SESSION 1: Improving Employee Personal Financial Wellness Increases Profitability

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I'd like to make each of you a crusader in improving understanding of employee financial problems and how those problems affect performance in the workplace. I hope you'll also see what can be done to help employees achieve better financial wellness and, as a result, how employers can achieve greater productivity and profit.

Improving employee personal financial wellness increases profitability. It's as simple as that. Both employers and credit unions can help employees improve their financial wellness. It's a good idea, and a win-win proposition for both employees and employers.

This does not mean giving employees more money, such as a raise or bonus. Money alone cannot improve employee financial well-being. A few more dollars might help superficially and in the short-term, but more money is not a long-term solution. My suggestion is that employers increase profitability by helping all employees throughout their working careers and retirement by offering a comprehensive workplace financial program that

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provides easy access to financial education and advice, and credit counseling/debt management.

Objectives

Here's what we'll be talking about in my presentation today:

1. Conceptually, we'll examine how an increase in employee personal financial wellness results in improved employer profitability.

2. We'll explore easy access to both comprehensive workplace financial education and advice programs, as well as credit counseling/debt management programs.

3. We'll see why 50 million employees are not saving for retirement.

4. We'll add up the employer costs for employees with poor financial wellness.

5. We'll work out a strategy for selling top management on the value of a comprehensive financial program.

We know there's a close relationship between the employer and the employee, a relationship that depends on the health of both parties. If we can improve the employee's financial "health" or wellness, that improvement will become evident on the employer's bottom line. And knowing how to sell that proposition to chief executive officers, chief financial officers, and human resource directors is just as important as understanding the relationship between employer and employee.

> ***"There's a close relationship between the employer and the employee, a relationship that depends on the health of both parties."***

The objectives of this session include three important outcomes for you, your credit union, and your sponsoring organizations:

1. Enhanced awareness of the negative impacts of employee money problems on employers.

2. An appreciation for the bottom line wisdom of dealing with employees' financial concerns, both money and credit problems, and challenges to save and invest.

3. Preparation for the job of selling top management of sponsor organizations on the wisdom of providing employees with a financial program of education and advice, along with access to credit counseling/debt management.

These outcomes are in addition to the *absolute necessity* for the employer to have a strong relationship with the credit union. We'll see some compelling evidence to that effect.

COMPREHENSIVE WORKPLACE FINANCIAL PROGRAMS

What is a comprehensive workplace financial program?

1. The credit union is the place to start. Credit unions offer their members savings, borrowing, information, education, and sometimes financial counseling.

2. An excellent 401(k) education program is a second piece of the puzzle. But it's not enough to passively offer a 401(k) program – rather it's important to provide the education and understanding that employees need to make the most of their opportunities. Many employers have 401(k) programs, but not enough provide education on the program.

3. A strong emphasis on basic financial education from both the credit union and the 401(k) provider is also a must. This is basic personal finance that young people neither receive in the schools nor at the workplace. Participants need more than a booklet on money management – they need comprehensive education to detail their options, risks and rewards.

4. A substantial minority of employees also need credit counseling/debt management services to help them manage their money more effectively.

5. Finally, employees need access to financial advice independent of existing employee assistance programs.

All these programs must be offered over the employee's work career and throughout their life into retirement. This kind of financial education and advice is a good policy because it offers benefits for employers as well as for employees. It helps everybody.

THE VALUE OF EMPLOYEE FINANCIAL EDUCATION

The Ernst & Young accounting firm is also an important 401(k) financial education provider. The company believes that financial education leads to greater employee awareness of financial issues, and therefore fewer financial worries, less stress, better health, and stable personal lives for better personal relationships. There's less substance abuse, reduced health care, and reduced disability and worker compensation claims. For employers, the benefit that gets most attention is reduced absenteeism.

My own study of the dollar cost to an employer for employees who are stressed about money matters reveals a $400 annual bill for each impaired worker, primarily in work time wasted and absenteeism. Other studies show that 15 percent of employees are so stressed about money that it affects their productivity, and that percentage rises to 20-30 percent for employees whose wages are below average.

Ernst & Young finds that employee financial education also results in greater employee awareness of the company's benefit program, and its total compensation package. Education results in greater participation in the 401(k) program, reduced legal liability in the future, lower job turnover, and lower human resource costs. The Ernst & Young model[2] of the outcomes of financial education is shown in figure 1-1.

