

Financial Stress and Workplace Performance: Developing Employer-Credit Union Partnerships

A Colloquium at the University of Wisconsin-Madison

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Filene Research Institute and The Center for Credit Union Innovation, LLC



The Filene Research Institute is a non-profit organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance and credit unions. It supports research efforts that will ultimately enhance the well-being of consumers and will assist credit unions in adapting to rapidly changing economic, legal, and social environments.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members and the general public. Credit unions, like other democratic institutions, make great progress when they welcome and carefully consider high-quality research, new perspectives, and innovative, sometimes controversial, proposals. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. In this spirit, the Filene Research Institute grants researchers considerable latitude in their studies of high-priority consumer finance issues and encourages them to candidly communicate their findings and recommendations.

The name of the institute honors Edward A. Filene, the “father of the U.S. credit union movement.” He was an innovative leader who relied on insightful research and analysis when encouraging credit union development.

The Center for Credit Union Innovation, LLC, is dedicated to identifying, refining and developing innovative ideas of commercial importance to credit unions and others. The Center works closely with the Filene Research Institute to deliver promising product and service strategies emerging from Filene research and from many other contributing sources. The Center provides a link between the world of ideas generated by Filene and their application in the marketplace. It gives credit unions a powerful tool to explore the relevance of new concepts in a rapidly changing financial services industry.

Progress is the constant replacing of the best there is with something still better!

— Edward A. Filene

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Executive Summary

The financial problems of employees cause untold hardship monetarily, emotionally and physically. These money problems affect both employees and employers, reducing productivity, increasing absenteeism, and ultimately affecting employer profitability. To combat a serious drain on workplace productivity, employers can provide incentives for employees to attain financial wellness.

Credit unions can become partners in this effort by participating with their sponsoring organizations in educational programs and interventions designed to improve employee financial wealth-building and coping skills, and assist households needing help to remediate poor financial habits. In a program designed to address these issues, the Filene Research Institute and The Center for Credit Union Research conducted a colloquium with funding from the National Credit Union Foundation, under a grant from the Ford Foundation. The colloquium brought together top researchers in the field and credit union executives to discuss practical approaches to the problem.

The colloquium found that:

- As employees gain control of their financial lives, they become more competent on the job. As the interrelatedness of financial affairs and personal problems is recognized and confronted, both employers and employees benefit.
- As many as one-third of all employees are stressed by personal finance problems, and half of those individuals are so impaired that job performance is affected.
- Employee financial stress has a tremendous impact on employer profitability, affecting not just direct productivity levels but also internal dishonesty, absence, accidents, substance abuse, disability and worker compensation claims, and future legal liability.
- There is an enormous opportunity to improve employer bottom line results through credit union/employer relationships that reduce employee financial stress. Through these relationships, every participant benefits: the employer, the employee and the credit union. The result is a win-win-win outcome.

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- A successful credit union/employer partnership may include a number of key components:
 - Structured asset accumulation programs
 - Financial education sessions
 - Payroll savings plans
 - Financial counseling or referral to counseling services
 - Targeted-purpose savings accounts
 - One comprehensive study of behavioral health disability management found that stress is the second most frequent occupational disease in the workplace, following only musculoskeletal disorders such as back problems and carpal tunnel syndrome.
 - Programs such as 401(k) plans protect income in the long term, building equity and assets for retirement. IRA programs also supplement income at a time in life when salary income must be replaced by savings and other financial instruments. However, there's also a need for short term money, to buy a new car, pay tuition expenses, or replace a furnace. These are two different components of the employee's financial life, and they are both critical to long term success.

CREATING EMPLOYEE WELLNESS

Employers can increase their profitability by helping all employees throughout their working careers and retirement with comprehensive workplace financial programs. There is a close relationship between employee financial health, productivity, and employer profitability, suggesting that both parties need to achieve their financial goals in order to succeed.

Financial education leads to greater employee awareness of financial control, and therefore fewer financial worries, less stress, better health, and stable personal lives. Employee financial education also results in greater employee awareness and utilization of the company's benefit program, and its total compensation package. The result is less absenteeism, fewer accidents, less job turnover, lower benefit costs, and higher profits. Perhaps most important, employees who are financially secure are

also better able to learn, change, and grow with the company. When employers realize that employee financial problems result in lower production, they see that it is more expensive to ignore money problems than to confront them.

Employer profits are negatively impacted by employees who carry the stress of financial problems onto the job. This cost can be substantial. Dollar cost to an employer for an employee who is stressed about money matters is \$400 annually according to one award-winning study, 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 employers whose wages are below average.

Study after study shows that a credit counseling and debt management program improves employee financial wellness and job productivity, including the quantity and quality of employee performance and the supervisor's rating of employees. Participants enjoy better health and fewer concerns about health problems. Employer job outcomes also improve, with decreased absenteeism and less work time used for personal financial matters.

To create effective credit union/sponsor partnerships, the credit union must obtain the support of top management by making a compelling case for employee financial 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, success is guaranteed.

BEST PRACTICES IN FINANCIAL COUNSELING PROGRAMS

A model of a successful financial counseling program includes an inventory of the resources available to assist employees in need of help, assessment of the situation, education in sound money management practices, and intervention to implement a plan. Programs that follow this model give clients a sense of control that helps to improve their quality of life as they learn to adapt to their financial environment.

A cost/benefit analysis of financial counseling programs reveals benefits and costs to each of the parties involved in the program: the employee, the employer, and the credit union.

Employer Benefits: Financial health produces greater concentration, creativity and productivity by employees. Improved financial health reduces the number of employees experiencing problems with money, problems that often affect job performance. As employees gain control of their financial lives, they become more competent on the job.

Employer Cost: The employer bears the cost of maintaining the service, and must be confident that the cost of counseling will be less than the cost of wage garnishments and assignments. There are also costs involved in overhead, equipment and utilities for housing the financial counseling service as an independent department or entity.

Employee Benefits: Employees gain a better sense of self-confidence and control of their financial lives through counseling. Clients typically expect more from financial counseling than simple credit repair. Counseling helps to fulfill dreams and meet goals for clients, because it gives them the information they need to manage their financial lives. Financial counseling assists clients in the creative use of their resources to change behavior.

Employee Cost: The employee must be willing to take the time required to meet with the financial counselor, the time required to gather appropriate information, and provide that information to the counselor. If the employee is taking time off work to do that, it must be balanced against the benefits received through counseling.

Credit Union Benefits: For the credit union, a financial counseling program fulfills and demonstrates the credit union philosophy of people helping people to help themselves. It reduces the risk of costly loans, ineffective loans, and bad loans. A financial counseling program can also promote the use of more credit union products and services by members and create long-term member loyalty. It can enhance credit union service at relatively small additional cost.

Credit Union Cost: The credit union incurs costs in setting up a counseling program, including the cost of training personnel to staff the service. Costs include both staff training time and the materials needed to support the program. Once the program is initiated, the credit union can also expect to incur the cost of advertising and marketing, along with continued training for its counselor or counselors.

In considering best practices for financial counseling programs, credit unions need to establish criteria to give them standards for a professional practice. These standards are most likely to change behavior, handle crisis situations, and optimize resources.

PERSONAL FINANCIAL STRESS, DEPRESSION AND WORKPLACE PERFORMANCE

Stress and depression take a toll on both the health and the workplace performance of employees. To overcome the stigma attached to these illnesses, employers and health care professionals need to work to make people comfortable with the idea of seeking help. Stakeholders also need to find ways to get involved early and prevent and identify these disorders, because they take a terrible toll on the physical, emotional and financial health of society.

As American business changes its methods of operation, mergers, reorganizations, and layoffs have increased psychiatric disability claims among employees. In a survey of companies that recently experienced mergers involving layoffs, The American Management Association found a 33% higher claim incidence for mental and nervous disorders in those companies. Another study of companies that eliminated jobs during a five year period reported increases in seven of eight disability categories.

The stigma attached to mental health problems causes many people who are at risk to avoid seeking help until a crisis occurs. The economic burden of depression is enormous. The cost of pharmaceuticals alone is over one billion dollars each year, and the total cost of treating depression adds up to a staggering \$43.7 billion each year, including inpatient psychiatry, outpatient psychiatry and hospital treatment. More than half the total cost is in absenteeism and decreased productivity. Billions of dollars are being lost on the job to these problems.

Major workplace productivity losses due to depression include absenteeism and presenteeism – employees who may be at work but mentally distracted. In one study of 1,000 individuals with depression disorders, about two hours of each work day were lost due to the disease. Illnesses such as heart disease incur large front end medical costs, but over the long term they are not as expensive as depression disorders in terms of lost productivity.

One study of 46,000 employees at six large corporations concluded that high stress generates an annual per employee cost of \$136 in health care costs for the disorders studied. Much of these costs is the result of modifiable risk factors, things that can be changed through employee assistance programs and referrals, as well as financial support and counseling. The implication is that productivity loss can be managed over time. What's required is a comprehensive, holistic approach that looks at how each employee uses various employer benefits and programs.

HOW CAN CREDIT UNIONS HELP?

Credit unions are in a unique position to work with their sponsoring organizations to reduce employee financial stress and increase workplace performance. They possess the resources and expertise to address employee financial problems, thereby reducing financial stress and increasing on-the-job performance. Everybody wins when employee financial problems are solved. The employer maximizes return on its human resource investment. The employee grows in terms of confidence and self-worth. The credit union builds goodwill and fosters its reputation as a value-added partner to both employer and employee.

Credit unions offer products and services that can be effective in helping to alleviate financial stress. They also have the means to distribute these products to the people who need them. Member behaviors often change when they start to accumulate savings. Other Filene studies have found that savings is often a key factor in reducing financial stress, even for low-income households. Savings give employees the resources to deal with financial crises. In cooperation with the employer, the credit union can provide education, access to short-term emergency savings programs, savings accounts to meet recurring regular expenses, and IRA accounts.

An effective financial wellness program includes a number of key elements, including:

- Education on personal financial management subjects
- Short-term savings for emergencies
- Long-term savings through programs such as 401(k) and IRA contributions, and education on their effective use
- Consumer credit counseling to intervene in crisis situations
- Support from both the employer and the credit union

Credit unions can offer members financial education on intelligent consumer behavior and decision-making. Employee income does not necessarily correlate with money management skills, and employees at every income level are likely to benefit from financial education programs. The credit union can also provide advice specific to the particular financial situation of its members.

