Employer-Sponsored Education Programs and Incentives to Improve Employees' Financial Lifestyles

E. Thomas Garman

Members of every employer's workforce will have severe financial problems that can affect productivity. In addition, many employees have either saved very little or feel that they cannot afford to save any money toward retirement. Employers can provide incentives for employees to attain good financial health, just as they do for physical health. Employers can also set up financial education programs that are more comprehensive than the usual retirement planning programs and address issues at every stage of employees' lives. The often neglected needs of lower income employees should be included in program planning. Advantages of such programs to employers include lower stress for employees, less time lost on the job due to handling financial problems, and a more loyal workforce.

Few employers would question the proposition that when employees are healthy, long-term operational costs are reduced, primarily though lower medical claims and fewer hours lost to illness. Thus, employers find it in their interest to promote employee health. According to a study by Hewitt Associates, 39 percent of employers are offering workers incentives to help them become more health conscious.

Health is related to money matters, too. Many workers with poor health have had financial worries contribute to or even cause their health problems. It is obvious that workers with serious and expensive health problems are often distressed about their finances, but many workers with moderate to poor health are also very concerned about personal finances.

These comments suggest some important questions. Do workers who are distressed about poor personal financial wellness have higher medical claims than workers who have better financial wellness? Do workers who are distressed about money matters use more hours of sick time than others? Do workers with poor

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personal financial wellness spend substantial work hours attending to such matters?

Although we do not completely know the answers, the questions are intriguing because research indicates that these observations about workers are accurate. For that reason, smart employers are considering the idea to offer workers incentives to improve their financial lifestyles. The logic is that as the personal financial wellness of workers increases, the employer's cost of operations will decline.

THE COST OF POOR FINANCIAL WELLNESS

It has been estimated that 15 percent of workers are experiencing stress from their poor financial behaviors to the extent that it reduces their job productivity.[1] Poor personal financial behaviors range from regularly spending too much money, writing bad checks, exceeding limits on credit cards, and failing to pay bills to receiving communications from collection agencies, having property repossessed, and filing for bankruptcy. At some job sites, the percentage of workers with substantial money problems is much higher, even as high as 40 or 50 percent.[2]

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Other research has shown that an improvement in the personal financial wellness of workers can result in reduced absenteeism.[3] In addition, it was found that poor financial wellness is correlated with excessive absenteeism and wasting time at work dealing with personal financial problems (e.g., interruptions during the work day for such things as making phone calls, receiving faxes, thinking about money matters, taking long breaks, returning late from lunch). The employer's costs for dealing with workers who are overly concerned about money matters are substantial.[4]

More insights into the personal financial lifestyles of employees can be seen in a study of 300 workers at a chemical plant in the southeast.[5] About three-quarters of the workers reported good financial wellness. However, about one-quarter were dissatisfied with the amount of money they saved, worried about how much they owed, and had difficulty living on their income. All workers were offered financial education workshops, and most attended one or more sessions. The study concluded, "Those who reported their health as 'worse than average' missed more days of work," and "those who participated in the financial education workshops reported better health than non-participants."[6]

REWARDING WORKERS FOR GOOD PERSONAL FINANCIAL WELLNESS

Employers, health care organizations, and financial service providers should all have an interest in the relationships between wellness in health and personal finances. If health wellness can be positively affected by good personal financial wellness, the employer's self-interest is to help workers improve their personal finances.

One way employers can do this is by offering a personal financial wellness program. Employees who participate in the program would receive an individual financial wellness profile assessed by an outside organization, perhaps by a financial planner or a nonprofit organization. Workers with high risk-assessment scores would have the responsibility to consult with a financial counselor for advice on credit management and budgeting and/or a financial planner for advice about financial opportunities. The employer, with or without a copayment from the worker, would pay for the services.