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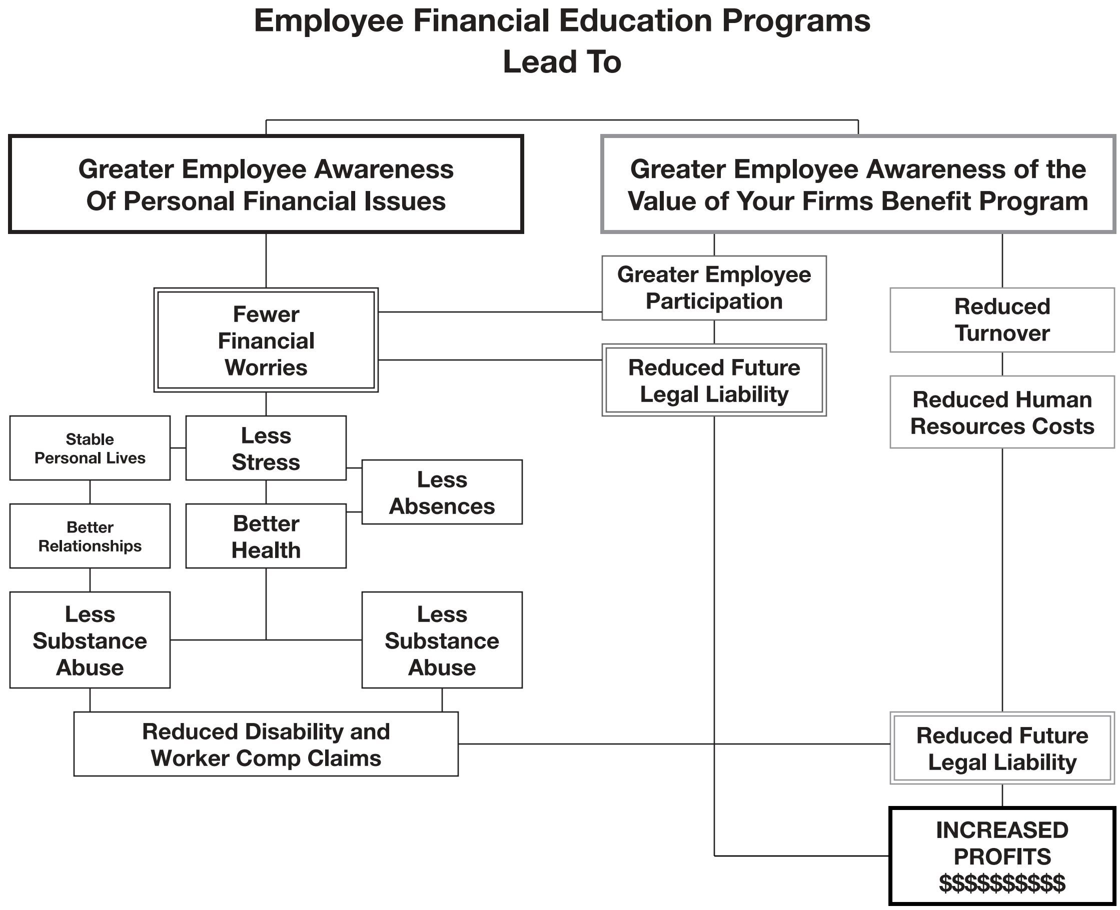
[2] Larry Face (1998, June), National Employee Financial Education Services, Ernst & Young Investment Advisory Services LLP, speech on "*Employee financial education programs: Does the investment reach your company's bottom line?*" presented at Virginia Tech's Personal Finance Employee Education Best Practices and Collaborations Conference in Roanoke, Virginia. Also see Larry Face (1998, June), Why implement an employee financial education program?, *Personal Finances and Worker Productivity* (Eds: E. T. Garman, S. Joo, I. E. Leech, &D. C. Bagwell), Virginia Tech, Proceedings of the Personal Finance Employee Education Best Practices and Collaborations Conference, Vol. 2, Number 1, pp. 115-118.

Figure 1-1:
The Value of Employee Financial Education[3]



> *"There is a cause and effect in the workplace of problems that have their roots in the home."*

We know that financial stress causes other problems, and these other problems cause troubles both on and off the job. Several decades ago we understood that employees with problems at home, such as alcohol and substance abuse, brought those problems to work. That's in part why employee assistance programs were developed. There often is a cause-and-effect relationship in the workplace of problems that have their roots in the home. Five years ago, the Work/Life Institute did a major study on the reverse phenomenon: that people who have stress at work bring those problems home. It's difficult to find conclusive evidence of cause and effect in areas such as financial wellness of employees, but there's sufficient and growing evidence that the two are intimately bound together.

[3] Ed. Note: In addition to the benefits detailed in Figure 1-1, Employee Financial Education Programs can also be expected to reduce theft, embezzlement and fraud problems, which are common in many firms.

We can take the Ernst & Young model in figure 1-1 to an employer and show the employer the value of employee financial education. This company sells no 401(k) products, such as mutual funds, so its perceptions of the benefits of financial education are objective and well respected.

ACCESS TO WORKPLACE FINANCIAL EDUCATION, ADVICE

Any individual saving for retirement is in the category of people who have financial challenges and opportunities. Those who are young and have inadequate incomes generally think of retirement as the far horizon, and a retirement nest egg as beyond the realm of possibility. They need to be concerned with meeting their current obligations and challenges. They also need access to the services and products of a credit union for borrowing, saving, and financial education. They might further need the services of a non-profit credit counseling organization to help with their financial problems.