Whether the situation involves a crisis or simply a deterioration of the employee's financial status, counseling can change the direction of the employee's financial fortunes. Counseling programs can reduce loss to the credit union, improve employee performance on the job, and increase production and profitability for employers.

When the credit union/sponsor relationship is strengthened, the credit union can expect to achieve greater membership penetration. An employer that's excited about the benefits of credit union participation is more likely to present membership to its employees in a positive manner, through new employee orientation programs and on-site employee seminars. A partnership can also garner a greater share of wallet. As the relationship between the employee/member and the credit union develops, the credit union is likely to have access to a greater share of the employee's present and future financial life, on both the deposit and the loan sides of the ledger.

An employee financial wellness program can also re-establish credit union/employer relationships. In some cases, the relationship between the credit union and the sponsoring organization has become strained, or even lost. This is due to a variety of factors, including plant shutdowns, expanded fields of membership and other factors.

Through financial wellness programs, credit unions can demonstrate their social role to sponsors, and their uniqueness in the financial services community. And if the credit union is perceived by the employee/member as the instrument that helps them fix a stressful situation, a lifetime of goodwill is built.

A key component in building partnerships with sponsoring organizations is educating senior sponsor executives. The services the credit union provides to its members are important components of the employer's overall service to employees. For example, when legislators and regulators ask sponsoring companies what they are doing to make employees' lives better, credit union services are a significant part of a positive answer. There's tremendous value-added by traditional credit union services, and senior management needs to be made aware of this value-added. When the credit union builds awareness on the part of senior executives, they become its champions in the community.

The relationship with a credit union is more than an employee benefit. It is also a value to the corporation. The relationship with the credit union can significantly reduce sponsor costs and improve the bottom line. The corporation sees value in its major business partnerships, and should be convinced to regard the credit union in this same way. The company needs to see the credit union as another way to enhance its own profitability.

SESSION 1: Improving Employee Personal Financial Wellness Increases Profitability

E. Thomas Garman¹

Tom Garman is a Distinguished Scholar and Director of Educational Services at the InCharge Institute of America, Inc. He directs research efforts to help people get out of debt and achieve financial freedom for the nation's largest non-profit credit counseling/debt management organization. Garman is Professor Emeritus at Virginia Tech, where he concluded a 37-year teaching career and served as executive director of the university's National Institute for Personal Finance Employee Education. In this session Garman creates a strategy through which credit unions can document the connection between employee financial wellness and employer profitability. He details several actions employers can take to meet the important financial needs of their employees, and in the process meet their own needs as well. Among the most beneficial employer initiatives are partnerships with organizations that have expertise in the area of employee financial wellness, including credit unions.

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.

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.

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“There’s a close relationship between the employer and the employee, a relationship that depends on the health of both parties.”
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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

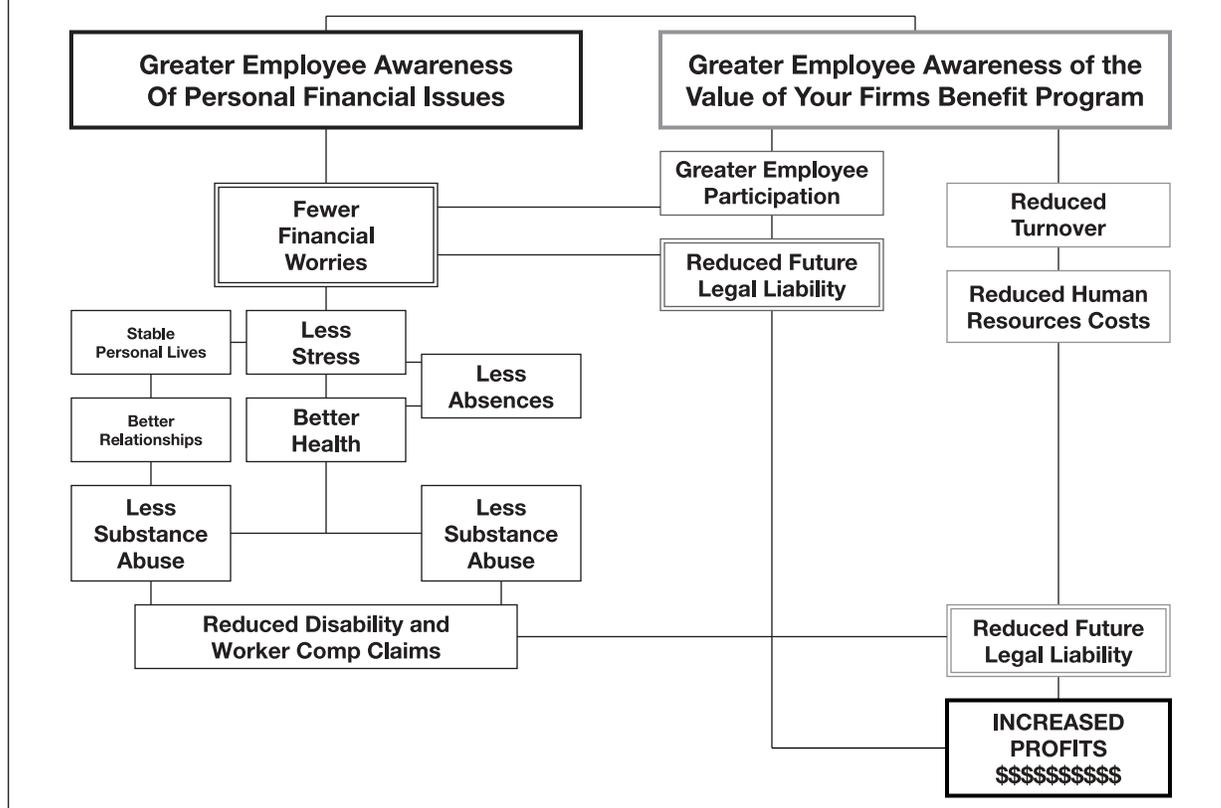
The Ernst & Young accounting firm is also an important 401(k) financial education provider. The company believes that financial education leads to greater employee awareness of financial issues, and therefore fewer financial worries, less stress, better health, and stable personal lives for better personal 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 model² of the outcomes of financial education is shown in figure 1-1.

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 Education³
Employee Financial Education Programs
Lead To**



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“There is a cause and effect in the workplace of problems that have their roots in the home.”
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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.

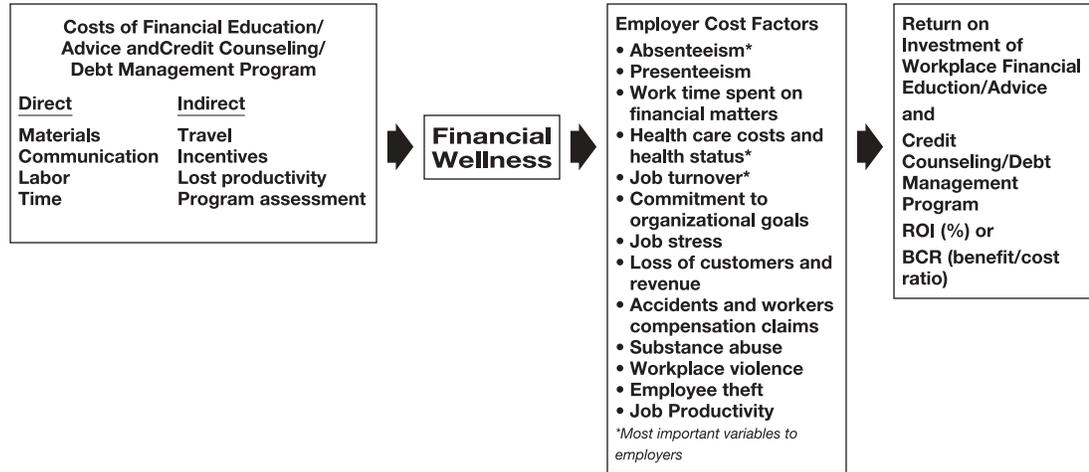
Many employees, usually the older ones, also need help in managing their growing account balances. Some of these balances, fortunately, become quite large over time. And these employees need helping making life-impacting financial decisions. For example, beneficiary designations, living wills and other 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?

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

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.

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?

“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.”

⁶ *Investment News*, August 28, 2000

⁷ *Employee Benefit Plan Review*, August, 2000

⁸ Profit Sharing/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

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.

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.

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

**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 health 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.

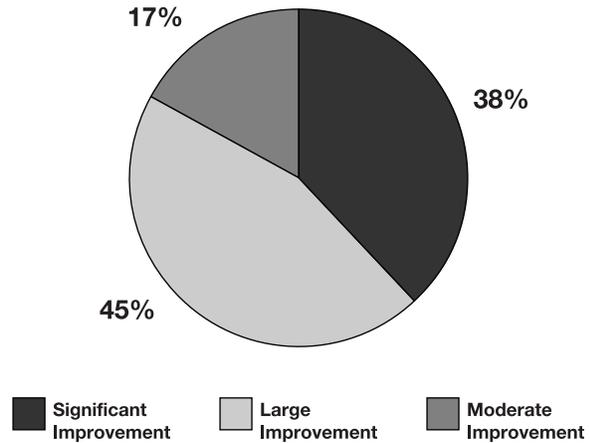
In another study,¹³ 38% of financial planning workshop participants reported that the information they received would have a significant effect on their productivity on the job. Another 45% said the information effect on productivity would be large, and 17% said the effect would be moderate (figure 1-6).

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

**Figure 1-6:
Employee Attitudes After Financial Education Workshop**

Research on Employee Attitudes After Workshop on Retirement/financial Planning*

"To what extent will having this information affect your productivity?"



*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 health, 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 study¹⁵ 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 program¹⁶ 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 arguments¹⁷ 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.”

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

“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...”

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.

