FINANCIAL EDUCATION AND ADVICE CHANGES WORKER ATTITUDES AND BEHAVIORS

Jinhee Kim and E. Thomas Garman

INTRODUCTION

Saving enough money for retirement remains a top priority for U.S. employees. A retirement plan is considered the most important employee benefit. During the last two decades, many workers in the United States became investors. This shift is a result of the ongoing evolution for employers to offer employees a defined-contribution retirement plan rather than the traditional defined-benefit pension plan. As a result, employees have had no choice but to manage their own personal investments for their future financial security. This shift in retirement plans gives each employee choices and places great emphasis on employees taking personal responsibility for their retirement. This newer retirement savings system benefits workers who change their jobs often, are young, and those who can manage investments properly by diversifying, monitoring the stock market, and reallocating assets. However, with 76 million baby boomers approaching retirement and a lackluster stock market in recent years, workers have growing concerns about their personal finances and investing for the future. Moreover, Social Security has an uncertain future and workers today are saving a smaller proportion of their incomes than earlier generations did. With greater responsibility on employees, some employers have provided workplace financial education and/or advice. This type of financial education in the workplace has been growing due to the increased need for good financial management of employees' retirement funds, and currently about 40 percent of employers provide financial education at work.[1] But while some employers have already started providing financial advice to their workers, there is a growing need for professional help.

There are a number of surveys of employers and plan providers on the topic of financial advice and there are a few studies on the needs of employees for financial advice. However, it is surprising that little research has been conducted on workers' perspectives on the subject. The objectives of this paper are: (1) to describe worker participation in and demand for financial advice; and (2) to examine the impact of financial advice on workers' attitudes and behaviors.

RETIREMENT PLAN

According to the General Accounting Office, nearly one in five big employers have changed re-

Jinhee Kim is an Assistant Professor and Extension Specialist at University of Maryland, College Park. She received a B.S. and M.S. from Seoul National University in Seoul, Korea, and a Ph. D. from Virginia Tech. Prior to joining the University of Maryland, she was Director of Research at Virginia Tech's National Institute for Personal Finance Employee Education, where she directed research and published articles in academic and professional journals on subjects such as workplace financial education.

E. Thomas Garman is an advisor and author based in Orlando, Florida, and Professor Emeritus at Virginia Tech, where he served as Executive Director of the university's National Institute for Personal Finance Employee Education. Garman has served on a number of boards of directors and advisory panels. He is a Distinguished Fellow in both the American Council on Consumer Interests and the Association for Financial Counseling and Planning Education. He has authored 200+ academic articles and 28 books.

Profit Sharing/401(k) Council of America's annual survey showed that 78 percent of eligible employees participated in 401(k) plans. Many of them provided investment education and some provided investment advice (41.17 percent) in 2002.

tirement plans from the traditional pension to a cash-balance approach.[2] The current participation rate in 401(k) plans is 80 percent at large employers and 30 percent at small employers. The Profit Sharing/401(k) Council of America's (PSCA) annual survey found that 78 percent of eligible employees are participating in their employers' 401(k) plans.[3]

In recent years, participation rates in 401(k) plans have slipped due to an economic climate of bear market losses and corporate accounting scandals.[4] Adding to this environment are lower matching contributions from plan sponsors[5] and publicity about companies that have totally eliminated making matching contributions to their employees' retirement accounts. Firms that have cancelled the match include well-known companies like Charles Schwab, Prudential Securities, and Textron.

Although overall American confidence in the ability to retire comfortably remains high and has decreased only slightly from last year, women and minorities are much less confident than others.[6] Many employees simply do not know how much they need to save and do not realize that they are not really saving enough. Recent GAO data confirms this concern. Workers will rely on Social Security, private pensions, and personal wealth for their retirement income. However, Social Security may not be able to pay scheduled benefits in full after 2042, when the Social Security trust funds are projected to be exhausted. Due to a shift from defined-benefit plans to defined-contribution plans, workers face more responsibility to provide their own retirement income. However, workers today are saving less of their income than earlier generations did.[7] Workers need to increase their savings and better manage their investments in order to maintain their standards of living in retirement.

While workers with 401(k) plans bear all the investment risk today, many do not have an adequate understanding of retirement plans and investments. Many do not understand the investment options available (the average plan sponsor offers 15 choices) or how to select optimal choices to match their needs and time horizons. This study examined portfolio choice-trading behavior and realized rates of return within 401(k) retirement accounts. It showed that 70 percent of plan participants do not rebalance their portfolio more than once.[8] The average rebalancing frequency was one trade every 33 months, and this often reduces average returns. Investment management is a complex task for many workers, yet it decides their future retirement security.

