

Successes in Workplace Financial Education

Growth in the defined-benefit pension plan in the workplace has been exponential over the past two decades. As a result, workplace financial education for employees is widespread. This paper examines defined contribution retirement plans, how they are regulated by the United States Department of Labor, overviews an employer's model workplace financial education program, and highlights recent related research.

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Introduction

The roots of workplace financial education can be traced to the creation of the defined contribution plan in the early 1980s in the United States. This type of pension plan permits accumulation of funds for retirement years based on regular contributions by employees and in many instances the workers' employers. Today, there are four times as many employees contributing to a defined contribution retirement plan than to older, traditional defined benefit pension plan. In the latter, level of benefits received by an employee who has retired or paid to his or her survivors is linked to the number of years of employment and the worker's income. For example, an employee who has worked for the same employer for 30 years with a final annual salary of \$40,000 may be eligible for a monthly life annuity of \$2,000 ($\$40,000 \times .30$).

In contrast, today's popular defined contribution plan relies upon the amount of money saved, invested and accumulated in each person's individual account. If maximum contributions are regularly made to a defined benefit plan and wisely invested, the same worker as above might have accumulated an investment balance of \$400,000 or more prior to retirement. Under today's defined contribution plan, the responsibility for creating a sufficient financial nest egg to provide income for one's retirement years is squarely on employees rather than employers.

Workplace Financial Education and 401(k) Employee Benefit Plans

The United States Department of Labor (DOL) regulates both defined benefit and defined contribution retirement plans. DOL's Office of Pension Welfare Benefits Administration is responsible for the administration of the Employee Retirement Income Survey (ERISA) Act of 1974 and the 700,000 employee plans and 4 trillion dollars in employee plan assets covered therein. ERISA defines employee benefit plans as "any employee plan created by an employer or employee organization which provides a deferred benefit for employees" and as such covers retirement plans and medical plans along with specialized deferred benefit plans like union apprenticeship plans, vacation benefit plans and legal benefit plans, etc.

Defined-benefit: A New Type of Pension Plan

In 1978, in conjunction with the Internal Revenue Codes inclusion of the section 401(k), a new type of defined contribution employee plan was created that allowed tax deferral of profit sharing proceeds as long as a non-discrimination test was met that allowed the inclusion of lower paid employees in the profit sharing proceeds. The first 401(k) type plan was implemented on January 1, 1981. Within the next four years 17,000 plans of this type were created covering 7.5 million workers. This explosion of 401(k) plans contributed to a related shift in the ratio of defined benefit plans to defined contribution plans. In 1975 defined benefit plans accounted for 87% of the employee plan universe compared to today where 50% of all employee plans are defined contribution plans with the majority of them being 401(k) plans.

The 401(k) Growth Story

Today there are 225,000 401(k) type plans covering 28 million workers nationwide with a total asset balance of 1.5 trillion dollars. The average 401(k) participant balance is \$40,000 and represents over half the average family net worth, which was recently estimated at \$75,000.

The 401(k) type plan is appealing to employers today because they are less expensive to operate, they allow employees to accumulate funds more quickly, and investment control can be given to the individual employee through the self directed investment feature that some employers elect. The phenomenal growth of self directed 401(k) plans has created a huge demand for employee education to educate employees regarding the investment fundamentals necessary to successfully manage a 401(k) account balance.

Fiduciary Duty Transferred to the Employee

The shift of investment fiduciary duty from the employer to the employee that occurs in the self directed 401(k) account is best satisfied by the type of unbiased, non-product related, education that professional consumer finance educators can provide in a professional educational environment.

A Model Financial Education Program: Schlumberger

Schlumberger Limited, with 65,000 people in 100 countries, generated 1999 revenue of \$8.5 billion from three business units, Oilfield Services, Resource Management Services and Test & Transactions. Oilfield Services is the leading supplier of services and technology to the international petroleum industry. Since 1984, Schlumberger has offered financial education to our U.S. Oilfield Services employees, under the leadership of Decker & Associates (D&A), the first fee-only, comprehensive planning firm in Houston. What began as a way to help employees survive the oil bust of the mid-1980s, has evolved into the *Career/Life Cycle Financial Planning Model*, reaching an international audience across Schlumberger business units and teaching a proactive approach to achieving financial independence. The model is based on knowledge, not age. We believe that the earlier we educate employees about financial principles, the sooner they are likely to set goals and take action, and the more likely they are to become productive, motivated employees.

Recruiting

Competition is fierce for the top college graduates, and Schlumberger will hire more than 500 engineers this year. How does a company differentiate its career opportunities from those of its competitors? In the weeks prior to campus interviews, our *Selecting the Job Offer* program teaches seniors how to evaluate a company's compensation and benefit plans, how to pay off student loans, how to set financial goals, and how to select an employer to achieve financial independence. For mid-career recruits, individual counseling to analyze the economic impact of going to work for Schlumberger is often the deciding factor in the expensive and time-consuming pursuit of experienced talent.