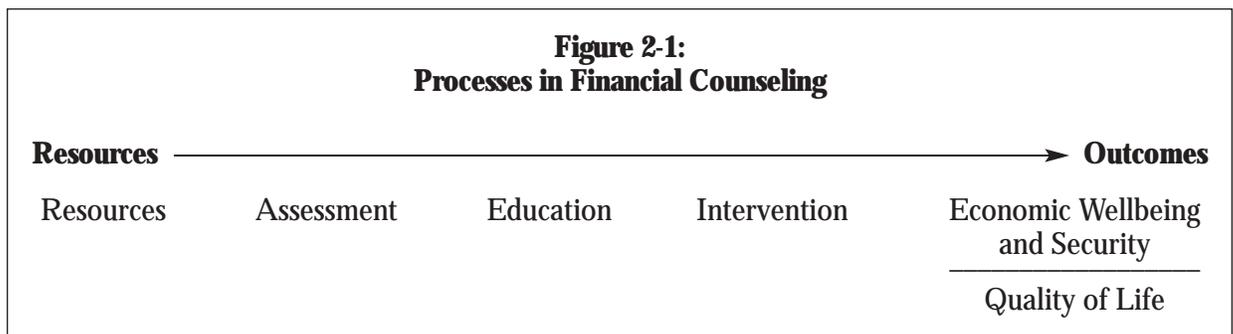
SESSION 2: Financial Counseling: Best Practices

Flora Williams

Professor Flora Williams received her B.S. from Manchester College, and her M.S. and Ph.D. from Purdue University. She represents the School of Consumer and Family Sciences on the Purdue University Senate, teaches undergraduate and graduate classes, conducts research, and advises students. She is internationally recognized in the field of family economics and financial counseling planning. Williams was named distinguished fellow of the Association for Financial Counseling and Planning in 1999. In this session Williams explores the components necessary to create and maintain an effective consumer financial counseling program, and presents a model construct for counseling programs. She also details both the benefits and costs of counseling programs to the employee, the employer and the credit union, and presents criteria for successful financial counseling offered by a credit union.

A working definition for the process of financial counseling is this: “A financial counseling service assists clients in the creative use of all their resources to improve their economic well being and quality of life. Financial counseling assumes that changes in financial affairs and behavior are needed rather than enhancement or merely repositioning assets. Financial counseling is a ‘change management system’ utilizing knowledge and processes. Various models of financial counseling identify areas of change and assumptions in the delivery of knowledge and generating alternatives for facilitation change. Therefore, financial counseling has evolved into a multidisciplinary and interdisciplinary profession which theoretical, comprehensive models can encompass.”

A model of the financial counseling process is shown in figure 2-1.



The model starts with resources, the tools we bring to the counseling process: human assets such as physical, social and spiritual energy; material assets including money, time and goods; resources within the person, family, community and government; and present and potential human capital.

Financial counseling is a discipline that has achieved professional status. It is an approach to assist families to improve their quality of life. After analyzing all the resources available to assist families, the counselor next assesses the situation to determine how to deploy available resources. We identify internal and external resources, present and future resources, realized and hidden resources, and evaluate which of those resources we will use to address the problem.

Assessment also involves classifying the demands that will be made upon our resources, including present and future demands; priorities based on urgency and sequential implications; opportunity costs; and creditor policy and legal implications. In making our assessment we focus on the changes we hope to achieve. We note barriers to change, both real and unreal, stated and unstated, hidden and potential. Finally, the assessment process clarifies and prioritizes the client's wants, goals, and resources; and identifies the actions required to achieve success.

Financial counseling differs from financial planning in fundamental ways. The focus of the financial planner is on asset distribution and wealth accumulation. The financial planner is likely to be working with clients who are relatively secure, and wish to provide for their own future and the future of their heirs. The financial counselor, by contrast, typically works with individuals and households in need of crisis intervention. As a result, the financial counselor needs different skills than the financial planner. The counselor may be faced with emergency conditions in the lives of clients, conditions that require a team of professionals to address. The counselor is also concerned with effective behavior modification, a focus much less likely to occupy the financial planner.

The next step in the financial counseling model is Education. The education step provides information to the client, explains the methods to be implemented, and presents alternatives for the outcomes listed in figure 2-2.

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*“Financial
counseling
differs from
financial
planning in
fundamental
ways.”*
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**Figure 2-2:
Education Goals**

- Increase income (money, non-money, earnings and investments)
- Decrease expenses
- Adjust debts
- Control credit
- Clarify wants and goals
- Make decisions
- Organize household financial system and communication
- Make budgets and spending-saving plans
- Implement action for consumer recourse, legal-consumer rights, or problem resolution
- Establish and evaluate housing, insurance, transportation, estate planning, divorce, financing education, retirement, and elder care
- Develop sources of security and reduction of risk

The Intervention step is what makes financial counseling different than financial planning. During the intervention phase, the counselor motivates the client to act, based on factors revealed during the assessment. The counselor facilitates and refers clients, and negotiates with creditors, landlords, attorneys and judges, employers and hospitals. The counselor also empowers the client by removing barriers to knowledge, willingness and ability.

During the intervention phase, clients are enabled to adjust their lifestyle, consumption, management, and sources of satisfaction. They learn how to handle change and crisis in times of transition and stage of life. They are given management skills so that they can plan, and then control, implement and evaluate the plan they've developed with the help of the counselor. They learn how to use available resources, and act with immediacy, courage and communication to overcome barriers to their financial health.

Finally, the counselor coordinates and implements plans with brokers, insurance agents, trust officers, accountants, employee benefits administrators and attorneys. A successfully implemented financial counseling plan takes the client from examining resources, through assessment and education, to intervention, and ultimately to economic well being and a better quality of life.

The counseling process is not limited to low or even middle-income households. Individuals and families in every income stratum are likely to need the services of a financial counselor. The team we assemble to serve a particular client may vary based on income and wealth, but the process is the same for princes and paupers alike.

FORMULA FOR ECONOMIC SECURITY

The formula for economic security involves more than the client's income, as shown in figure 2-3. It includes attitudes toward that income, financial assets, personal assets, personal management, community resources, durable goods and equipment for producing non-money income, the value of simplicity, and insurance. Individuals use all these resources to achieve economic security. The financial counselor assists clients to control their finances. That sense of control acts as an intervening variable between quality of life and income, and environmental conditions. Personal dispositions influence evaluations of life, and inner attitudes modify the impact of environmental conditions.

**Figure 2-3:
Formula for Economic Security**

$$ES = f (\$, ATTS, FA, Pa, MGNT, CR, DG, V, I) a$$

where:

\$ = money income,

ATTS = attitude toward income adequacy,

FA = financial assets,

PA = personal assets,

MGNT = personal management,

CR = community resources,

DG = durable goods and equipment for producing non-money income,

V = value of simplicity, and

I = insurance

a is the error term – here explaining the ability to adjust.

In assessing the client's financial position, the counselor typically must complete a recommendations checklist consisting of 179 separate items related to increasing income, reducing or changing expenses, controlling credit, adjusting debt and obligations, clarifying priorities, making decisions, managing household affairs, evaluating financial programs, and maintaining economic security. This checklist lets the counselor remember and make individual recommendations, and provides a quality control tool in training others. The recommendations are computerized so that they can be retrieved immediately for client action.

Counselors encourage their clients to "be a champion of change." We help clients handle crises and change, and employ several techniques to help people deal with crisis and change. These are usually very simple things, such as examining their costs in areas such as transportation, housing, insurance, children's education and funding and tax management. On the asset side we make recommendations relative to investments, estate distribution, home based businesses and other categories. The recommendations the financial counselor makes are driven by the

overall model we discussed earlier. It's not enough to devise a plan and create alternatives. It's also a matter of how the client implements our recommendations and deals with change.

BENEFITS AND COSTS

Now let's do a brief cost/benefit analysis of financial counseling programs. Here we're talking about benefits and costs to the employee, the employer, and the credit union.

Employer Benefits

For the employer, we know that better financial health results in higher morale, loyalty and physical health on the part of employees, which in turn implies greater focus on the job. We also know that financial health produces greater concentration, creativity and productivity. By improving financial health, we can reduce the number of employees experiencing money problems that affect their job performance.

Financial counseling programs are a powerful tool to reduce the number of wage garnishments and wage assignments, and their associated costs. They reduce the approximately 15% of all employees that suffer wage garnishment at some time in their working lives. As employees gain control of their financial lives, they become more competent on the job. Both employers and employees benefit as the interrelatedness of financial affairs, substance abuse, and gambling problems is recognized, and problems are confronted.

When financial counseling is used as a management tool, the problems of addiction can be faced, and then addressed at an earlier stage, triggering employee assistance programs and referrals that improve concentration, and reduce workplace accidents and tardiness. Employees make fewer mistakes on the job because they have less financial stress in their lives. Employees face bars to promotion when they have financial difficulties. That's why we say that financial trouble affects not only the employee's present, but his or her future as well.

With financial counseling, employees are likely to need less time off from work to handle their personal affairs. If these employees have a credit union with a financial counselor close by, they are

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*“Personal
financial
competence
can be related
to on-the-job
competence.”*
=====

likely to be on the job and working productively. Counseling provides incentives to employees to continue high levels of productivity and service in order to meet their financial goals and get their affairs in order before retirement. A formerly productive worker may realize that he can't retire on time, and lose his interest in on-the-job performance. Counseling can restore the employee's focus and his productivity as well.

Employees with access to counseling have more consistent productivity because they're able to handle life's transitions and unexpected events. They get the information they need to make informed decisions.

Employer Cost

Along with the benefits, it's fair to examine the employer's costs of a financial counseling program. First, the employer has the cost of maintaining the service, and must assume that the cost of counseling will be less than the cost of wage garnishments and assignments.

There's also the cost of overhead, equipment and utilities for housing the financial counseling service as an independent department or entity. There are costs associated with marketing and other support services as well. In a typical example, the financial counseling program for an organization with 9,000 employees must support the following activities:

- Three counselors and one office manager
- These counselors provide 621 hours of counseling and assessment
- They offer 17 hours of presentations and workshops
- They perform 12 hours in new staff orientation
- Counselors spend 13 hours consulting with other departments
- They attend administrative meetings for 11 hours; and
- They spend 20 hours in continuing education

Cost of Doing Nothing

The cost of financial problems to a company can be estimated by the procedure shown in figure 2-4. Employees burdened with financial problems are not likely to perform at their full potential. Therefore, employee financial welfare is a legitimate area for management to study and address.

**Figure 2-4:
Computing the Cost of Financial Problems**

Assume 10% of the workforce experiences financial problems # _____; and
10% of average annual wage in waste productivity amounts to \$ _____; equals
annual cost of doing nothing about employee financial problems: \$ _____.

Likewise, a formula has been established to determine the effect of Employee Assistance Programs, as shown in figure 2-5. If we apply that same formula to determine the effect of financial counseling and assume the percentage of personal problems due to financial concerns, we can estimate the cost savings to employers of financial counseling programs.