In today's world, a great many people do not have access to financial education in the workplace, as shown in figure 1-2. For employees of larger companies, as many as 80% have access to these services. But the percentage goes down to 30% and lower as the size of the employer becomes smaller. A small employer may offer a 401(k) plan, but that program is not likely to include an educational component to help employees understand how to use it. A mutual fund company may be called in to solicit employee funds, but often any education program is limited to a one-hour presentation and some handouts. This is hardly enough information and persuasion to encourage employee saving and investing for retirement instead of consumption spending.

Less than 20% of all employees are likely to receive investment advice at work. When we talk about investment advice, we're primarily referring to financial software sold to the consumer or through the employer; very few employers offer one-on-one, face-to-face professional financial counseling services to employees. These advice programs offer financial modeling and what-if scenarios, as well as access to information about investments that may fit the employee's plans, risk tolerance, and rate-of-return expectations. They also make recommendations. But only about 20% of employees who have access to this advice actually use it.

About a quarter of employees enrolled in these advice plans do take the initiative to solicit professional advice beyond the employer's plan.

And surveys show that only 18-20% of employees receive basic financial education through the workplace. These are the individuals who typically get brochures and cursory information about the subject of saving and investing for retirement.

Figure 1-2:
Access to Financial Education and Advice in the Workplace

- Retirement education: 40-80%
- Investment advice: 16-18%*
- Use the advice: 20%**
- Obtain professional advice outside employer's plan: 25%***
- Basic financial education: 18-20%***

** 401(k) Participant Attitudes and Behavior – 2000: IOMA's Report on Managing 401(k) Plans, May 2001, Issue 2001-05, p. 8; also studies by Deloitte & Touche and by Hewitt Associates.*
*** Employee Benefit News, September 13, 2001, Volume 15, Number 10, p 55.*
**** The Xylo Report, March 2001: Financial Planning Resources in the Workplace, p. 2*

In study after study, employees say they need professional assistance to chart a course for retirement. Employers, non-profit agencies and cooperatives like credit unions can do a great deal to provide that kind of assistance. Today, defined benefit retirement programs are offered by only about 20% of all American employers, and that number continues to decline. This also means that employees need help to manage the financial aspects of their future lives. These employees have no choice but to ask for help from employers because they are amateurs in the world of investing and they are beginning to realize that they are responsible for their financial futures. Employees wisely want to avoid the stress of making investment decisions on their own. Most employees do not view themselves as experts in the field of financial planning, so they need help from professional advisors.

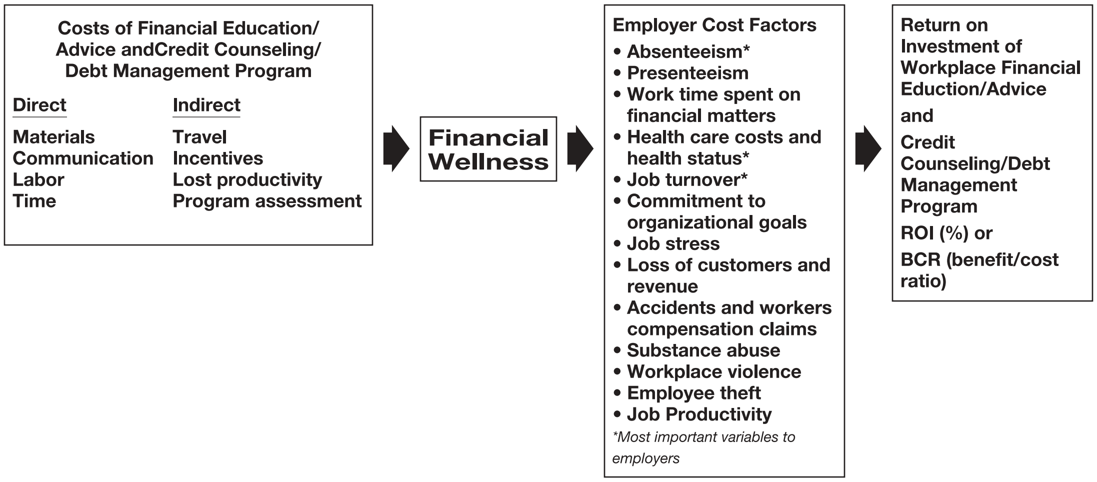
Many employees, usually the older ones, also need help in managing their growing account balances. Some of these balances, fortunately, become quite large over time. And these employees need helping making life-impacting financial decisions. For example, beneficiary designations, living wills and other issues are critical areas needing proper decisions. Not surprisingly, many employees also believe their portfolio might do better if it were managed by an investment professional.

At the same time, employees want full disclosure of potential conflicts of interest and protection against self-dealing. The issue of disclosure, education, and self-dealing made headlines in the collapse of the Enron Corporation. To avoid repeats of that kind of situation, employees need to know what's really going on with their retirement money.

