market downturn that began approximately three years ago signaled the end of an unprecedented two decades of above average stock market performance and the record-breaking economic expansion of the 1990s. The significance of this period of time is that many baby-boomer investors, who began their careers almost 20 years ago near the launch of the 401(k), are now rapidly approaching retirement and must rely heavily on what they have accumulated in their self-directed DC plans. The current administration recognized that many investors are not saving enough to meet their retirement goals and pushed to pass legislation introducing, among other things, "catch-up provisions" for IRA, 401(k) and other retirement accounts. These special provisions allow those who are age 50 and older to save increasingly higher dollar amounts to their retirement accounts on a tax-advantaged basis.

Unfortunately, many investors stung by recent market volatility have reduced their participation rate or discontinued contributions altogether. This decision may strike a dual blow to their accounts. If they no longer put savings into their account, they are most likely forfeiting employer-matching contributions. In the year 2000, there were approximately 225,000 401(k) plans covering 28 million workers nationwide with a total asset balance of $1.5 trillion. The average 401(k) balance was nearly $40,000 and represented more than half of the average family net worth that was then estimated at $75,000. (Thomas Garman/Virginia Tech, Daniel Young/United States Department of Labor and Harry Love/Schlumberger Limited—*Successes in Workplace Financial Education.*)

An entire generation of investors has been given tools to save and manage their investments, but they have been given very little instruction. This is analogous to giving someone a surgical scalpel and telling them to operate without any instruction or training!

Although employees must be disciplined to earmark dollars from each paycheck to their accounts and then manage their own investments from the offerings made available, the employer still bears responsibility to ensure employees are offered a plan meeting Employee Retirement Income Security Act (ERISA) fiduciary requirements. ERISA, enacted in 1974 to create a balance between the interests of employers and employees, includes specific fiduciary standards intended to protect plan participants from losses caused by the intentional or inadvertent actions of the individuals entrusted with administering the employee benefit plan.

The following are educational topics relevant to employees' financial needs.

Ages 25-35: Establishing a budget and managing debt may be two of the most important items in a young employee's financial life.

Ages 35-45: Continued management of a budget and debts may remain important issues, but funding children's education plans may become equally important.

Ages 45-55: As earnings are peaking and retirement is rapidly approaching, asset accumulation and tax deferment are becoming more important.

Ages 55-65: Asset distribution plans should be reviewed and finalized for tax efficient withdrawals to fund an imminent retirement transition.

A retirement plan administrator has a fiduciary responsibility to plan participants, which means that the administrator must manage the retirement plan for the exclusive benefit of plan participants. Specifically, this means that plan assets must be invested so that:

- The cost of plan assets does not exceed fair market value at the time of purchase;
- A fair return commensurate with the prevailing market rate is received;
- Sufficient liquidity to permit distributions is maintained; and
- Safeguards are adopted to ensure the diversity to which a prudent investor would adhere.

Overall Satisfaction And Productivity

In 1998, Virginia Tech released the results of a study its research team conducted on the impact of financial stresses on worker productivity and the amount of money that is being lost each year because of the lack of personal financial education among employees.

The study estimated that by offering financial education only to clerical workers, employers could save as much as $440 million annually. Providing workplace financial education to all involved could save billions. These savings are anticipated because improvements in personal financial wellness reduce absenteeism. The research showed that workers who have lower levels of financial wellness tend to be absent from work more than those who have higher levels of personal financial wellness. When workers' financial wellness improves, their absences from work decrease.

A research sample consisting of average income, white-collar clerical workers employed at a large, East Coast organization reveals that:

- 53 percent note dissatisfaction with their personal financial situation and worry about how much they owe;
- 35 percent find it hard to pay the bills and rate their financial stress level as high to extreme; and
- 43 percent do not set aside money for retirement, and 60 percent have not set aside enough money to live without an income for longer than two months.