Another type of program, which can be used in conjunction with a personal financial wellness program or on its own, rewards employees for good financial wellness, based on such criteria as:

- Completing a personal financial wellness risk-assessment form;
- Contributing an amount to the 401(k) plan to meet the employer's match;
- Contributing the maximum amount permissible to the 401(k) plan;
- Contributing to the employer's after-tax retirement savings plan;
- Reducing consumer debt;
- Obtaining a credit bureau score for creditworthiness;
- Agreeing not to declare bankruptcy;
- Not borrowing from the funds in the employee's 401(k) plan; and
- Getting an annual personal financial checkup conducted by an outside financial planner.

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Workers whose financial lifestyles meet an established threshold of financial wellness, such as eight out of ten criteria, might earn a cash bonus in the first year of, for example, $240. Workers who meet four of the ten criteria might receive a $50 cash bonus. The actual amounts of the bonuses would be based on projected employer cost-of-operations savings resulting from workers who exhibit good financial wellness. As in health wellness incentive programs, it is important to establish a threshold level that ensures that every worker "is able to achieve the criteria for success."[7]

Communications about these programs should also inform workers that the U.S. marketplace already gives financial bonuses to people with good financial wellness. For example, those exhibiting good financial wellness qualify for lower vehicle insurance premiums because most insurers use creditworthiness as a factor in setting premiums, and qualify for lower interest rates on their credit cards, vehicle loans, personal loans, home equity credit, and home mortgages. The capital markets reward workers' defined-contribution retirement plans with interest, dividends, and capital appreciation because they are invested. This contrasts with workers with poor financial wellness, who miss out entirely because they have little or no retirement investments.

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TOWARD COMPREHENSIVE PERSONAL FINANCE EDUCATION

Along with many employer-provided fringe benefits, workplace retirement education has evolved in the past 15 years as employers made the shift to a philosophy of shared responsibility. This can be seen most dramatically in the move from defined-benefit pension plans to defined-contribution plans. Employers that offer defined-contribution plans often provide their workers with some form of retirement education.

Employers can choose to provide financial education using internal or external resources. In most workplaces, the employers themselves provide retirement education to employees. The employer's human resources department often coordinates the delivery of retirement education to workers, regardless of whether internal people or an outside financial service provider carries out the education.

The traditional, narrowly focused retirement education program offers financial planning for workers in the last few years before their anticipated retirement. It focuses on a handful of topics: calculating projected retirement benefits and retirement needs, investing to reach the retirement goal, investing to not outlive anticipated cash flow, and estate planning.

The newer, comprehensive approach to retirement planning is to furnish workers with information that helps them make better decisions, so they can find money with which to fund their retirement plans.[8] This approach educates workers to make informed decisions about: (1) employer- sponsored retirement plans, (2) other employer-furnished fringe benefits, (3) credit and money management, and (4) consumer protection rights. Even the best retirement education programs are of little help on their own if they address employees who cannot see how they can afford to save anything, no matter how important they know it is. It has been argued that with good choices and actions, even "workers with money problems can improve their financial situations within one year to begin contributing (perhaps $1,200 a year) to their retirement plans."[9]

The focus of some units in the workplace financial education program should be on liability management (reducing excessive debt loads and improving money management). Plus, for those who need it, information should be made available on how to prepare financially for home ownership and how to plan for the college education of children. These topics would be in addition to the traditional units on planning financially for the future (saving and investing for retirement, life planning, and estate transfer).

Employers offer a number of low-cost benefits that reinforce positive employment relationships, such as time off for family needs and wellness programs. Some of these benefits also save the employer money. Offering workers comprehensive workplace financial education may require expanding an employer's current work-life benefits. For instance, an annual personal financial wellness assessment and checkup can be added to the list of benefits. Another type of program could offer individual financial counseling, free financial assessments, access to a financial hot line for questions, information on financial concerns, facts on credit sources, and comparison shopping advice for various products and services.

HELPING THOSE WHO NEED IT THE MOST

There are three kinds of employees when it comes to money matters:

Offering workers comprehensive workplace financial education may require expanding an employer's current work-life benefits.