VALUE OF EMPLOYEE FINANCIAL PROGRAMS

Figure 1-3 illustrates the value of financial education and advice and credit counseling/debt management programs to employers. We see both direct and indirect impacts on the cost of financial education programs. For example, a mining company in Montana holds a two-hour seminar for its employees on company time every year on this subject. It's easy for the mining company to assess the cost of a two-hour shut down of its operations, yet they do it because they are committed to the process and the benefits it returns to both the organization and its employees. They are believers that financial wellness affects organization cost factors such as absenteeism and presenteeism. Presenteeism is the concept that people come to work but do not contribute fully to the productivity of the organization on a given day. They may be present, but they spend an excessive amount of time on the job doing things other than exercising their skills and talents. Education and counseling programs also affect employee work time spent (perhaps wasted) on financial matters, and the other factors listed in figure 1-3. Some of these factors are what's referred to as "hard money" costs. They can be measured objectively. Others are "soft money" costs, which are somewhat less measurable, but generally regarded as factors in overall production.

Figure 1-3:
The Value of Employee Financial Education and Credit Counseling/Debt Management Programs



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If we can achieve reductions in the various employer cost factors through employee financial wellness information and education programs, then we can calculate the return on investment in workplace financial education programs. It is as simple as adding up numbers.

CREDIT COUNSELING/DEBT MANAGEMENT SERVICES

A credit counseling/debt management program provides the services of a not-for-profit organization including:

1. Free personalized counseling on money and credit management; and
2. A creditor-subsidized repayment service, known as a debt management program, for non-secured debts that results in reduced interest and other credit costs to the consumer.

A debt management program is a confidential service to consumers who are experiencing financial hardship. It offers individuals a plan for paying off their liabilities by consolidating their unsecured debts into one monthly payment. By negotiating terms such as lower interest rates and waived late fees with most creditors, the program establishes more affordable payments for the consumer. As a result, greater portions of each payment may be applied toward the principal, which is retired earlier. Revenues come primarily from creditors.

Typical clients of the credit counseling/debt management organization are individuals who have serious money and credit management problems. The great majority of clients receive free counseling on credit and budgeting concerns while only a small proportion qualify for a debt management program and sign an agreement to repay creditors. Also, those in terrible financial straits are referred to bankruptcy attorneys. Credit counseling/debt management services are a complement to, rather than a competitor to, credit union services.

Eight million people contact this kind of program each year. Local Consumer Credit Counseling Services (CCCS) provided face-to-face counseling for financially troubled people. In the last decade, the use of traditional, brick and mortar, local community-based face-to-face counseling has declined because of access to a newer model of nationwide credit counseling/debt management services provided via the telephone. To serve all financially troubled employees, employers must provide access to both a local brick-and-mortar CCCS and a national telephone credit counseling/debt management program.

Most of the people who contact a credit counseling/debt management organization are employed and have a regular income. Sixty percent of applicants telephone or fax information from their place of employment, suggesting that financial problems are top-of-mind for many employees on the job.

EMPLOYEE ASSISTANCE PROGRAMS (EAP)

Employee assistance programs differ from debt management programs. They focus on helping employees with abuse (substance, mental, and physical) issues. Most do not offer counseling on credit and money management concerns, and none offer a debt management program. Some EAPs make referrals to credit counseling/debt management organizations. Likewise, employer sponsored Work/Life programs focus on helping employees to manage tasks that take time or add stress to their lives that might impact job productivity, but they do not address financial issues. EAP and Work/Life programs deal with very real problems, but they do not center on financial wellness.

WHAT KIND OF EMPLOYEES DO EMPLOYERS WANT?

"The employer needs a workforce of financially independent people who want to work and choose to do so."

For employers, the implications of employee financial wellness are significant. Employers need qualified employees who are able to avoid financial problems and become financially successful. They also need employees who are productive and do not use time on the job dealing with financial concerns. It is important to employers to have employees who make good financial decisions based on access to good information and resources. And employers need employees who are motivated, have low turnover rates, and are not likely to engage in litigation against the employer. In short, the employer needs a workforce of financially independent people who *want* to work and *choose* to do so.

MEETING EMPLOYEE NEEDS

Employers can do several things to meet the important financial needs of their employees, and in the process meet their own needs as well. Among the most beneficial actions employers can take are partnerships with organizations that have expertise in the area of employee financial wellness.

- Credit unions, which provide basic financial services to consumers.
- Retirement educators and advisors.
- Non-profit providers of credit counseling/debt management services.

Some employers might think it expensive to do all these things, but it's not. Consider the research-based conclusion that one-third of all employees are stressed about financial issues. About 15% of all employees are so stressed by poor financial behaviors that their job productivity is affected. In some workplaces this percentage is as high as 40-50%, primarily because employee income cannot meet their financial obligations. In one case, an employer paying close to minimum wage remarked: "Most of my workers think that garnishment is just another way to pay their bills." The stresses associated with this level of financial problems do not stay at home when the employee comes to work. Employees bring their financial problems to work with them.