**Figure 2-5:
Cost Savings Effected by Employee Assistance Programs**

Number of employees in the company = _____ (A)
10% (.10XA) are experiencing personal problems = _____ (B)
(Statistics indicate that 10-20% of the workforces is incapacitated by disruptive personal problems)
Average employee's salary = _____ (C)
Total salary of employees with personal problems (B x C) = _____ (D)
Costs due to reduced productivity (D x 35) = _____ (E)
(Employees experiencing personal problems are at least 35% less productive)
Your savings are (E x 75%) = \$ _____
(75% of employee personal problems can be corrected through professional counseling)

=====
“Clients expect more from financial counseling than simple credit repair. They want to manage their money better for greater future security.”
=====

Benefits to Employees

The benefits of financial counseling to employees are also substantial. Clients report, for example, “a great series of releases from financial stress.” Financial counseling for these individuals means less family stress and fewer health disorders, yielding more work success and productivity. Clients also report “fewer problems off the job, and fewer problems on the job.”

Clients typically expect more from financial counseling than simple credit repair. They want to manage their money better for greater future security. And they want to become financially independent, rather than continuing to be virtual bonded servants who owe their souls to the company store. These are tangible benefits that financial counseling delivers to its clients.

With a financial counselor, individuals and families with money troubles have someone to turn to rather than moving along life’s highway adding more debt and disrepair. With a financial counselor, they can expect reduced monthly interest payments, late fees and penalties. They can also achieve reduced expenses and increased savings. They become empowered to:

- Know what needs to be done and get it down on paper to build moral support and commitment.
- Build their confidence with defined steps to talk with creditors and family members. Counseling gives them the power to be in control of their financial affairs.
- Have the ease and convenience of handling their financial affairs rather than taking time off from work.

In short, counseling helps to fulfill dreams and meet goals for clients, because they have the information they need to take control of their financial lives. Financial counseling assists clients in the creative use of their resources to change behavior. People change their behavior as a result of relationships with others who have faith in them. Most of the people who come to counseling need that relationship to force them to carry through on a program of financial management that will change their behavior. Counseling involves more than information and education. It builds new relationships that in turn encourage solutions.

The barriers to change that we examined in our initial model of financial counseling include the willingness and ability to change. The role of the counselor includes addressing those barriers, and overcoming behavioral factors. The counselor helps to reduce anxieties in other facets of the client's life, so that change is more accessible. Both psychological and financial factors are involved in the counseling process.

Employee Cost

Once again, we need to consider not just the benefits but also the costs of financial counseling to the employee. There's the obvious time required to meet with the financial counselor. There's also time required to gather appropriate information, and provide that information to the counselor. If the employee is taking time off work to do that, it must be balanced against the benefits reaped in the counseling process.

There are confidentiality issues as well. For example, the client must show pay stubs to the counselor, thereby giving up a certain degree of privacy. Many clients fear that admitting failure will reflect on their on-the-job capabilities. If they are observed visiting a counselor by a co-worker, they relinquish more confidentiality, because they often see seeking help as a sign of weakness, rather than strength. Counselors make it a point to compliment new clients on their strength in seeking assistance, to reassure them that help is a step forward, not a character flaw.

If the client is forced to participate or recommended by a supervisor, the counseling process may create resentment and close the door to some alternatives. The counselor needs to deal with these resentments, and turn the discussion to a positive examination of options.

The client in financial counseling also pays a price in deferring satisfactions and postponing some of the things he wants. And he needs to get the cooperation of family members for changes in their group priorities and practices. The greatest price some clients pay for entering a counseling program is having to mobilize the cooperation of every family member to set their financial house in order. But we have found over time that family members are usually more willing than the client might believe to make the necessary changes.

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financial health
and build their
long term
assets.”*
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Credit Union Benefits

First and most obvious of the benefits to the credit union of a financial counseling program is that it fulfills and demonstrates the credit union philosophy of people helping people to help themselves. It also reduces the risk of costly loans, ineffective loans, and bad loans. A financial counseling program can also promote the use of more credit union products and services by members. And it enhances credit union service to its members with a relatively small additional cost of training existing counselors, or an expansion of service through an independent department.

Counselors are a positive alternative to traditional collection methods, creating value added services that help members maintain their financial health and build their long term assets. American society increasingly is asking its institutions to fulfill a new responsibility, to not only provide its citizens with an income, but to educate them in how to manage their income. A counseling program is an excellent way for the credit union to respond to those societal demands. This is a relatively low cost, high impact enhancement to credit union services. A counseling program smooths out life transitions to maximize return on investment in training employees.

Credit Union Costs

The credit union incurs costs in setting up a counseling program, including the cost of training personnel to staff the service. Costs include both staff training time and the materials needed to support the program. The Boeing Employees Credit Union offers a counseling outreach program that provides financial counseling resources for credit unions. They train people to become financial counselors in a week-long session. The cost is \$3,200 for the first participant, and \$1,400 for each additional participant.

There are also salary considerations. My research indicates that the cost of a single counselor in salary, benefits and support is about \$50,000 per year. If the credit union were to establish a new department to handle the counseling function, including support staff and separate housing, the cost might approach \$250,000 per year.

Once the program is initiated, the credit union can also expect to incur the cost of advertising and marketing, along with continued training for its counselor or counselors. There are professional meetings, certification, and support publications to consider. These support programs and materials are critical to the success of both the counselor and the overall program. The credit union must be willing to provide emotional support and time to present the program and document success (figure 2-6).

**Figure 2-6:
Evaluating Success of Financial Counseling Programs**

Program success can be measured based on:

- Reduced client stress and more positive behaviors
- Less creditor contact at work and home
- Ability to improve housing
- More secure in keeping household together
- Greater focus on defined goals
- Greater goal achievement
- Fewer interest payments, fees, and penalties paid
- Greater savings

The credit union may also want to analyze additional factors connected with its counseling program, which will also incur costs. These additional factors are shown in figure 2-7.

**Figure 2-7:
Other Factors to Analyze**

- What effect has the counseling program had on the prevention of:
 - Bankruptcy
 - Loan consolidation
 - Divorce
 - Increased debt
 - Damaging credit report
- How many adjustments and changes were undertaken in developing a program?
- Did clients experience a sense of well being and increased ability to concentrate on their jobs?
- Was communication with families on finances enhanced?

Finally, the credit union may encounter certain conflict of interest issues in the process of operating a counseling program. For example, a member may come in to apply for a consolidation loan to pay off current debt. The counselor may determine that a consolidation loan will only exacerbate the member's financial problems, and recommend other solutions, such as reducing expenses. The credit union must be willing to stand by the counselor's recommendations, which may occasionally involve short-term business costs. However, these costs are minimal compared to the long-term benefit of helping to develop financially-healthy members.

BEST PRACTICES

Armed with these cost and benefit factors, let's look at the criteria for a successful credit union financial counseling program. The following criteria give us standards for a professional practice. These standards are those that are most likely to change behavior, handle crisis situations, and optimize resources. They are capsulized in figure 2-8:

**Figure 2-8:
Criteria for a Successful Financial Counseling Program**

- Efficient
- Attractive
- Accountable
- Offering Strategies for Change
- Education
- Presents Alternatives
- Creates Trusted Relationship
- Realistic
- Comprehensive and Holistic
- Multi-Purpose
- Effective

Efficient: The program should be timely, avoid waiting periods, be accessible and inconspicuous, offer flexible hours, and be otherwise convenient. It should involve the client's partner if possible, and offer telephone consulting through a call center. It should offer crisis intervention and understand the process clients use to respond to crises. The counselor should develop a form to record meeting sessions, advice given, suggestions offered, and a date and time for the next meeting.

Attractive: Surroundings and space should be professional and attractive, with a furniture arrangement conducive to discussion. There should be a confidential waiting area with educational material to read.

Accountable: Three meetings should be arranged to facilitate progress reports. The counselor should promote continual communication, and consult with clients on their life events. The approach should be long term except in the case of a single focus request for information and advice. Clients usually take three years to change their behavior and master control over their changed consumption habits. Client and counselor should target one task to be achieved each week. And counselors should use open ended questions in probing for problem solving behaviors.

Offering Strategies for Change: Counselors should engage in crisis intervention and strive for long term behavior modification. They should use techniques for handling change in consumption, attitude, habits, management, communication and practices. They should address basic needs to be met, and find less expensive ways to meet them. They should address barriers to change. And they should apply the financial counseling change model: Increase income, reduce wants, control, and be efficient.

Education: Effective counseling empowers the client by warning about others' vested interests, frauds, and scams. It provides information through sight, sound, and kinesthetic processes. Counseling provides clients with educational materials such as leaflets, posters, lunch meetings, and seminars in the work place. And it offers case studies and comparisons that humanize the counseling experience.

Presents Alternatives: Counseling should provide several alternatives from which the client can choose, so that she can claim the solution as her own. It should employ checklists of recommendations for each area to guide the discussion, and to serve as a tool for quality control of processes and recommendations of counselors. And it should present the advantages and disadvantages of sets:

1. Alternatives to loan consolidation and bankruptcy
2. Alternative loan sources
3. Debt adjustment strategies and agencies

Creates a Trusted Relationship: The counselor should assure confidentiality. The counselor should have faith in the client to solve her problem and increase her productivity, and care about the client as a person. There should be no effect on the client's job performance evaluation as a result of seeing a financial counselor, and the counselor should be empathetic and assertive.

Realistic: The counselor should personalize the client's budget, and involve family members in ways that increase income and/or reduce expenses, in order to be more efficient. The counselor should address barriers to change to build confidence and hope. Hope in turn will give the client energy and confidence to talk to

creditors and family members. Counseling should give the client the incentive to keep working on her financial problems.

Comprehensive and Holistic: The plan should follow the financial counseling model presented earlier, involving the application of resources, assessment, education and intervention to produce economic wellbeing and improved quality of life.

Multi-Purpose: A best practices counseling program works to achieve a number of purposes. It prevents future mistakes and crises; provides credit repair, crisis intervention, self-help, and checkups. It helps the client put money to work for maximum benefit, and reduces the risk of loss. It assists in decision-making such as elder care, child care, mortgage prepayment, response to job loss, and purchase and retention of housing. A best practices program also develops budgeting and spending plans; addresses consumer disputes, rights and responsibilities; and gives clients a working knowledge of all credit union products.

