

# Employee Money and Credit Problems: EAPs Must Become Involved<sup>1</sup>

By E. Thomas Garman<sup>2</sup>

As all people know, the only thing on the horizon for sure is further change. However, many EAPs seem to be defensive and they are continuing to live and visualize within the traditional paradigm of counseling workers on the core concerns of substance abuse and mental health issues. And, for some their world of work is getting smaller.

Illustrative of the challenges putting downward pressure on EAP profit margins are dealing with managed care infrastructure, growing numbers of clients with limited benefits, an aging workforce, declining contract rates per employee, and competing against national service vendors. Some EAPs have gone out of business; others have merged. For many EAPs, the next few years will be the time to make it or break it for the EAP profession.

A creative opportunity to potentially increase EAP revenues is the focus of this article. And, it is a direction of potential partnership that has been rejected by many EAPs in the past—partnerships with the credit counseling industry. An argument will be made that times have changed and so have the opportunities for the EAP profession as partnerships with credit counseling organizations, employers and health care providers have more reasons to learn to work together to help employees live with less stress and perform better on the job.

To illustrate, when an EAP examines the concept of retirement savings from the employee's perspective, particularly one of the 55 million workers who is not saving sufficiently for retirement, the concept of "financial education on retirement" may take on a new meaning, particularly when many of these employees—at least 15 percent—are experiencing stressful financial problems (Garman, Leech, & Grable, 1996). If the EAP profession gained as clients only one percent of the financially troubled employees, that would amount to over 1 million people. Ways can be found for EAPs to provide counseling services to some of these potential clients.

This article reviews

1. The current state of workplace financial education and its failures;
2. How employees with serious financial problems negatively impact their employer's bottom line;
3. Research that indicates that workplace financial education can improve personal financial wellness and perhaps the employer's bottom line;
4. Today's new credit counseling industry;
5. Potential partnership opportunities for the EAP profession; and
6. What EAPs can do next.

## Today's Workplace Financial Education Programs are Failing

Over the past twenty years, there has been a virtual tidal wave of employers establishing financial education programs for employees. This has largely been the result of Section 404(c) of the federal government's ERISA requirements (Employee Retirement Income Security Act) that not only encourage employers to offer employees a defined contribution plan, often known as a

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401(k) plan, but also require that employees be educated. Historically, the emphasis of these programs has been solely on the subject of retirement. Typically, the employer or an outside vendor, such as American Express Financial Advisors, Ernst & Young, or Fidelity Investments, hosts one or more workshops for employees on topics such as the time value of money, cash management, college planning, insurance, investments, and estate planning.

Most employers only offer employees a 401(k) retirement account, instead of the defined benefit retirement plan typically offered in the past. The latter plan provided a pension of X dollars for every year of service to the employer, and usually the employer was the only one who put funds into the plan. Part of the employer's incentive to move toward 401(k) plans is that they are less expensive to operate than a defined benefit plan. Now it is the employee's responsibility to make the decisions to save and invest for retirement in an employer's 401(k) plan. Otherwise he or she will receive no pension whatsoever (except perhaps for Social Security retirement benefits).

Unfortunately, half of today's workers (55 million) have not yet started saving for retirement. Most small employers do not sponsor a defined contribution retirement account for employees. And among the small employers who do have a 401(k) plan, the participation rate is about 30 percent. The largest employers, those with over 1,000 employees, boast that the participation rate in the employer-sponsored 401(k) plan is 80 percent or even higher.

Such a high participation rate, however, is a false god because most employees who are saving for retirement are not saving enough. The mean 401(k) retirement portfolio (minus loans) is about \$50,000 and the median amount is about \$14,000. Thus, half of all workers with 401(k) accounts have less than \$14,000 in their accounts. These low numbers are not due to the labor force being so young (it's not), but rather the affordability of savings.

Many workers report that they cannot afford to save for retirement. Twenty to fifty percent of employees who have a 401(k) account have borrowed from their savings and two-thirds of plan participants age 20-59 have taken lump sum distributions when changing jobs (*The 2000 Retirement Confidence Survey*).

In short, today's workplace financial education programs—particularly those that primarily focus on retirement—are failing. The great majority of employees, including those close to retirement age, are financially unprepared. And they are stressed about it.

### **Employees with Serious Financial Problems Negatively Impact Their Employer's Bottom Line**

Research indicates that the number one reason why workers are not contributing to their 401(k) retirement accounts is that they have money problems. A study by Strong Investments found that 35 percent of employees say they cannot afford to contribute because of debt and another 11 percent say they simply cannot afford to contribute at all (Gunsualey, 2000). Furthermore, evidence is accumulating that suggests that poor employee financial wellness can hurt employer profitability.