1. Those with little or no concerns about personal finances (constituting perhaps half of all workers). These people exhibit high personal financial wellness and, as a result, rarely bring stresses about money matters to the workplace.
2. Those who sporadically experience financial difficulties and face occasional money challenges (making up perhaps 20 to 40 percent of all workers). These people occasionally bring stress about money matters to their workplace.
3. Those who are regularly stressed about personal financial matters (perhaps 15 to 20 percent of all workers). These people are stressed about money matters, and they regularly deal with such problems during work hours.

Most retirement education programs are currently aimed at the first group of workers, those who are always or usually financially stable. These programs can motivate a great number of employees who earn $60,000 to $100,000 to save and invest for retirement. However, retirement education programs seem not to be aimed at workers earning near today's national average household income of $37,000. The programs also largely miss the one-third of workers in the United States who earn less than $8 per hour—approximately $16,000 a year.

Employers, however, are not convinced that financial education would help all workers. Two-thirds of employers in a Conference Board survey reported that "financial-planning assistance" would not be advantageous to lower-wage employees.[10] This employer attitude prevails in spite of the fact that "more than 50 million workers—about half of the workforce—have no retirement coverage at all, whether through an employer provided plan or individual accounts like IRAs or 401(k) plans."[11] Almost 80 percent "of all private wage and salary workers whose employers have 100 or more workers have access to pension plans at work."[12] However, employers with fewer workers—employers who often pay lower wages and salaries—typically do not sponsor a retirement plan for employees. "Of the 35 million people employed in small companies, 25 million do not have access to retirement plans at work."[13]

Financial education that successfully changes people's behavior needs to be aimed toward all U.S. workers, including working-class employees (those who earn an average or perhaps a little less than average income).

It is, therefore, no surprise that almost half of all workers have less than $10,000 saved for retirement.[14] The 1998 Retirement Confidence Survey shows that 37 percent of U.S. workers have yet to begin to save for retirement. Furthermore, 43 percent say that it is not "reasonably possible for them to save an additional $20 per week."[15] Obviously, many workers today have money problems.

Arthur Levitt, Chairman of the Securities and Exchange Commission, observed, "For every American household invested in the markets, another family has saved nothing at all."[16] Further, said Levitt, "At a time when America's economic ship is steaming toward the next century, millions are stranded at the dock, waving good-bye to the American dream."

Financial education that successfully changes people's behavior needs to be aimed toward all U.S. workers, including working-class employees (those who earn an average or perhaps a little less than average income). Many in this group are not saving for retirement. Some are so averse to financial risk that they are afraid to invest, others have money management and credit problems and cannot afford to save for retirement. Many are unsophisticated about saving and investing, while most are worried about their financial futures.

A NEW APPROACH TO WORKPLACE FINANCIAL EDUCATION

Narrowly focused retirement plan education that aims only to help workers save and invest for their retirements will continue to

Exhibit 1

Examples of Financial Programs Offered by U.S. Employers

- IBM offers a $250 "life adjustment fund" that can be used to pay for any of about a dozen services, including a masseuse or a financial planner.
- Sprint (Kansas) offers a full financial checkup provided by American Express Financial Advisors, Inc.
- Chrysler (Detroit) offers comprehensive financial planning services.
- Boeing (Tulsa, Oklahoma) offers two-hour "Holiday Survival" money-management seminars taught by the Tulsa, Oklahoma, Consumer Credit Counseling Service.
- Schlumberger (Houston, Texas) offers a two- to four-hour financial planning session to potential new hires, provided by Decker & Associates.
- Weyerhaeuser offers holistic life planning education (including wellness, relationships, spiritual values, and estate management).
- Wal-Mart (Arkansas) offers a "Solving the Money Mystery" game during lunch breaks.
- KPMG Peat Marwick (Washington, D.C.) offers seminars on financial education provided by Merrill Lynch.
- CF Industries (Louisiana) offers workshops on basic money management.
- Parkview Hospital (Fort Wayne, Indiana) offers one-hour credit education seminars taught by the Consumer Credit Counseling Service of Northeast Indiana.
- Pipefitters Union (Denver, Colorado) offers a comprehensive eight-hour seminar, and those who attend receive a credit toward the next pay increase.
- MBL Life Assurance Corporation offers financial education newsletters.
- H.E.B. Grocery Stores (San Antonio, Texas) offer a two-hour seminar on consumer protection laws in the evenings taught by Consumer Credit Counseling Service.
- North Dallas Bank (Dallas, Texas) offers a three-hour seminar on credit and money management taught by Consumer Credit Counseling Service, and employees are paid overtime to attend.
- Abbott Laboratories (Columbus, Ohio) offers crisis counseling on financial issues provided by Keeping Track, Inc.