Effective: The counseling program clarifies steps necessary to implement changes and solve problems. By calculating the cost of delay it prevents procrastination. It uses behavioral science and economic techniques to achieve client goals. It provides referral services to EAP programs, network services, and community resources. And it gives clients hope, control, and realistic expectations within designated time frames.

An excellent place to gain access to the resources necessary to implement a best practices financial counseling program is the county extension service office. Extension educators have materials and are willing to create partnerships in the area of consumer finance. The Federal Trade Commission is another good source of materials and advice.

By taking advantage of all available resources and bringing these resources to bear on client circumstances, the financial counselor can have a profound effect on the lives and success of the people she serves. And as employees gain control of their financial lives, they become more competent on the job. Both employers and employees benefit as the interrelatedness of financial affairs and personal difficulties is recognized, and problems are confronted.

SESSION 3: Personal Financial Stress, Depression and Workplace Performance

Robert Weisman, D.O.

Dr. Robert Weisman is Assistant Professor of Psychiatry at the University of Rochester School of Medicine and Dentistry, and the Co-Director of Project Link at the Strong Ties Community Support Program. He has subspecialty training in Forensic Psychiatry and is faculty member of the Charles E. Steinberg Memorial Fellowship in Psychiatry and the Law, at the University of Rochester. Dr. Weisman has treated individuals with serious mental illness in a number of settings including emergency, inpatient and outpatient services. He has presented internationally and written on community management of the mentally ill offender and on assessment of violence within this population. In this session, Dr. Weisman shares his perspective on the effects of stress and depression on both the health and the workplace performance of employees. He suggests that employers and health care professionals need to find ways to get involved early and prevent and identify these disorders, because they take a terrible toll on the physical, emotional and financial health of our society. The stress cycle can be a destructive force in the lives of employees, and a significant cost to their employers. A holistic approach to intervention in these problems is critical to overall success in identifying and treating them.

In this session we'll look at the issues of financial stress from another perspective, examining the way people react to stress on a personal level. Our objective is to outfit ourselves with the sales tools it will take to convince corporate and organizational executives that employee stress plays a role in the productivity and profitability of their companies.

My passion is to identify people with disorders early on, before the real trouble starts. The goal is to spot people who are at risk early enough to intervene at a time when the job is still manageable.

Motivation is a very important component in the intervention process. We need to understand how to motivate people who are undergoing stress and may be depressed. People want to be independent, and they want to do well. But how do we encourage them in such a way that they will be motivated to take control of their own lives?

The issue of stigma is significant in the general population, and even more so in a corporate setting. To admit that you have a

mental disorder, that you're troubled, that you can't handle your job is a major deterrent to counseling and treatment. Everyone wants to be the warrior, the hero. Overcoming the stigma attached to help programs is a major undertaking. We need to continue to work on making people comfortable with the idea of seeking help for problems of stress and depression. If we break a leg, we're perfectly willing to see an orthopedic surgeon and get treatment. We follow the doctor's orders, do what's recommended, even accept a hospital stay if that's what's indicated.

But if the problem is stress, depression, or financial problems, the individual is much less likely to first seek, and then accept the recommended treatment. In this way, the stigma of mental disorder is a barrier to recovery.

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*“The stigma of
mental disorder
is a barrier to
recovery.”*
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AN OVERVIEW OF FINANCIAL STRESS

Financial stress is a very real phenomenon in the lives of people at every level of society, and every walk of life. Poet E.E. Cummings once said: “I’m living so far beyond my income that we may almost be said to be living apart.” Bob Hope said: “I don’t even like money; it just quiets my nerves.” In the medical world, this is known as *anxiolysis*. We break the anxiety by possessing the thing that causes it.

In addressing the subject of employee financial stress, depression and workplace performance, I can't give you easy answers, but I can share my experience in observing how stress and depression affects employee performance and wellbeing. We need to find ways to get involved early and prevent and identify these disorders.

Figure 3-1 shows four major components of the equation as we discuss stress, depression and performance. First, there's the matter of employee stress and something I call the financial stress cycle. I've seen this cycle at work in the people I see professionally, and read about in the literature on the subject. Second, we'll consider the cost and burden of depression. Third, we'll examine how these problems affect workplace performance and absenteeism. And finally, we'll look at the types of intervention we can develop through credit unions and employee assistance programs.

**Figure 3-1:
Components: Employee Financial Stress,
Depression and Workplace Performance**

- Employee Stress / Financial Stress Cycle
- Depression: Cost and Burden
- Workplace Performance / Absenteeism
- Intervention and Prevention: Credit unions and EAPs

CASE STUDY

In a typical case of financial stress and depression, consider the story of a 42 year old male, married with three children, who works as a salesperson for a large northeast corporation. His job requires frequent travel. Although his salary is good, he has limited savings and lacks financial insight.

This individual finds himself in a vicious financial stress cycle in which he endures overwhelming personal debt, and in turn works excessive overtime to catch up. He has second jobs, spends more time on the road, and the result is that he is sleep deprived due to caffeine abuse. He suffers marital and family discord, and has a peptic ulcer that's aggravated by alcohol binges. His wife works several jobs cleaning homes and churches to supplement their income and meet their financial obligations.

The cycle is destructive. The spouses in this marriage have trouble getting along, they don't communicate well. They are like two ships passing in the night.

This case – real people, incidentally – is just one example of a behavioral health disability that has consequences on the job. The UNUM Life Insurance Company did a study of behavioral health disability management, and found that stress is the second most frequent occupational disease in the workplace, following only musculoskeletal disorders such as back problems and carpal tunnel syndrome. This study also found that stress accounts for 90 million lost working days annually, and that mental and nervous (M&N) disorders are the fourth fastest

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*“Stress is the
second most
frequent
occupational
disease in the
workplace.”*
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growing cause of workplace disabilities, growing by 335% during the 1989-1995 period.¹⁸

AN EVOLVING CORPORATE CULTURE

Corporate America has seen significant changes in the way it does business during the past decade. Mergers, reorganizations, and layoffs appear to have increased psychiatric disability claims among employees.

The American Management Association surveyed companies that had recently undergone a round of mergers involving layoffs, and found a 33% higher M&N claim incidence in those companies. Another study of companies that eliminated jobs during a five year period reported increases in seven of eight disability categories.¹⁹ The difference was greatest among psychiatric and substance use disorders, and the rise in disability rose not only in those who lost jobs, but in those who kept their jobs as well.

As more jobs in America are involved in customer service rather than in manufacturing and manual labor, we become more dependent on information processing skills and flexible interpersonal behavior. To be good customer service representatives, employees need to develop performance traits based not just on correctness and cost-effectiveness, but on helpfulness and professionalism in dealing with customers. They need to achieve a level of performance that keeps customers coming back.

When an employee suffers from depression and anxiety, cognition and social interaction are disrupted. The ability to attend to the situation at hand, memory, concentration and other factors are impaired. All these things interfere with successful occupational functioning. Customers are lost, and both production and profitability suffer. We all know how refreshing it is to deal with a customer service representative who displays a genuine desire to help. Unfortunately, we also know how discouraging it is to deal with an individual who is detached, uncooperative, and even aggressive.

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*“Customer
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performance
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customers
coming back.”*
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¹⁸ Oher, J.M. *The Employee Assistance Handbook*. John Wiley & Sons, 1999: 319-336

¹⁹ *ibid.*

Employee stress levels rise when major changes occur within their employer organization. In a single newspaper edition,²⁰ I found two stories of corporate realignment that profoundly affected the employees of those firms. First, ASG Renaissance, a contract labor provider for Ford Motor Company informed 150 workers that their wages would be cut by seven percent. It was the first wage cut the company had imposed in 14 years. ASG also laid off administrative staff, froze merit raises and required employee co-pay for medical care. The result is that workers are working more overtime, changing their habits, and requiring more support services.

The second newspaper story dealt with the John Deere Company's \$320 million quarterly loss. The company warned of continued poor financial results, and promised cost cutting including the closing of one plant and a cut in headquarters staff by 10%. Deere referred to "separation and redeployment" in announcing its actions. Euphemisms like separation and deployment are not sufficient to mask the cold facts of the situation, which employees recognize immediately as trouble for both the company and themselves.

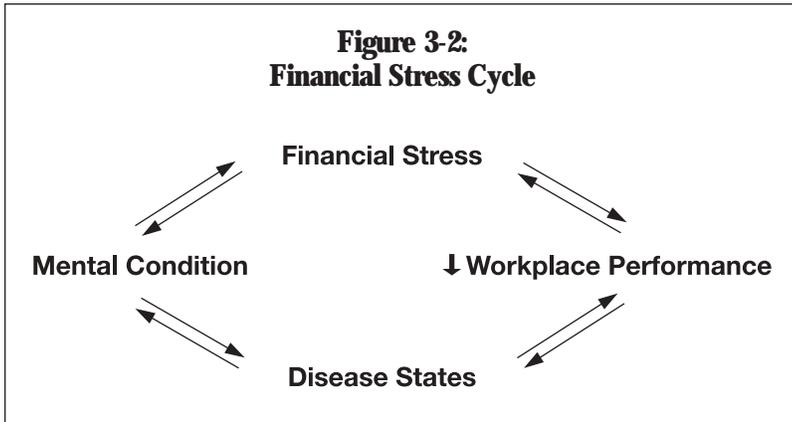
WORK AND FAMILY

At the same time, the pool of applicants entering the job market has certain expectations. Students coming out of college are looking for the ideal job, one that allows them to balance work and other aspects of their lives. Recruits place high priority on personal, family and community relationships. Their quest focuses on long term career opportunities and financial security, and on safe, close-knit communities near their family. These individuals are also seeking a setting in which they have opportunities for volunteer community service.