Three studies conducted at Virginia Tech's National Institute for Personal Finance Employee Education found that employees with serious credit and money problems—approximately 15 to 25 percent of all workers—are a portrait of pain for their employers. These employees are like sharks swimming around the workplace, taking bites out of the bottom line.

- 90 percent are dissatisfied with the personal financial wellness
- 75 percent are insecure about retirement
- 50 percent hold a part-time job elsewhere
- They waste more than 25 working hours a month thinking about and dealing with personal money matters.

Also, employer costs are impacted by financially troubled employees who do not retire “on time.” These employees continue to work because they cannot afford to retire. And, those who do not retire on time cost employers more than younger workers in higher salaries, greater health care costs, and the employer’s portion for Social Security (since it is based on an income that likely is higher than that of a younger worker).

The Department of Defense wastes about \$1 billion annually on employee money problems (Kristoff, 1998; Luther, Leech, & Garman, 1998). Thus, the cost of doing nothing is high—\$500 per worker per year in this instance.

Employers pay for the negative impact of their employees’ poor financial behaviors (Garman, Leech, and Grable, 1996). Examples of worker behaviors that cost their employers include:

- Absenteeism
- Tardiness
- Turnover
- Wage garnishments
- Pay advances
- 401(k) loans
- Work time spent dealing with money concerns
- Accidents
- Theft
- Worker compensation claims
- Substance abuse
- Health status
- Health care expenditures

While a number of these factors have been researched, additional studies are needed. The evidence so far suggests that it is becoming increasingly obvious to observers of workplace financial education that worker “wealth”—financial wellness—is as vital as health.

### **Research Indicates that Financial Education Can Change Behaviors**

A growing number of employers realize that it is more expensive to ignore money problems and challenges than to address the situation. (This sounds a bit like the situation a generation ago when Corporate America finally began to accept and take actions to deal with the reality of substance abuse in the workplace.) The central question today is: “Can employers help employees overcome money problems and unmet financial challenges by offering a workplace financial education program that changes behaviors?”

A number of studies suggest that the answer is “Yes.” In fact, an employer’s potential first-year return on investment for dollars spent on financial education may be over \$400 for each employee who improves his or her financial wellness (Joo & Garman, 1998). Researchers (Garman, Kim, Kratzer, Brunson, & Joo, 1999) found in a southeastern chemical company that the blue collar workers who participated in a basic financial education program (compared to those who did not participate) reported improvements in:

- Personal financial wellness
- Personal financial situation
- Satisfaction with personal savings
- Satisfaction with retirement savings
- Health
- Performance ratings from bosses
- Admirable feelings toward education provided
- 401(k) contributions
- Confidence about a financially secure retirement

A study of mid-west white-collar workers (Kim, 2000) found that when a 90-minute financial education seminar was combined with a 30-minute one-on-one financial counseling advice session during a four-month time period good things happened for the employees as well as their

employers. Employees reported improvements in financial attitudes and behaviors as well as increases in health and job performance. Financially well employees report very high levels of organizational commitment and pay satisfaction.

A one-year pre- and post-study of credit counseling clients from 25 primarily eastern states were similar but even stronger (Bagwell, 2000). Employees who were active clients for one year in a credit counseling service reported: (1) increased personal financial wellness, (2) improved job productivity (quantity and quality of performance and supervisor's rating), (3) positive employer job outcomes (better absenteeism, improved presenteeism (the loss of productivity that happens when employees are on the job but are not fully functioning), (4) less work time used for personal financial concerns), and (5) better health.

Additional research and analysis find that many workers who have money problems and unmet financial challenges are also quite stressed. Those who have the worst financial health are also their employer's worst employees. Finally, financial well-being directly predicts employees' job performance ratings, pay satisfaction, absenteeism, and conflicts between work and money matters (Kim, 2000).

### **Yesterday's EAPs Did Not Often Work With Credit Counselors**

Through the years, employee assistance professionals typically have not worked with non-profit credit counselors. Many EAPs have opted out because they have no formal training or certifications in personal finance. That's an understandable position.

Also, some EAPs would say that, "Years ago we tried working with the credit counseling people but it did not work out." In days gone by, many credit counselors were lacking in skills and meaningful certifications. Yes, an occasional EAP would find and work with an excellent credit counselor—one who successfully dealt with both the presenting and underlying problems of a financially troubled client and also made referrals to appropriate mental health and EAP professionals. Then all too often the credit counselor moved on to another job with a higher salary.