Exhibit 1 (cont.)

- Phillip Morris (Richmond, Virginia) offers an all-day financial planning session that includes an emphasis on fringe benefits.
- UPS (Atlanta) offers financial education on preparation for transition to a second life.
- Interpublic Group Advertising (New York City) offers two-hour financial planning seminars provided by Jordan E. Goodman.
- U.S. West Investment Management Company offers on-line access to the Fidelity Portfolio Planner and the Quicken Financial Planner.
- 401(k) Forum offers Internet-based financial advice.
- The Principal Financial Group (Des Moines, Iowa) offers personal finance workshops that are provided by the Iowa Cooperative Extension Service.
- The U.S. Navy (Norfolk, Virginia) offers financial counseling to assist service members with personal financial problems.
- The Air Force Aid Society, Navy-Marine Corps Relief, and Army Emergency Relief (all around the world) offer financial grants to service members with problems.
- The U.S. Army (all around the world) offers recruits education on balancing a checkbook and avoiding rip-offs and frauds.
- The University of Delaware (Dover, Delaware) offers a basic money-management program provided by Cooperative Extension educators.
- Texas Instruments, Inc., (Dallas, Texas) offers Internet-based selection of fringe benefits and personalized retirement worksheets.
- Cyprus Amax Minerals Company (Englewood, Colorado) offers a two-hour financial planning seminar, and gives workers two hours off work to attend.
- Kraft (Chicago) offers a half-day financial education workshop.
- Wayne State University offers financial education over the Internet provided by TIAA-CREF.
- RJ Reynolds (Winston-Salem, North Carolina) offers counseling on financial matters provided by pastoral counselors.
- The Clara Abbott Foundation (Chicago) offers loans and grants to Abbott Laboratories workers facing financial troubles and challenges.
- LCI International, Inc., (Denver, Colorado) offers comprehensive print materials on exercising stock options.
- Hundreds of U.S. employers offer the multiple services (e.g., buying vehicles, mutual funds) of the Consumer Financial Network.

evolve into comprehensive personal finance employee education. Comprehensive workplace financial education can help employees maintain job productivity during times of stress, change, and challenge. Financial education can be used to help workers keep minor financial stresses from becoming major crises that can negatively affect themselves, their families, and their employers. It can be provided to workers on an ongoing basis throughout their employment life cycles to help them with money problems and challenges, as well as to guide them to save and invest for retirement. (See **Exhibit 1**, which lists a variety of financial programs offered by U.S. employers.)

The best workplace financial education will be personalized. It will be aimed at making the worker and his or her family more whole, healthier. It will be about financial wellness and financial well-being. Importantly, employees must be confident that the personal finance information and education provided through the workplace is appropriate, objective, useful, and that applying it to their lives will improve both their financial decisions and personal financial wellness.

The best workplace financial education will be personalized.

What will it take to motivate employers to provide comprehensive financial education to all workers? What has to happen to motivate employers to complete the transition of moving from "hand holding" and paternalism to letting go, individual responsibility, self-learning, informed consumers, and empowered workers?

Employers must be convinced that their financial information and education programs will provide a positive return on their investment. Employers must be able to see behavioral changes in workers that affect the bottom line. Research must demonstrate that better worker financial wellness translates to the employer's bottom line. ◆

NOTES

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