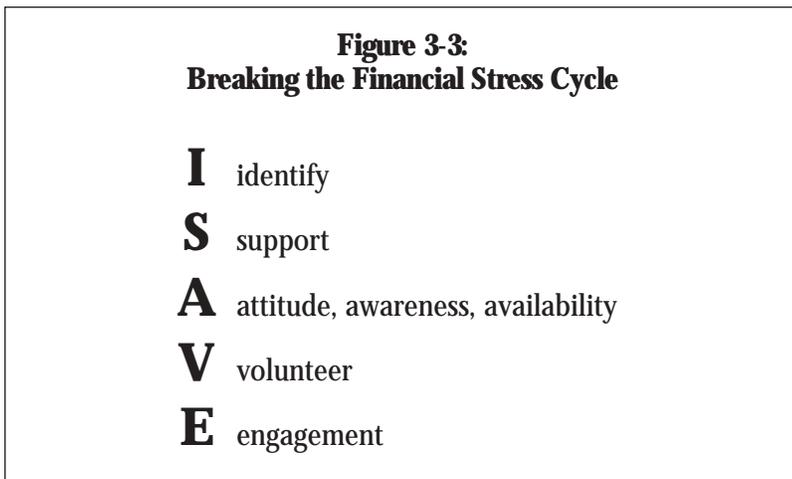
When we look at the disparity between what is happening in the world of business and the expectations of the people entering the job market, we can easily see how a financial stress cycle can emerge, as shown in figure 3-2. Both financial and mental stressors have an effect on workplace performance, which leads to disease states, and creates new mental and financial stresses. The cycle

²⁰ *Wall Street Journal* 11/21/01, J. Hallinan, Technology and Health, B7

continues to escalate, and the mental and financial health of the individual and the family continues to deteriorate.



To break the cycle, I use the acronym I SAVE to represent the steps we need to take to break the financial stress cycle in employees' lives (figure 3-3). We need to first *identify* which employees are at risk. Credit union staff members do this every day in evaluating loan applicants. Without background information such as credit bureau reports, that job is much more difficult. In the field of psychiatry, we do the same thing when we work with the criminal justice system. We're examining the evidence to determine if an individual will pose a risk later on.



Next we need to *support* the employee. That means we need to believe in the work of the employee assistance program, or the financial counseling service to which we're referring the employee.

We need to have the proper *attitude* toward the program. And we need to be aware of the support services *available*. Not just our own programs, but links to other services as well. And we need to know where these services are *available*.

We need to *volunteer* to help the employee, and do what we can to get them started on the path to break the cycle of financial stress, not just refer and forget.

Finally, we need to be sure *engagement* occurs, and that the employee has actually seen a financial counselor or an EAP person on the staff.

To break the stress cycle we need to intervene and provide the individual with coping tools and skills. When stress levels rise and disease increases, employees are less likely to perform at peak levels. To help them cope with financial stress, we can offer financial direction and planning, and debt consolidation. We can also give them access to credit union services. To break the stress of mental conditions, there's counseling, therapy and psychiatric help, along with employee assistance programs. To break the cycle of disease states we can offer rehabilitation services. All these intervention tools, along with feedback, rewards and incentives, will help us improve workplace performance.

STRESS AND DISTRESS

Stress is unavoidable in our daily lives. It can be induced by a number of factors, including competition or a work assignment. But stress is not always damaging. We have different tolerance or threshold levels for stress. The secret is to know our own responses to different stressors. Some distress is necessary, to get the job done or meet a deadline.

Distress, on the other hand, is damaging or hurtful. Our minds and bodies cannot adapt to certain degrees of stress. For example, when we "get on each other's nerves" we are experiencing an unacceptable level of distress.

Eustress (“too much of a good thing”) is the opposite of distress. Eustress occurs when we experience too much joy or success. This too can cause traumatic emotional and physical effects.

Figure 3-4 shows the typical symptoms and signals of distress. These are clues we can use to identify and intervene when employees are caught in the cycle of financial stress. Some of these symptoms can be addressed, while others are actionable.

Figure 3-4: Symptoms and Signals of Distress

- Expression of boredom with everything
- Vacillation in decision making
- Distraught with trifles
- Inattentiveness
- Irritability
- Procrastination
- Feelings of persecution
- Unexplainable dissatisfactions
- Forgetfulness
- Misjudgment of people and issues
- Loss of trust
- Loss of organization
- Confusion about roles or duties

There are also physical manifestations of stress. The individual may undergo any number of changes that signal distress problems, as shown in figure 3-5. A loss of appetite or sudden change in weight, change in appearance, alteration of schedule, and a change in social habits are all physical indications of distress. The employee may come to the office with a poor demeanor, poor appearance or hygiene. He may be tardy for meetings or be absent without notice. It’s easy to overlook these symptoms because we’re all dealing with our own problems and challenges. But it’s important to catch these conditions and intervene as early as possible.

*“Medically,
we respond
to actual
or perceived
stress in many
physiological
ways.”*

Figure 3-5: Physical Changes Due to Distress

- Loss of appetite or energy
- Sudden loss or gain in weight
- Change in appearance
- Change in usual schedule of going to work or returning home
- Change in smoking habits
- Sudden change in social habits
- Difficulty breathing
- New allergies

On the physiological level, stress can be actual or it can be perceived. Actual stress is produced by environmental conditions over which we have no control. A perceived stress, while equally real, may be something seen as a threat that may or may not be objectively true. Medically, we respond to actual or perceived stress in many physiological ways. The heart may respond with an increase in Norepinephrine, Epinephrine, Cortisol and Aldosterone, which in turn leads to increased vital signs, decreased heart rate variability, and increased blood glucose, fats, sugar, clotting elements and water retention. Our homeostasis changes when we experience stress. Now we have gone beyond the stage of inattentiveness and routine job performance, and into the area of physical damage. And an employee who develops problems such as congestive heart failure creates significant expense for both himself and his employer.

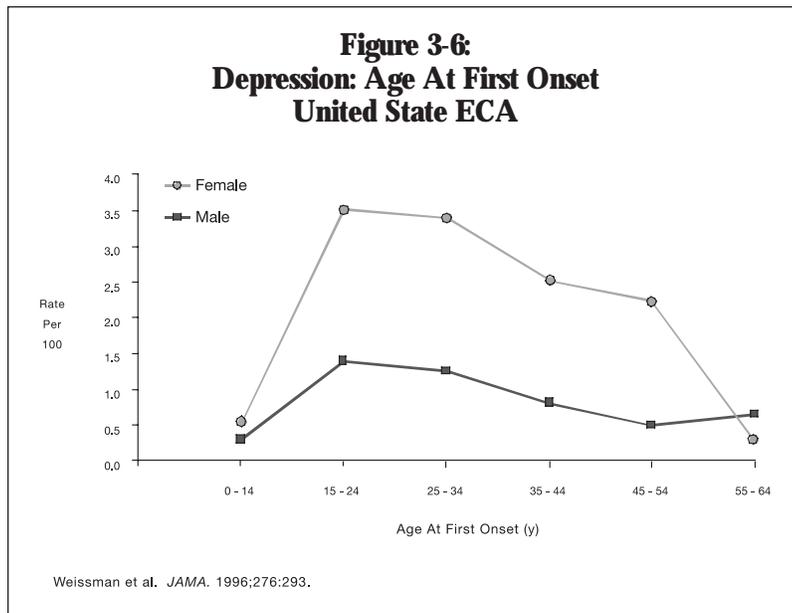
DEPRESSION

Depression is America’s number one mental health problem. The stigma attached to mental health problems causes many people who are at risk to avoid seeking help until a crisis occurs. The National Institute of Health predicts that by the year 2010, depression will be the seventh most common medical condition. The signs and symptoms of depression are self-loathing, poor self-esteem, loss of pleasure in usual interests, change in appetite, and – in the extreme – thoughts of self-harm. These symptoms

may not be addressed unless there is somebody in the family or organization who is sensitive to them.

To help identify people who may be at risk for depression, we need to know the risk factors involved. These factors include prior episodes of depression, family history, prior suicide attempts, female gender, negative life events, recent childbirth, alcohol or substance abuse, and recent separation or bereavement.

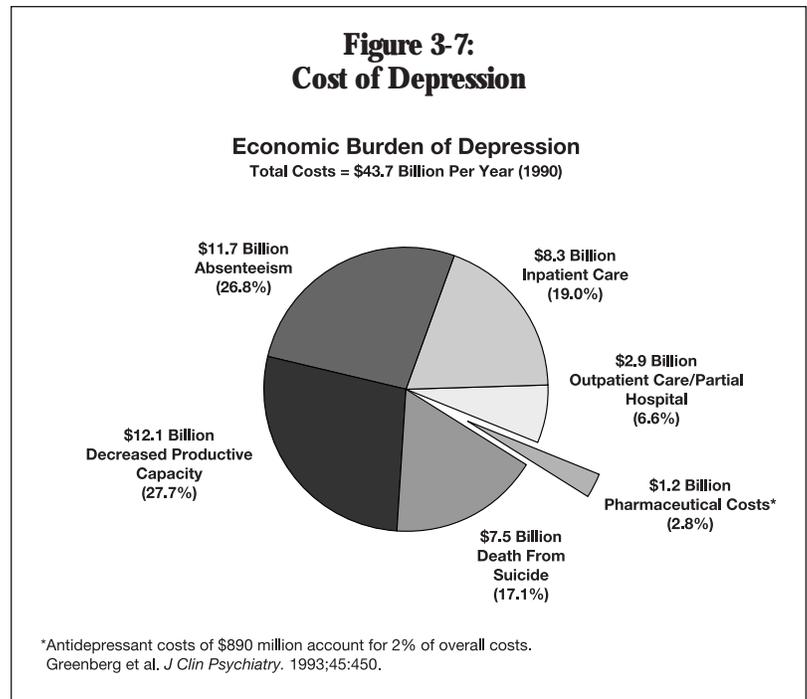
Researchers have charted the first onset of depression by age and by gender as shown in figure 3-6. The incidence of depression is higher in females, most notably during their working years. Once again, the goal is to identify potential depression early on, to make intervention measures more effective. Fortunately, the stigma against mental illness is slowly changing, allowing mental health professionals to see at risk people earlier in the cycle.



When people do seek help for depression, they are most likely to go to their primary care provider first. They are likely to have somatic complaints such as recurring headaches, sleeplessness or other problems. But primary care providers are often unable to devote the time and attention necessary to diagnose depression. Instead, a patient who complains of headaches might be checked for hypertension. Yet the prevalence rate of depression is 6-17%, while the prevalence rate for hypertension is 5.8%. Primary care providers typically have about ten minutes to see each patient. They miss the correct diagnosis in half of all cases.

“The economic burden of depression is enormous.”