The good news is that basic personal financial education is not rocket science. One does not have to be a Certified Financial Planner to work with the financial challenges of most workers.

With some study, the fundamentals can be mastered in an accreditation program. Popular counselor certification programs are offered through arrangement provided by two credit counseling industry associations: (1) Association of Independent Consumer Credit Counseling Agencies (AICCCA at [www.aiccca.com](http://www.aiccca.com)), and (2) National Foundation for Credit Counseling ([www.nfcc.org](http://www.nfcc.org)). Many counselors are certified by the Accredited Financial Counselor (AFC) certification program offered by the Association for Financial Counseling and Planning Education ([www.afcpe.org](http://www.afcpe.org)), a professional association representing a wide variety of people with expertise in personal and family finances through its Institute for Personal Finance ([www.afcpe.org/ipf.htm](http://www.afcpe.org/ipf.htm)) and the In addition, some non-profit credit counseling agencies are in the process of being certified by the International Standards Organization (ISO).

Edie Milligan, President of Keeping Track, Inc. (800-647-0818), observes that "By supporting treatment plans that combine both competent behavioral counseling with financial expertise, EA professionals can help the employee find both immediate relief and long-term behavioral change. In addition, the employer will enjoy a more stable workforce, lower costs, higher productivity and a greater appreciation for the work of the EAP"(Milligan, 1997).

## Big Changes in the Credit Counseling Industry

The credit counseling industry has changed dramatically over the last several years. Because of rising costs and thinning revenue margins, many non-profit, mom-and-pop credit counseling companies—which for years have counseled clients in offices often located in strip malls—will soon be forced out of business or merged with larger organizations.

In addition, consistently rising consumer debt suggests that the industry status quo has been largely ineffective. Consumer debt in America during 1999 reached an all-time high of approximately \$1.4 trillion. Personal bankruptcies have risen 69 percent in the last ten years. And, 1.3 million Americans filed for bankruptcy in 1999.

In response to these trends and criticisms that the credit counseling industry is only providing “band aid” solutions to serious consumer debt problems, the InCharge Institute of America ([www.InCharge.org](http://www.InCharge.org)) determined that an entirely new approach to credit counseling was needed.

“Our experience from working with countless customers has taught us that ‘one-size-fits-all’ credit counseling is no longer effective for today’s consumer,” explains Dr. David C. Jones, president of the InCharge Institute. “As the industry leader, we felt it was our duty to take the first step and shift the focus onto methods that will serve the consumer better—personalized counseling and enhanced personal finance education.” Further, “the traditional ‘cookie-cutter’ debt management plan—the current standard for the industry—is no longer appropriate.”

This non-profit organization is comprised of a *family* of financial wellness companies that offer progressive financial wellness counseling in which individualized solutions, rather than standardized formulas, are provided to debt-strapped individuals. Each member company focuses on a different specialty—personal finance education (InCharge Institute [407-291-7770]), customized counseling and debt management (Profina Debt Solutions [800-565-8953]) and Concord Credit ([in Spanish for Latino consumers [800-565-7506]), and pre-bankruptcy counseling (Accredited Bankruptcy Services [888-444-2355]). They work together to provide the consumer with a well-rounded counseling experience. Each company offers consumers smart, effective tools to help them take charge of their financial futures.<sup>3</sup>

The process of delivering credit counseling has also changed dramatically. The old fashioned style of delivering credit counseling face-to-face basis in a strip mall office is being replaced with telephone counseling. In addition, the Internet and fax machine facilitate the efficient transfer of information and education both to and from the client.

Yesterday’s intermittent instructional lessons to employees about money and credit management offered at the job site between shifts and during lunch hours are on the wane. Instead of preachy, motivational instructional lessons delivered on an ad hoc basis to small groups of employees, today’s educational systems are high-tech and high-touch and intended to reach millions of people. State-of-the-art interactive CBT software programs can be delivered via the Internet, Intranet and/or on CDs. They are designed to not only educate people about credit, but to actually change personal behaviors. At the InCharge Institute, for example, the educational products include a four-hour certification program; it is hoped that creditors will look favorably upon consumers who pass the examination and, perhaps, consider such a positive effort when making a lending decision. The InCharge Institute also offers a 16-hour educational program on money and credit to be offered through colleges. These self-paced, financial literacy education programs empower consumers to take control of their finances.

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Yet another change is in the delivery system for reaching consumers with serious debt problems—employee education, especially offered in conjunction with retirement education programs. These latter financial education efforts are often administered through the employer’s department of human resources. The first decade of the new millennium will bring numerous strategic alliances between large employers and leading credit counseling organizations. Soon millions of workers who are overextended financially will have access through their place of employment to credit and money management educational programs that will help them live in a world of financial independence.