In the military, 20% of all personnel are stressed by financial problems to the point that their job performance suffers. Part of the reason is that the military has a preponderance of young people in the ranks. Another 15% to 40% of civilian and military employees regularly face money challenges such as not saving at all for retirement or saving less than they'll need. In some workplaces, the shortfall in retirement savings for individuals is as much as 60-80%.

Research shows that one to one-and-one-half percent of the U.S. population declares bankruptcy each year, and as much as 15% of the population would have an economic incentive to do so. An earlier Filene colloquium addressed the issue of bankruptcy, and found that in some states, as many as thirty-two percent of residents would have an economic incentive to file.[4] These are people who know they're insolvent or on the edge. Young people in their twenties often spend 120% of their income annually. They have enormous perceived needs and wants—far greater than a generation ago—and their needs and wants are typically supported by the use of credit. To keep ahead of the bill collector, many young people simply open more Visa accounts in order to pay off their MasterCard account. These are trends that developed during a period of good economic times. In periods of bad times, we can expect bankruptcy and financially troubled household numbers to rise substantially.

[4] *Fresh Approaches to Bankruptcy and Financial Distress – Volume I: Why Don't More People Declare Bankruptcy?* Filene Research Institute, 2000.

EMPLOYERS: WAKE UP, SMELL ROSES OF FINANCIAL WELL-BEING

Once it occurs to employers that employee financial problems result in lower job productivity and poorer organizational outcomes, they realize that it's more expensive to ignore money problems than it is to confront them. They find that they can help employees overcome money problems and challenges by offering access to workplace financial education and credit counseling/debt management services that can *change employee financial behaviors* and improve their financial well-being. However, too many employers are not paying enough attention to employee financial problems.

Currently, 401(k) participation rates are at 80% in large employer organizations, but only 30% in small employer organizations. In the U.S., 37 million participants have invested $1.7 trillion in defined contribution plans, but more than 50% of full-time employees have not yet started saving for retirement. And participation rates do not tell the whole story: while the boom in 401(k) programs in the 1990s was useful and necessary for both employees and employers, today we need to look more closely at the quality of employee savings and investing. Most employees are not saving enough, and of those who do save and invest, the mean retirement plan portfolio – minus loans – is about $50,000; and the median, or mid-point, is $14,000.[5] That means half the people enrolled in these plans have balances of $14,000 or less. And these are not all just young people just starting out in their financial lives.

Employees in a time of falling equity values and a recessionary economy are deeply troubled about their future. Some typical comments: "I am afraid to open the next 401(k) statement," and "I wonder what kind of job I can do at age 80." Most admit that they have never sought professional financial advice. Even more alarming, 20-50% of employees have borrowed from their 401(k) plans at some time in the past. At one large Midwest employer with 40,000 plan participants, plan administrators process 2,000 loan applications each month. The 401(k) borrowers who do not quickly repay their loans lose the best part of the "magic of compounding."

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[5] Employee Benefits Research Institute

Studies have found that automatic enrollment in 401(k) plans increases participation rates, but participants rarely move from their default selections.[6] They keep their money in the investment choices they made at the time they signed up through the remainder of their participation in the plan. Two-thirds of plan participants age 20-59 who change jobs take lump sum distributions. Twenty-six percent of this group roll their savings over into an IRA; and only 6% roll their savings over into a new employer plan. In effect, the vast majority of these employees are cheating themselves.[7] A full 70% of plan participants have never rebalanced their accounts more than once.[8] If they are not educated by the company in the benefits of rebalancing, they simply do not do it.

"The vast majority of young 401(k) plan participants who change jobs take lump sum distributions, and make decisions that cheat themselves in the long-term."

MONEY PROBLEMS

According to research in the area of financial wellness, two-thirds of employees say they have trouble paying their bills on time, and that they worry about money. Three-quarters report that they recently faced at least one significant financial problem, such as being unable to save for future needs, delaying medical care, or having problems with a collection agency. Over half of women say that an unexpected bill for $1,000 would be a big problem for their household. Over the past five years, more than seven-and-one-half million Americans declared personal bankruptcy. This is a situation that ought to attract the concern and attention of every employer in America.

Too many employees are driving recklessly down today's complicated financial highways, to the detriment of their lives and to their employers' profitability. And what are the reasons for this dangerous, sometimes destructive behavior? Why are many employees not paying down credit card bills and not saving for retirement?

[6] *Investment News*, August 28, 2000
[7] *Employee Benefit Plan Review*, August, 2000
[8] Profit Scharing/401(k) Council of America, 2001

WHY EMPLOYEES DON'T SAVE FOR RETIREMENT

Observation and deduction provide a number of answers. Many people are willing to pay a steep price for gratification. Many also place incorrect discount values – present and future values – on their financial decisions. They're more likely to pay $600 for an inefficient refrigerator than pay $800 for a very efficient one that will recoup the initial price difference in as little as eight years. And people have time inconsistent preferences, so they delay and postpone things that are onerous, such as placing money in a savings or retirement account. They put off these financially sensible plans by promising to adopt them at some time in the future.

