

## **FINANCIAL EDUCATION PARTNERSHIPS IN THE WORKPLACE—VIEWS OF SATISFIED RESEARCHERS, EMPLOYERS AND OUTSIDE PROVIDERS**

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### **Introduction**

Workplace financial education, particularly that which emphasizes retirement education, has evolved quickly over the past 20 years. The financial education of yesterday saw employers hold employee meetings with workers near retirement age to explain the defined benefits each would receive upon retirement. Creation of the employer-sponsored 401(k) retirement plan, and the concurrent adoption of this defined contribution plan as a substitute for the defined benefit plan by many employers changed everything. Instead of dealing with retirement issues for employees just prior to leaving full-time employment, financial education was offered to all employees and at much earlier ages. The emphasis today is on planning, saving and investing for retirement.

### **Present Educational Options**

Perhaps 80 percent of those who provide employees with financial education are employers. The remaining 20 percent of companies supporting financial education are served by outside providers. The latter include financial planning firms both large (e.g., American Express, Merrill Lynch, Ernst & Young) and small (Capital Strategies [Indiana], The EDSA Group [Louisiana], Investment Horizons [Pennsylvania]). Also, a very small but growing number of employers opt to have the Cooperative Extension Service, a non-profit credit counseling organization provide employees with money management, credit and consumer protection education. The latter information is offered because many employees cannot save for retirement because they have money problems and challenges. Overcoming these financial difficulties can free up dollars that can be saved for retirement.

Calculations from Virginia Tech's National Institute for Personal Finance Employee Education indicate that, on average, about 15 percent of employees in the United States are so stressed about their poor financial behaviors that their job productivity is negatively impacted (Brown, 1979; Garman, Leech & Grable, 1996). Brown says it could be 15 to 20 percent (Brown, 1993). About 15 to 40 percent have money challenges (Garman, 1998a). Inattention to work because of financial concerns reduces job productivity. The loss is estimated at \$1 billion annually at the U.S. Department of Defense (Kristof, 1998).

Some additional challenges face all those involved in workplace financial education. The participation rate in employer-sponsored 401(k) retirement plans at large employers is only 80 percent; among small employers, it is an abysmal 20 percent. Nearly 50 million employees have yet to begin saving for retirement. And most frightening, of those who are saving and investing, the mean retirement plan portfolio is \$37,000 while the median is less than \$12,000.

Employers are seeking research that supports the expansion of financial education in the workplace. Researchers, employers, outside financial education providers and unions want to know if employees are well-prepared for retirement, both financially and from a life-planning perspective. All are interested in finding out if, and how, financial educational efforts make positive changes in employee financial behaviors.

### **Advantages for the Employees**

Researchers are finding that employees not only want workplace financial education (Joo & Garman, 1998a), but that financial education changes their

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personal financial behaviors and job productivity. It increases awareness about the need to plan and save for retirement, the number who have calculated how much they need to save for retirement, knowledge of personal finances, feelings of personal control over their finances, confidence in managing money to achieve personal financial goals, understanding of the relationship between risk and reward, confidence in making investment decisions, improvement in their personal financial situation, the participation rate in employer-sponsored retirement plans, the amount of money saved toward retirement (Bernheim & Garrett, 1996; Dipaula, 1998; Gorbach, 1997; Milligan, 1998), the number of workers who are able to retire early, confidence about how their retirement assets are allocated (diversified), participation in salary set-aside programs for health and dependent care, the development of long-term planning for the future, the number who developed a budget or spending plan and the number who reduced some personal debts and paid their credit bills on time. Financial education also reduces the amount of work time wasted by employees dealing with financial concerns during working hours. Financial education participants report better health, higher bosses' performance ratings and higher job productivity (Garman, Leech and Grable, 1996; Joo, 1998). Financial education can be used to both recruit and retain valuable workers (Decker, Decker & Love, 1998; Pomeroy, 1997)

### ROI for the Bottom Line

The potential return on investment for workplace financial education is estimated as at least 3 to 1 (Garman, 1998b), and the first-year savings via employer cost reductions is calculated to be over \$400 per employee who receiving workplace financial education (Joo & Garman, 1998b).

Employers and outside financial education providers who are aware of such findings are pleased about the positive impacts to employees. Financial education results in better financial wellness for employees (Garman, et. al, 1999; Kratzer, et. al., 1998). Also, a productive worker is a happy worker. Employers are also hopeful that such financial wellness improvements will translate into positive impacts to the employer's bottom line by reducing certain costs, such as health care, absenteeism, turnover, and workers compensation claims. Early indicators from research are favorable. Many positive relationships have been determined between good financial wellness and higher job productivity and lower costs for employers. However, more evidence is needed to demonstrate that employees with good personal

financial wellness that is brought about by workplace financial education are profit centers for their employers.

### The Employers' Turn

The task ahead for employers, outside financial education providers, unions and researchers is to partner together and conduct research that convincingly demonstrates the causal relationships between workplace financial education and positive impacts on the bottom line. Just as important, research needs to identify ways to address the financial behaviors of a larger number of employees so they can accurately report that they are fully on track and well prepared for a successful retirement. It is estimated that no more than 15% are asserting plans for retirement. This number should be 85%. Various stakeholders and corporate shareholders have a vital interest in the outcomes of quality financial education on employees, their families and their employers. Top management needs to be committed to the supporting the financial wellness of their employees with an attitude paramount to that for sexual harassment and job safety.

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