The economic burden of depression is enormous (figure 3-7). The cost of pharmaceuticals each year is over one billion dollars. That's a large number, but not compared to the other costs of treating depression, which add up to a staggering \$43.7 billion each year. That includes inpatient psychiatry, outpatient psychiatry, partial hospital treatment, the cost of suicide and morbidity. But more than half the total cost is in absenteeism and decreased productivity. Billions of dollars are being lost to these problems.



The same magnitude of cost is being incurred in treatment and lost productivity due to anxiety disorders. And people who are not treated for these disorders tend to develop higher rates of life-threatening diseases such as coronary heart disease.

Wellness is a major part of the picture, and taking care of ourselves is a significant factor in achieving low absenteeism and high productivity rates. Exercise benefits us both physically and mentally. Education is a key component of building a healthy work force. To maintain wellness and energy, we need to:

- Live in the here and now.
- Handle small problems when they are campfires, not forest fires.
- Greet each day as fresh, and live it to the fullest.

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- Respect ourselves enough to slow down and look at our lives:
 - Step by step, and aim to change that which is not working.
 - Accept assistance.

In one minute we can change our attitude. In one minute, we can change our entire day.

To combat depression, the individual needs to make an effort to communicate to family, friends and colleagues as well as to health providers. Finding time for oneself each day is part of the prescription, as we avoid trying to keep up with the Joneses. The individual needs to build a network of trusted friends, and at the same time avoid unhealthy relationships. Physical activity every day is a must in the effort to overcome depression.

THE HIGH COST OF MENTAL DISORDERS

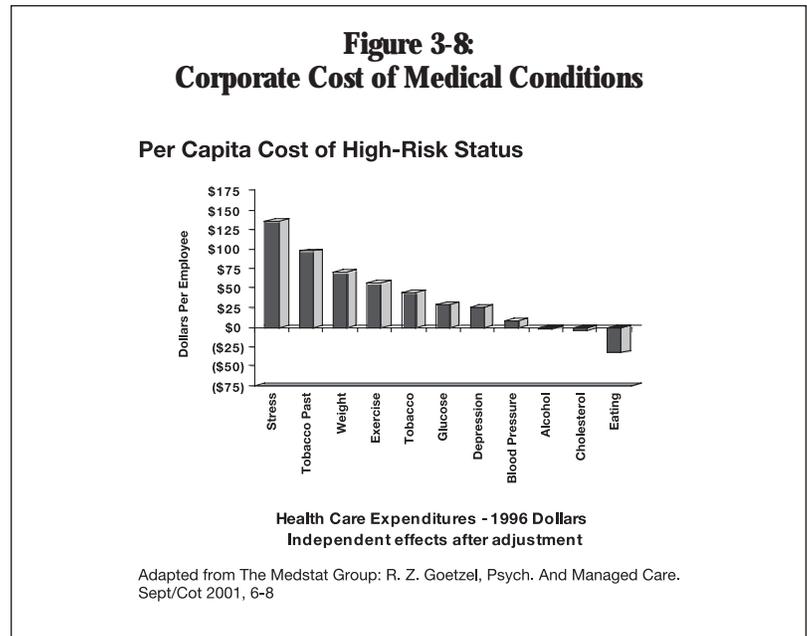
One researcher²¹ who looked at productivity and health found that even employers who recognize the importance of health and productivity management on the job are often lost in a corporate maze of programs. They know there's a problem, but they don't know how to sort out the available information in order to address that problem in a rational manner. Even if the primary diagnosis is depression, 70% of expenditures are devoted to treat physical symptoms. The employee may have had somatic symptoms of depression – stomach aches, chest pains, shortness of breath, and other symptoms. When providers treat these physical symptoms, they may be subjecting the patient to further risks.

Major workplace productivity losses due to depression include absenteeism and presenteeism – employees who may be at work but mentally distracted. In one study of 1,000 individuals with depression disorders, about two hours of each work day were lost due to the disease. Illnesses such as heart disease incur large front end medical costs, but over the long term they are not as expensive as depression disorders in terms of lost productivity.

Figure 3-8 shows the annual per capita health care cost of employees for disorders ranging from stress illness to eating

²¹ R. Z. Goetzel, *Psychiatry and Managed Care*, Sept/Oct 2001. 6-8

disorders. The research studied a total of 46,000 employees at six large corporations. The researchers matched their assessments with company medical claims.



This study concluded that high stress generates an annual per employee cost of \$136 in health care costs for the disorders studied. Moreover, much of the costs of care are the result of modifiable risk factors. These are things that can be changed through employee assistance programs and referrals, as well as financial support and counseling. The implication is that productivity loss can be managed over time. What's required is a comprehensive, holistic approach that looks at how each employee uses various employer benefits and programs. Figure 3-9 lists recommended steps to maintain mental fitness.

**Figure 3-9:
Ten Steps for Maintaining Mental Fitness**

1. Become aware of your needs.
2. Let your needs be known.
3. Demonstrate behavior that reflects high self-esteem.
4. Work to improve learning, challenges, physical health, and spirit.
5. Reduce negative value judgments of yourself.
6. Allow and plan for successes.
7. Think positive – it's contagious.
8. Learn to escape when appropriate.
9. Find ways to help others.
10. Be willing to seek help.

MONEY PERSONALITY TRAITS

People relate to money in a variety of ways. For some, financial issues can become very stressful, while for others they rank low on the scale of priorities. Some people are eager to become involved in managing their money, while others would rather have others handle that job. Some have had bad experiences with finances and investments in the past, and are reluctant to act in the financial arena again. Those who become emotionally involved in their financial lives approach the subject differently than those who are logical and objective in their approach. Other factors that differentiate people in their money personalities include risk-threshold, spending and saving habits and trust in the honesty of others.

To achieve “mental wealth,” the individual must understand his or her money personality. Our relation to money and our attitudes affects our money behavior. The mentally wealthy individual neither exaggerates nor denies the importance of money. For these individuals, money is viewed as a reward for achievement, not as an end in itself. Mentally wealthy individuals control their money instead of the money controlling them. For mentally wealthy

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people, financial success provides enjoyment and satisfaction as well as security.

In summary, the stress cycle can be a destructive force in the lives of employees, and a significant cost to their employers. Stress-related depression takes an enormous toll on productivity in the workplace, and can be linked to many other physical, mental and emotional problems, all of which involve additional costs. To recognize and intervene in the illnesses that are typical outcomes of the stress cycle, employers and human service agencies need to work together toward stress management, drug-free workplace compliance, critical incident debriefing, crisis management and dependent care. A holistic approach to intervention in these problems is critical to overall success in identifying and treating them.

SESSION 4: Discussion: Strategies to Promote Credit Union/ Employer Partnerships

In this session participants shared their views on how credit unions can work with sponsoring organizations to reduce employee financial stress and increase workplace performance through programs designed to promote financial wellness. Participants discussed the steps necessary to implement such programs, potential products and services involved, specific programs currently in place, and the expected return to the credit union that financial wellness programs might provide. The session was moderated by Bob Hoel, Executive Director, Filene Research Institute.

We've learned that financial stress affects worker performance across all industries, and throughout the country. And worker performance in turn affects employer profitability. Also, we see irrefutable evidence that everybody wins when we successfully address this problem. The employer maximizes return on human resource investment. The employee grows in terms of confidence and self-worth. And the credit union builds goodwill and fosters its reputation as a value-added partner for both employer and employee. It differentiates credit unions from for-profit financial institutions.

This is not the time in history for an organization to be average. This is the time for credit unions to demonstrate that they are something special, that they offer synergies to benefit each of the participating parties and create a whole that is greater than the sum of its parts.

What strategies can be useful in applying the concepts and ideas that have been presented in this colloquium? First, what do we know about employees that will help us to address those needs and develop workable solutions?

Next, what products and services would be effective in addressing employee needs? What products will help to alleviate financial stress?

Third, what resources are available to distribute these products to the people who need them? Distribution methods might include person-to-person space, group education efforts, telephone delivery systems, and Internet communication.

Fourth, we need to promote the program. How do we motivate the employee to access products and services designed to help reduce

financial stress? How do we overcome the natural tendency to keep financial troubles secret, often until a crisis looms? How do we build excitement, and convince potential users that there's a reasonable possibility that the program will bring happiness and fulfillment?

There are also cost considerations. Should the credit union provide the financial wellness programs it develops free of charge? Should it charge the employer? The employee? Or should it be offered on a shared-cost basis?

**Figure 4-1:
Strategy for Providing Assistance to Employees**

- Identify products and services that forge a partnership
- Choose effective distribution modes
- Create persuasive communications to promote the program
- Develop pricing strategies acceptable to all parties

PRODUCTS AND SERVICES

Savings Programs: Credit unions can address employee financial stress through their traditional and emerging savings programs. Member behaviors begin to change when they start to accumulate savings. Previous Filene studies have found that savings is often a key factor in reducing financial stress, even for low-income households. Savings give employees the resources they need to deal more effectively with financial crises, when they occur. Credit unions can offer a number of programs to help:

1. Cash savings programs with the goal to build resources equal to 3 to 6 months salary. These programs help the employee deal with unexpected circumstances, such as temporary unemployment, medical bills, education expense, and personal problems. In an age of easy credit, however, many people rely on credit cards and home equity financing in lieu of savings programs, to meet unexpected contingencies.
2. 401(k) programs protect income in the long term, building equity and assets for retirement. IRA programs also supplement income at a time in life when salary income must be replaced by savings and other financial instruments.

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There’s also the need for short term money, to buy a new car or replace the furnace. Those are two different components of the employee’s financial life, but they are both critical to long term success.

3. Accounts to meet recurring regular expenses such as insurance payments, taxes and other expenses. These accounts set aside money on a regular basis for large, one-time bills that might upset the employee’s financial balance without a predetermined plan. An ideal way to set up such accounts is through monthly payroll deduction. Then, when auto insurance or taxes come due, the employee can go to the special account and not have to worry about where the premium will come from.

Financial Education: Credit unions can offer general education in intelligent consumer behavior and decision-making. Employee income does not necessarily correlate with money management skills, and employees at every income level are likely to benefit from financial education programs. Even those who balance company spread sheets as part of their job often can’t balance a personal check book. Children also need education in sound money management before they take on the responsibilities of running a household.

Financial Advice: Many members want advice specific to their particular financial situation. The credit union may have the resources to assist them, or be able to refer them to financial counselors. Credit union counselors often see young couples who are virtually bankrupt because they’ve gone out into the world without the financial knowledge they need to survive.