Research also provides answers to why employees engage in financially unsound behavior. One important reason that employees are not saving – or not saving enough – for retirement is that they have money problems. A study by Strong Investments supports this conclusion: 35% of those surveyed said they could not afford to contribute as much as they would like to their retirement fund because of debt. Another 11% said they could not afford to contribute at all.[9]

A second reason for low retirement account balances is that employees have yet to be persuaded that saving enough for retirement is very important. The low 401(k) participation rate, along with low account balances, is concrete evidence of this fact.

RESULTS OF POOR FINANCIAL HEALTH

The result is that many employees are not making smart financial decisions to help themselves and their families, and their poor financial well-being can hurt employer profitability. Employees with serious credit and money problems create pain not only for themselves, but for their employers as well. Research shows that among people using the services of a credit counseling/debt management organization:

- 90% are dissatisfied with their personal financial wellness
- 75% are insecure about retirement
- 50% hold a part-time job elsewhere

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[9] *Employee Benefit News*, September 1, 2000.

Research also indicates that employees with serious credit and money problems waste more than 20 work hours each month thinking about and dealing with money matters. These employees are like sharks swimming around the workplace taking bites out of the bottom line.

“Employees with money problems are like sharks swimming around the workplace taking bites out of the bottom line.”

HOW MONEY PROBLEMS IMPACT EMPLOYERS

Employees with money problems cannot save enough for retirement, so they stay on the job. The employer must continue to pay high salaries to older workers instead of paying young workers at the lower end of the salary scale. Older workers who do not retire cost their employer more than younger workers in terms of salary, health care premiums and other benefits, along with the employer’s portion of Social Security payroll taxes. And employees with money problems are more likely to be involved in thefts, and are more prone to have accidents.

The U.S. Department of Defense (DOD) estimates that employee money problems cost it $1 billion annually. Research indicates that that private sector costs are similar to the military’s experience. The military has the best financial counseling programs of any sector in American society, by a wide margin. All branches of the military have a comprehensive basic financial education and counseling program.

HOW CAN FINANCIAL EDUCATION HELP?

Financial education can improve the financial well-being of employees and the bottom line results of employers in three areas: retirement planning, credit card debt, and credit counseling/debt management.

Retirement Planning Increases Financial Well-being

Participants in workplace financial planning education programs report the positive outcomes listed in figure 1-4. As human beings, our perceptions of self and of our place in the world are important to workplace performance, and these can be enhanced with employee financial education.

Figure 1-4:
Positive Outcomes

- Financial wellness
- Personal savings satisfaction
- Retirement savings satisfaction
- Better overall health
- Positive performance rating
- Admirable feelings toward financial education provider
- Improvement in financial situation
- Initiated or increased 401(k) contribution
- Confidence about a secure retirement

"As human beings, our perceptions of ourselves and our place in the world are important to workplace performance."

A study of white-collar clerical workers on the east coast demonstrated that the employer's potential first-year return on investment in workplace financial education is more than $400 for those employees who improve their financial wellness.[10] The $400 return comes from factors such as reduced absenteeism and less work time wasted on dealing with financial concerns at work. In another study, researchers found that financial education had little effect on employee financial behaviors over a three-month time period. However, the combination of financial education and a one-on-one financial advice consultation offered one month later had a significant positive effect on individual money behaviors, as well as on employee health and workplace performance.[11]

The combination of workplace education and advice has proven to have positive effects on the financial behaviors of employees. One study (figure 1-5) found that after counseling 56% of participants were able to determine how much money they would need to live comfortably in retirement. Ten percent started contributions to a 401(k) plan. Seventeen percent increased their contributions to the maximum and 7% increased their contributions by lesser amounts. Twenty-six percent reallocated their portfolio after evaluating their present position.[12]

[10] Dr. So-hyun Joo, Texas Tech University, 1999 (award-winning research study)
[11] Dr. Junhee Kim, University of Maryland, 2000 (award-winning research study)
[12] ibid.

Figure 1-5:
Effect of Financial Counseling Advice on Employee Behavior

- 56% determined how much they need to live comfortably in retirement.
- 10% started contributions to a 401(k) plan.
- 17% increased contributions to the maximum and 7% increased contributions in lesser amounts.
- 26% reallocated their portfolio.
- 44% developed a financial plan.
- 35% paid credit card bills on time.
- 33% developed a budget or spending plan.
- 37% reduced their overall debt.
- 37% increased their savings outside the 401(k) plan.