Retention

Employee financial education is one of our most powerful tools to enhance retention through better understanding of the economic value of company benefit plans. *Financial Orientation* is a one-day retention workshop for employees in the first five years of employment. In addition to intensive education about the financial and tax planning aspects of company benefits, setting financial goals and calculating net rates of return on investments, each employee receives D&A's *Financial Strategies* software to encourage continuing the planning process. Results can be measured by increased enrollment in 401(k) plans, enrollment in the stock purchase plan, participation in voluntary disability income plans and most important, reduction in turnover. One business sector achieved a fifty percent reduction in attrition among software developers, a traditionally volatile population. The program has been used successfully to educate employees and retain key executives who join the company through acquisitions.

Relocation

Domestic and international mobility is a critical element of Schlumberger's service delivery and organizational development strategies. With D&A's help, we have infused financial planning concepts into our relocation policies. We encourage U.S. citizens moving abroad to review their financial plans, income taxation and estate planning. Foreign nationals moving to the U.S. receive individual counseling on tax planning, financial aspects of home and auto ownership versus leasing, how to utilize company benefit plans to achieve global financial goals, and critically important estate planning issues. Periodically, expatriate employees come together for a one-day workshop, *Advanced Tax and Estate Planning for Internationals*.

On-going Employee Financial Education

As needs change during an employee's career, we offer a variety of financial education opportunities to help employees prepare for career- and life-changing events that may come without warning. *The Future is Today* provides employees with "just-in-time" education and counseling when business dictates a workforce reduction. *Managing the Future*, our flagship program, is a two-day workshop with individual counseling, usually attended by all employees as they reach five-year service milestones. Workshop "graduates" often obtain individual counseling with D&A when such events as a serious medical condition, death of a family member, divorce or other serious problem occurs. From recruiting and retention through retirement planning, the Schlumberger and Decker & Associates' *Career/Life Cycle Financial Planning Model* proves the old adage that "What is good for your employees is good for your business."

Recent Research

Virginia Tech's National Institute for Personal Finance Employee Education (NIPFEE) has conducted a number of research studies on workplace financial education. A key finding is that the first reason why employees are not saving for retirement is that they have money and credit problems. The second reason is employees have yet to be persuaded that saving for retirement is really important to them (Garman, 1997).

After workers received financial education, the great majority indicated that they were satisfied with the seminar (Kim, Bagwell, & Garman, 1998; Kim, Bagwell, Garman, & Goodman, 1998). Further, those workers expressed a number of good intentions regarding their finances. For example, four out of five indicated that they would determine how much they needed for a comfortable retirement and would put additional money into savings and investments other than retirement. Workers who attended a workshop or seminar indicated a desire for additional financial education, including, in descending order of interest, the topics of investing, retirement planning, early retirement, budgeting, and cash management. Another study found that workers who participated in workplace financial education desired future educational programs including, in descending order of interest, retirement planning, investing, budgeting, and getting out of debt (Joo & Garman, 1998a).

Evidence also suggests that on average about 15 percent of employees in the United States are so stressed by their poor financial behaviors that their job productivity is negatively impacted (Garman, Leech, & Grable, 1996). This lower productivity, of course, negatively impacts their employers. For example, one study calculated that the Department of the United States Navy loses over \$250 million annually in direct and indirect costs of reduced productivity (Luther, Leech, Garman, 1998; Luther, Garman, Leech, Grifit, & Gilroy, 1997). Extending the figures to the entire Department of Defense reveals an annual loss of almost \$1 billion annually (Kristof, 1998). Thus, the employer's cost of doing nothing to help employees with personal financial problems is quite high.

Employees with credit delinquencies are a portrait of pain for their employers. One study (Garman, Camp, Kratzer, Leech, Kim, Bagwell, Baffi, & Redican, 1999) found that 90 percent are dissatisfied with their financial wellness, 75 percent are insecure about retirement, 50 percent hold a part-time job, and one-third to one-half of these employees waste 21 work hours a month dealing with money matters at work.

Joo and Garman (1998b) calculated that the potential first-year return on investment in workplace financial education is over \$400 for employees who make slight improvements in their financial wellness. Another study found that employees who attended financial education workshops provided through their employer reported a number of positive outcomes (Garman, Kim, Kratzer, Brunson, & Joo, 1999; Kratzer, Brunson, Garman, Kim, & Joo, 1998). This cross-sectional study compared those who attended the workshops with those who did not. Compared to non-participants, workshop participants reported better financial wellness, higher satisfaction with personal savings and saving for retirement, better health, positive performance ratings from their employer, an improvement in their financial situation over time, increased confidence about have a financially secure retirement, and a greater number initiated or enhanced their contributions to their retirement plan. NIPFEE estimates that the potential return on investment for employers who provide workplace financial education is at least 3 to 1 (Garman, 1998).

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Endnotes

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