Financial Counseling: Whether the situation involves a crisis or simply a deterioration of the employee’s financial status, counseling may be warranted in order to change the direction of the employee’s financial fortunes. Credit union counselors can provide the motivation for employees to work themselves out of poor financial conditions. Declaring bankruptcy appears all too easy for many employees, an easy escape route from past mistakes. Counseling programs can reduce loss to the credit union, improve employee performance on the job, and increase production and profitability for employers.

Holistic Wellness Approaches: Credit unions can participate in employer-sponsored programs that promote a comprehensive, holistic approach to employee wellness. They can join with employer human resource departments, employee assistance programs, and community-based non-profit agencies to provide the range of services that many individuals need to overcome barriers to their overall wellness.

DESIGNING PARTICIPATION IN COUNSELING PROGRAMS

Shared-Cost Financial Counseling: Credit unions may be able to forge partnerships whereby the credit union, the employer and the employee share the cost of the counseling process. Tom Garman quotes a figure of \$17 per year per employee as the cost of counseling. That amount could be recovered relatively rapidly in improved productivity as employees get on the road to financial wellness.

National and State Credit Union Meetings: A panel program should be established at the meetings of national and state credit union trade groups to explore the subject of credit union/employer partnerships in employee wellness programs. Such a program should be an annual feature of these meetings. Panel participants would discuss how they develop and maintain their partnerships with employers, and how they serve members. Panels would be comprised of those who actually do the counseling, and those who set up the programs.

Employer Subsidies: Some participants expressed skepticism that corporate America would provide funding for this kind of program. Even if that is the case, one participant said, we need to change that paradigm. Companies spend money on any number of programs that support the interests of their employees, including various communications with and for employees, time-off for vacations and holidays, and other programs. Credit unions should explore various types of co-pay financial counseling programs.

Employer Endorsement of Credit Union Counseling Programs: Employers have installed programs for employees who have problems with substance abuse and other personal problems. Employers pay the cost of rehabilitation programs. Financial wellness programs might fit in the same category of employee

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benefit. Employers fund community social programs from Boy Scouts to schooling. If credit unions were to ask employers for support of a financial counseling program for their employees, the employers would receive feedback on how the program was helping employees, and see value-added.

Financial problems are among the most closely-held secrets in most peoples’ lives. An individual will see a clergyman or other counselor for everything from health to marital problems, and still be unwilling to discuss money problems. In many cases, nobody is aware of financial problems until a crisis occurs. There is a case to be made for early intervention, and for building awareness of early signs of trouble.

Human resource departments have become very sophisticated in understanding employee productivity. If a credit union can give them facts and figures supporting the benefits of employee financial wellness, they will have the ammunition to take to senior management in support of the program. If employers get the necessary data, they may be willing to provide non-cash support such as facilities, available time, and management talent to address the problem.

Building Support: To receive employer support, the program must show a contribution to the employer’s bottom line. Having the information available to convince corporate headquarters is important. Then, the corporate office can let local offices – which may regard the program as another intrusion on time and resources – know that the company supports the credit union financial counseling efforts for employees. That kind of mandate makes a difference in how remote offices regard the program.

Selling Best Practices/Turnkey Packages to Employers: Credit unions can support an effort to gather and present best practices in financial counseling, perhaps through the Center for Credit Union Innovation. Research on best practices already being implemented by credit unions can make a case for counseling programs. This would give credit unions the necessary information to present to employers to show the bottom line impact of financial wellness programs.

Credit unions could implement a counseling program with their own employee group to serve as a model for sponsor programs.

They could use the demonstrable results of that program to show sponsors how financial wellness affects productivity.

Employer/Employee Relationships: Employers are looking for ways to reconnect with their employees at a time when loyalty and trust in the employer-employee compact may be strained. A financial wellness program can be part of those efforts, demonstrating not only the credit union's concern with social responsibility, but the employer's as well. Best practices data can be integrated with research data to persuade employers on the bottom line benefits of employee financial wellness programs.

Credit Bureau Referral: One of the quickest and easiest ways to determine who needs help is to request a credit bureau report on each employee each year, to reveal those whose credit is deteriorating or are at risk. Many credit unions already do this in their loan departments. They rely on bankruptcy predictors, along with other scoring methods. These procedures help raise caution flags when at-risk members apply for a loan. Employers may be able to use similar methods, if they can show that they have a financial interest in the employee. The employer has a financial risk in each employee, giving it the right to pull a credit bureau report. Employers could make credit checks a condition of employment.

Working with HR Departments: An employee wellness program could be a component of the company's overall employee development program. HR departments have a vested interest in the overall health and wellness of employees. The credit union must be able to present data to support its case, so that the company will see the benefits of the program. Confidentiality is also an issue.

Best Ways to Deliver the Product: Face-to-face programs appear to work best, but we can't communicate with people on that basis all day, every day. We need to rely on a mix of distribution channels to get the message across. In general, face-to-face programs appear to create trust on the part of users, and support for other distribution methods such as telephone and Internet.

THE CREDIT UNION/EMPLOYER PARTNERSHIP

When we refer to “strengthening the credit union/sponsor relationship,” we are speaking of several benefits flowing from an improved relationship. The credit union hopes to accomplish the following objectives by addressing this issue:

Greater Membership Penetration: An employer who is excited about the benefits of credit union membership is more likely to present membership to its employees in a positive manner, through new employee orientation programs and on-site employee seminars.

Greater Share of Wallet: As the relationship between the employee member and the credit union develops, the credit union is likely to have access to a greater share of the employee’s present and future financial life, on both the asset and the loan side of the ledger.

Re-establish Credit Union/Employer Relationships: In some cases, the relationship between the credit union and the sponsoring organization has become strained, or even lost. This is due to a variety of factors, including plant shutdowns, expanded fields of membership and other factors.

Social Benefits: Partnerships based on employee wellness will demonstrate the social role of credit unions, and their uniqueness in the financial services community.

Build Goodwill: If the credit union is perceived by the employee member as the instrument that helps resolve a stressful situation, a lifetime of goodwill is built on behalf of the credit union.

Educate Senior Sponsor Executives: The services that the credit union provides to its members are important components of the employer’s overall service to its employees. When public bodies ask sponsors what they are doing to improve employees’ lives, for example, credit union services are a significant part of a positive answer. There is tremendous value-added by traditional credit union services that senior management needs to be made aware of. If we build awareness on the part of senior executives, they will become our champions in the community at large.

Improve Loan Portfolios: Improved employee wellness can be expected to result in better, safer loans on the credit union’s books.

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“If we build awareness on the part of senior executives, they will become our champions in the community at large.”
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Create Bottom-Line Business Partnerships: The employer's relationship with a credit union is more than an employee benefit. It is also a value to the corporation. The corporation sees value in its major business partnerships, and should be convinced to regard the credit union in this manner. The company should see the credit union as a way to enhance its profitability.

Enhance Media Coverage of the credit union role in American business: There are significant opportunities to publicize the work of credit unions in the nation's business trade press. This can be an effective endorsement of credit union services by an objective third party, and should be pursued. Credit unions should establish a relationship with local and national media to become a trusted source of information. The information must be factual, well-documented, and unbiased. The focus must be on usefulness to the reader, not just publicity for the credit union.

Partnerships with HR Departments: The credit union needs to give human resource departments reasons to promote the credit union. The HR department can be the credit union's best means of access to top management. But that department must have the information it needs to sell the credit union to the top.

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DR. E. THOMAS GARMAN

Dr. E. Thomas Garman is a Distinguished Scholar and Director of Educational Services at the InCharge Institute of America, Inc., Orlando, Florida, the nation's largest non-profit credit counseling organization. He directs research efforts to help people get out of debt and achieve financial freedom. Garman is Professor Emeritus at Virginia Tech University, where he concluded a 38-year teaching career and served as executive director of the university's National Institute for Personal Finance Employee Education.

Garman has taught in eight states and three countries, including 15 workshops for 10 universities, and several consumer issues classes in the nation's capital. Research studies conducted by his graduate students have won seven national awards.

He is an elected Distinguished Fellow in both the American Council on Consumer Interests and the Association for Financial Counseling and Planning Education. He served as president of those organizations as well as of the Consumer Education and Information Association of Virginia. Garman received the Louis M. Linxwiler Award by the National Foundation for Credit Counseling for his outstanding contributions to consumer credit education. He received the Stewart E. Lee Consumer Education Award from the American Council on Consumer Interests in recognition of his lifetime achievements in consumer education.

Garman has authored 200 academic articles and 23 books, including *Personal Finance* (Houghton-Mifflin), *The Mathematics of Personal Financial Planning*, *Consumer Economic Issues in America*, *Rip-offs and Frauds: How to Avoid and How to Get Away* (winner of a national journalism award), and *Regulation and Consumer Protection* (the last four published by International Thomson).

DR. FLORA L. WILLIAMS

Dr. Flora L. Williams earned her B.S. from Manchester College and M.S. and Ph.D. from Purdue University. She represents the School of Consumer and Family Sciences on the University Senate, teaches undergraduate and graduate classes, conducts research, and advises students. She is internationally recognized in the field of family economics and financial counseling planning.

Williams was named distinguished fellow of the Association for Financial Counseling and Planning in 1999.

Under her leadership, the undergraduate degree program in financial counseling and planning at Purdue University is recognized as the strongest in the country. Williams initiated and developed course material to meet professional and societal needs including the clinic in which students receive experience and serve clients in their community.

Dr. Williams has authored and co-authored 30 refereed journal articles, 76 refereed and other proceedings articles, 41 other research publications, 18 books, and six book chapters. Her case studies book is valuable for students and professionals nationwide. Her textbooks are used in the U.S., Canada, Europe, and Brazil. Her outreach includes quotes in newspapers, magazines, and television/radio interviews. She developed the materials used for certification of Financial and Credit Counselors nationally.

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Robert L. Weisman, D.O., is Assistant Professor of Psychiatry at the University of Rochester School of Medicine and Dentistry, and the Co-Director of Project Link at the Strong Ties Community Support Program. He has subspecialty training in Forensic Psychiatry and is faculty member of the Charles E. Steinberg Memorial Fellowship in Psychiatry and the Law, at the University of Rochester. Dr. Weisman has treated individuals with serious mental illness in a number of settings including emergency, inpatient and outpatient services. He has presented internationally and written on community management of the mentally ill offender and on assessment of violence within this population.

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