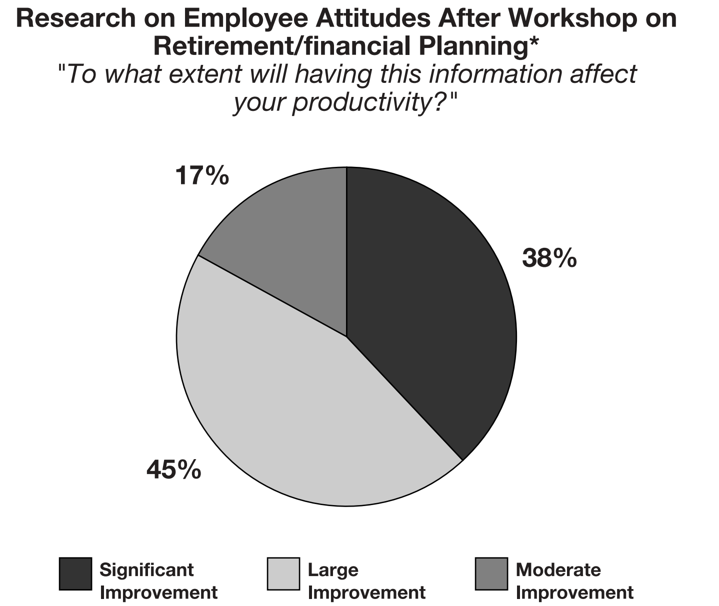
That same study also found that 44% of participants developed a financial plan subsequent to their involvement in an education and advice program. Thirty-five percent paid their credit card bills on time. Thirty-three percent developed a budget or spending plan. Thirty-seven percent reduced the amount of their debt. And 37% increased the amount of their savings outside of the 401(k) plan.

A few respondents in this study decided to start pre-tax cafeteria savings programs for dependent care and out-of-pocket heath expenses and others changed the amount of their life insurance. Financial advice participants reported increased financial health status. Also, the program encouraged them to seek additional professional services, such as an outside financial advisor or attorney.

In another study,[13] 38% of financial planning workshop participants reported that the information they received would have a significant effect on their productivity on the job. Another 45% said the information effect on productivity would be large, and 17% said the effect would be moderate (figure 1-6).

[13] Decker & Associates, *Financial Strategies Workshops,* held in Miramar, FL March 1, 2001

Figure 1-6:
Employee Attitudes After Financial Education Workshop



*Decker & Associates, *Financial Strategies Workshops* held in Miramar, FL, March 1, 2001.

Excessive Credit Card Debt Increases Stress and Worsens Health

Research on credit card debt and personal health indicates that the level of one's credit card debt is associated with increased stress and higher levels of physical impairment and worse health.[14] This finding, particularly in concert with other studies on heath, suggests that employers looking to reduce health care costs should consider requiring employees to participate in workplace financial education programs.

Credit Counseling/Debt Management Programs Improve Financial Well-being

In a pre- and post-assessment study[15] over one year, a credit counseling/debt management program improved employee financial wellness and job productivity, including the quantity and quality of employee performance and the supervisor's rating of employees. Participants enjoyed better health and fewer concerns about health problems. Employer job outcomes also improved,

[14] Drentea and Lavarakas, 2000.
[15] Dottie Bagwell, Texas Tech University, 2001

with decreased absenteeism, improved presenteeism, and less work time used for personal financial matters.

Another study of a credit counseling/debt management program[16] found that personal financial wellness explains about 20% of employee health risks. The same study showed that when compared to non-participants, credit counseling/debt management participants reported one year later a lower level of financial stress and better financial wellness. They felt better about their current financial situation and were doing better at paying their rent or mortgage, credit card debt, and utility bills on time. They were prepared to handle minor financial emergencies. Participants were less likely to be preoccupied with financial concerns at home. They were able to determine the resources they needed for retirement, felt more secure about retirement, and were contributing to a retirement plan.

IMPROVING EMPLOYER PROFITABILITY VIA THE ULTIMATE BUSINESS SECRET

To improve profitability, employers need to focus on helping their employees improve their personal financial well-being. In fact, this is the ultimate business secret: Employers that enhance the personal financial wellness of their employees find that their employees take good care of their employer.

The bottom line arguments[17] to sell top management on the value of employee financial education and advice and credit counseling/ debt management are compelling. The arguments are listed in figure 1-7.

[16] InCharge Institute of America (preliminary data from internal study currently in progress).
[17] These ideas particularly come from the writing and speeches of Bill Arnone (Ernst & Young) and Tom Garman, plus thoughts of Lorraine and Ken Decker (Decker & Associates), Steve Herrmann (Met Life),and Bill Pomeroy (The EDSA Group). Bill Arnone's excellent paper on this topic is "Selling the Value of Employee Education to Top Management" (November 10, 1999), presented at Virginia Tech's Personal Finance Employee Education Best Practices and Collaborations Conference in Roanoke, Virginia.