## **Questions about Potential Partnerships**

Through partnerships with credit counseling organizations, ways can be found for EAPs to provide counseling services to some proportion of clients experiencing stress from serious money and credit problems. To successfully develop a new revenue stream from such employees, employee assistance professionals, employers, and health care providers are encouraged to think creatively about seeking potentially successful partnerships with the best credit counseling agencies.

1. *Questions about EAP Perspectives.* Can EAPs identify potential clients within a single large employer who evidence credit and money problems? Can EAPs recognize and accept the fact that 15 percent or more workers are experiencing stress from personal financial problems to the extent that it negatively impacts employees, their families, and their employers? Can EAPs broaden their scope of practice to include behavioral risk management of money problems and unmet financial challenges? Can EAPs participate in strategies to help prevent employee money problems that affect worker health and wellness? Can EAPs integrate some of its efforts within the construct of workplace financial education?
2. *Questions about the Numbers.* Can EAPs measure how many employees at a particular employer are experiencing financial problems to the extent that it negatively impacts job productivity? Can EAPs calculate the proportion of that employee base that could be helped through EAP services? Can EAPs develop cost-effective ways to motivate financially troubled employees to seek treatment? Can EAPs identify the key partners with whom they should collaborate to integrate employee services, including those in credit counseling, personal finance education, retirement education, and work/life programs?
3. *Questions about EAP Philosophy.* Can EAPs think beyond their historically core constituencies and help create new paradigms to contribute to resolving employee financial problems? Can voluntary referral systems be developed for clients of EAPs and credit counseling organizations? Can the most innovative EAP organizations partner with the best credit counseling organizations to find ways to truly help workers—and the bottom lines of their employers—with money problems and unmet financial challenges? Can EAPs help motivate the integration of effective financial education programs into work/life programs? Can EAPs work with those responsible for employee training? And those responsible for retirement education?
4. *Questions about Partnerships for Employers.* Can employers take a leadership role in creating partnerships to deal with employee financial problems? Can employers successfully encourage employees to utilize the services of both credit counselors and EAPs? Can employers volunteer to support beta testing at some of their job sites in 2001 of educational programs designed to improve an employee personal financial wellness?
5. *Questions about Health Care Organizations.* Can health care organizations, hospitals and insurance companies look beyond the trees of short-term investments and envision a revenue forest of financial services partnerships that might offer ways to reduce

employee health care costs? Can health care organizations help fund research on the effects of financial education on personal financial wellness and employee health? Can health care providers, EAPs, employers, and other researchers calculate the employer's return on investment for financial education programs?

## **What EAPs Can Do Next**

Basic personal finance is complex and difficult for many people simply because they have never had any formal instruction in the subject. A good first step for EAPs interested in broadening their understanding of personal finances and employee money problems is to visit those people in the organization responsible for retirement education. Study the materials provided employees on retirement planning. Ask questions to improve your comprehension of the time value of money, diversification, and the opportunity cost of delay. And take a good look at the materials provided employees on money and debt management. EAPs should first assess this information from a personal perspective. Then think about how other employees might view the clarity of the materials and their motivational aspects.

This learning opportunity should quickly lead the interested employee assistance professional to talk with others about what additional resources employees might need to get over the hurdle of their money problems and move toward the goal of a financially sufficient retirement. Additional revenues will accrue to those professionals who help employees with serious money problems and unmet challenges. How much of an annual investment is needed to provide each employee basic financial education? Five dollars? Ten dollars? Fifty dollars? EAPs who seek partnerships with some of the other professionals cited above will be the leaders in the industry. And these EAPs will find the answers that will help more employees and their employer's bottom line as well as enhance their own revenues.

Eddie Milligan, a longtime, eloquent spokesperson on the importance of EA professionals dealing with chronic financial problems, sums up the challenge quite clearly: "EA professionals must expose this plague with the same fervor that exposed alcoholism as a disease with a cure. Helping employers realize that this new 'drug' [credit and money problems] is being thrust upon workers, causing them to endanger their health, their families, and their jobs, will allow resources to be directed to this problem" (Milligan, 1997). Also, the employees' retirements are endangered.

Many EAP brochures list "financial problems" as one of their services. But is this really true? It must be time for the employee assistance profession to stop talking about employees with financial problems; it is time to do something. It is time for EAPs to stop competing on prices and slashing services. EAPs need to take action and make a convincing case to employers that they need to be part of the solution.

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