Their research also found strong evidence that workplace financial education is extremely effective because it results in better personal financial wellness among workers. After conducting a study at a large industrial plant measuring the differences and similarities among those who attended the workshops and those who did not, E. Thomas Garman, a professor emeritus at

Virginia Tech and fellow with the university's Center for Organizational and Technological Advancement, notes: "Employers should know that when an employee's work productivity drops off sharply, personal financial problems are often involved. Nearly half the workers participated in the financial education program. Overall, the workers had a high level of financial wellness. Financial education is an employee benefit that employers must offer to be competitive."

The workshop participants report making the following financial behavioral changes as a result of the education received:

- 75 percent believe that they are more confident in making investment decisions and now make better overall financial decisions too;
- 70 percent report they have changed their investment strategy by appropriately diversifying or being more aggressive in their investment choices;
- 56 percent note their financial situation has improved because of the workplace financial education; and
- 34 percent now contribute to their 401(k) plan and another 45 percent have increased the amount of their contribution.

In 2001, the National Endowment for Financial Education (NEFE), an independent nonprofit foundation dedicated to providing individual Americans with the knowledge and skills needed to make informed decisions regarding their finances, recently hosted a meeting among a group of leaders on the topic of financial education in the workplace. The meeting participants set forth five goals highlighting the need for workplace financial education throughout the United States. These goals are to:

- Define what "financial education in the workplace" actually means;
- Raise awareness of and help to make financial education in the workplace part of the national agenda;
- Encourage the new administration in Washington to support various programs that promote personal financial responsibility and can serve as an incentive for employers to provide financial education in the workplace; and
- Continue the dialogue to advance financial education in the workplace until it is accepted as a way of life in business so that employers realize education must be offered as part of their benefit structure, and employees expect it as a benefit and can demonstrate to employers the bottom-line benefit of financial education in the workplace, including greater profitability and an increased competitive advantage.

In their discussions, the steering committee members also agreed that for financial education in the workplace to be meaningful, it should address more than routine coverage of 401(k) plans and other employee benefits. Ultimately, the group hopes that financial education in the workplace can be used to instill positive financial behaviors in large segments of the population. These behaviors include spending responsibly, saving, investing for the future and sharing financial resources with others. The end result, they say, will be to strengthen the future social and economic fabric of the entire country.

William Anthes, Ph.D., president and CEO of the NEFE, points out that his organization has provided financial education to young people for the last 14 years through the NEFE High School Financial Planning Program, which is given free of charge to high schools nationwide. "However, what of the hundreds of millions of today's workers who have not been exposed to any type of formal financial education program during their high school or college years? Certainly our country's high bankruptcy rate, heavy consumer debt load and poor savings rate illustrate the need for financial education," Anthes says. "What a wonderful benefit employers could provide to their workers—and what again they themselves could realize—by taking steps to ensure a more financially astute and secure work force."

Developing An Educational Program

We live in an environment where financial resources must be allocated carefully and focused wisely. The design of a program to resolve workplace financial-related concerns must begin with an assessment of need. A discussion with the human resources department regarding the company's census may help identify the average age and general needs of the work force.

Another important source of information in the self-assessment would be surveys and interviews with a representative sample of the work force. Dialogue regarding the planning needs of the work force from varied levels of experience, pay and education may help identify concentrations of needs. Once specific needs have been identified, a trained and unbiased program provider must be selected to design and deliver programs and services including seminars, newsletters, one-on-one meetings and self-service Web sites or workbooks.

It may seem convenient and cost-effective to offer programs internally, but this is a decision that should be considered carefully. Employer representatives may have a perceived company bias, employees may not feel comfortable sharing personal information and internal candidates may not hold valuable experience required to counsel employees.

To achieve a higher likelihood of program success, consider engaging the services of an experienced program provider. The company is more likely to have active employee participation and less likely to test the threshold of "advice" as employees seek information relative to their company retirement plan.

Summary

Increasingly, the responsibility of providing personal financial education and services is falling to employers—not only because they have access to resources that can make such programs a valuable employee benefit, but because it also saves them money in the long run by increasing employee satisfaction and improving productivity.

Employers need a focused and productive work force as much as employees need personal financial guidance. Although additional benefit costs may seem difficult to absorb in today's economic environment, consider the NIPFEE study that suggested employers earn as much as 300 percent on any investment in an educational program. ◆