Figure 1-7:
Bottom-line Arguments for
Employee Financial Education and
Advice and Credit Counseling/Debt Management

- Cost is reasonable
- Need is legally defensible
- Provides a human resource advantage
- Empowers employees to best use benefits
- Makes excellent dollars and cents sense
- Encourages employee understanding
- Creates a positive organizational culture
- Is the morally correct action for employer

The cost of a comprehensive financial program is relatively inexpensive to develop and operate. The key is to improve existing financial programs such as 401(k) education on a continual basis. The cost of these programs can be legally passed on to employees in the form of fees, so there is no cost to the employer. The employer can also advertise links to local face-to-face credit counseling services as well as to large telephone services in employee publications and on its internal Web site.

In the legal arena, a financially well-educated employee is a safer bet to avoid litigation. J. Carter Breese, of the Securities and Exchange Commission, says: "Twenty or 30 years from now, if millions of Americans are having trouble making ends meet, you can bet plaintiffs' lawyers across the country will be looking for someone to sue." Plaintiff attorneys move from issue to issue, seeking new business upon which to build class action lawsuits. But they won't have a case against companies that provide employees with the tools they need to manage their own financial destiny.

There are significant legal risks to not providing employees with appropriate financial education. Imagine your sponsor's employees offering legal testimony like this:

"I saved and saved but my investments did not do very well."

"My employer helped my high-salary co-workers invest for their retirement, but they did nothing for me."

"I cannot live in retirement on the amount in my 401(k) plan."

The employer has a responsibility as a plan sponsor to provide not just the means to invest, but the knowledge necessary to make informed investment decisions. Only by educating employees can the employer prevent successful litigation on behalf of current employees, retirees and future retirees.

Along with cost and legal considerations, employers are also interested in human resource issues. Financial wellness education helps the employer compete with industry peers who do offer comprehensive financial education programs. It helps attract, retain, reward, and motivate the right employees – those who are financially well – to be part of a committed workforce. Financial education also reduces human resource expenses by referring financial questions to experts. It reduces pressures to become unionized. And it accelerates retirement decisions by employees who can afford to retire.

On the employee benefits level, financial education empowers employees in a variety of ways, as shown in figure 1-8:

Figure 1-8:
Benefits Empowerment for Employees

- Enables all employees to successfully manage personal finances.
- Increases employee satisfaction with the employer.
- Increases 401(k) plan participation by lower-paid employees and passes non-discrimination tests.
- Helps employees take more responsibility for making critical decisions in and among benefits.
- Increases attractiveness of flexible benefits programs.
- Facilitates later benefit plan changes that require employee understanding and behavior change.
- Increases understanding of the financial aspects of employment as the cornerstone of all benefits.
- Increases appreciation for employer investment in total compensation benefits.

Financial education also gives employers bottom line dollars and cents benefits, with reduced payroll taxes from greater employee use of tax-favored vehicles. This is cash money on the table for employers! Also, there's reduced workplace stress, absenteeism, health care costs, and turnover. And financial education programs encourage employee benefits "self-service," thereby reducing administrative paperwork and overhead.

As employees become financially empowered, they also gain a greater understanding of the employer's business. They are involved in the greater good, and understand the implications of the competitive environment. They are more likely to understand the drivers of share value, and the direct linkage between the financial success of the company and the financial wellness of its employees. The inseparability of employer and employee interests becomes apparent to them.

Culturally, financially educated employees are astute business partners. They are more likely to understand the core values of the company, and develop an ownership mentality so that employees think and act like owners of the business.

Finally, there is a moral component to financial education for employees. Management intuitively knows that it is smart business to provide employees with access to a full range of resources to help them keep the various elements of their personal lives in balance. As stewards of employee well-being, this is a right thing to do.

THE NEXT STEP

In order to create effective credit union/sponsor partnerships, the credit union must obtain the support of top management by making a compelling case for employee wellness programs. If the chief executive officer, chief financial officer, human resources vice-president and director of compensation and benefits all become champions of the cause, the campaign is guaranteed to succeed.

We began this presentation with a simple proposition. That is: "The answer to more productive employees is not to give them more money. The answer is to increase both employee productivity and employer profitability by offering a comprehensive workplace financial program that provides easy access to financial education and advice and credit counseling/debt management."

"The answer to more productive employees is not to give them more money. The answer is to increase both employee productivity and employer profitability by offering a comprehensive workplace financial program…"

Credit unions that act on these recommendations will help their sponsoring organizations to become national examples of genuine best practices programs in financial education and advice and credit counseling/debt management. Employers should provide access to both a local CCCS organization and a national telephone credit counseling/debt management program to provide services to employees who desire either face-to-face or telephone counseling on credit and money management concerns. Those sponsoring organizations will be the ones that increase the financial well-being of their employees and improve the profitability of their company.

In its report on *Rethinking Work and Life*, the Ford Foundation said: "It's smart business for employers to pay attention to employees' personal lives, because it increases productivity." That's a message credit unions can deliver to their sponsoring organizations with every confidence that it will forge a closer partnership between the sponsor and its member-owned financial cooperative.