WORKPLACE FINANCIAL EDUCATION AND ADVICE

Financial education in the workplace has been growing due to the increased need for good financial management of employees' retirement funds. The current market economy has made it more important than before for employers to help their employees manage their investment. A Hewitt Survey in 2002 showed that many employers remain committed to encouraging their employees to increase their 401(k) savings. About 40 percent of employers provide financial education at work. Employers are motivated to provide retirement education to increase employee participation, to improve plan appreciation, and to introduce plan changes. Workers typically receive some type of materials from plan sponsors (their employers); furthermore, some participate in investment seminars and read newsletters, books, and magazines. A minority use the Internet or computer software. Research has shown that workplace financial education is effective in encouraging workers' participation as well as increasing contributions to employer-sponsored retirement plans.[9]

However, many employees still feel uncomfortable making investment decisions. Thus, there is a growing demand for professional financial advice to help workers manage their retirement plan funds. Retirement plan participants, policy makers, employers, and plan providers have recognized the need for financial advice. Some employers, even for public employee plans such as the California Public Employees' Retirement System, have started to provide financial advice. Some sponsors and providers have chosen online advice services. Online financial advisory firms such as Financial Engines, Morningstar, and Vanguard specialize in offering objective advice to retirement plan participants. Despite the growth of these programs, independent financial planners are probably the most common providers of financial advice.

Whether the advice is offered online or face-to-face, the delivery system does not matter to most employers. Despite employee interest in obtaining help with their investments, most employers remain reluctant to offer employees advice. Under the Employee Retirement Income Security Act of 1974, there is no specific requirement that plans offer investment advice to participants even though they have the responsibility to direct the investments within their accounts. Rather, the law suggests that companies will be held liable for poor investment advice.

Surveys show an increase in investment advice at the workplace.[10] Currently about 22 to 25 percent of employers report that they provide investment advice. But the majority (58 to 61 percent) of companies are not even considering giving investment advice due to the potential liability involved. Fiduciary liability concerns are stopping many plan sponsors from giving workers financial advice. In a recent survey of plan sponsors from more than 1,000 U.S. organizations that have a defined-contribution plan with more than 5,000 active participants, nearly nine out of ten (86 percent) of the plan sponsors felt that their employees needed financial advice. Almost half of the plan sponsors (48 percent) felt so strongly about the benefits of offering investment advice that they believed it should be positioned as part of an organization's general benefits program.[11] Another survey of nearly 400 large-and mid-size corporate plan sponsors revealed that over one-third of the employers would offer participants access to investment advice and guidance if they were provided legal protections.[12]

EXHIBIT 1
Demographics of Study Participation

	N (%)		N (%)
Gender		**Heritage**	
Male	22 (42.3)	Caucasian (White)	49 (94.2)
Female	30 (57.7)	Hispanic	1 (1.9)
		Asian/Pacific Islander	2 (3.8)
Education		**Marital Status**	
High School graduate	11 (21.6)	Married	37 (71.2)
Trade/Vocational training	5 (9.8)	Single	8 (15.4)
Associate's degree	6 (11.8)	Divorced	5 (9.6)
Some college	4 (7.7)	Living with partner	2 (3.8)
College degree	20 (39.2)		
Graduate degree	5 (9.8)		
Age		**Household Income**	
20-29 years	9 (17.3)	Less than $20,000	3 (5.8)
30-39 years	16 (30.8)	$20,001-$30,000	2 (3.8)
40-49 years	16 (30.8)	$30,001-$40,000	4 (7.7)
50-59 years	10 (19.2)	$40,001-$50,000	5 (9.6)
60 years and over	1 (1.9)	$50,001-$60,000	9 (17.3)
		$60,001-$70,000	6 (11.5)
		$70,001-$80,000	6 (11.5)
		$80,001-$90,000	7 (13.5)
		$90,001-$100,000	2 (3.8)
		More than $100,000	8 (15.4)

For several years, there have been many legislative efforts to encourage providing financial advice for workers. Most recently, the House passed the Pension Security Act, H.R. 1000 in May 2003. The provision would let employers hire financial services firms to offer investment advice, even if the financial services firm also manages the plan's investment options. The provision for dual responsibility remains controversial.

STUDY METHODOLOGY

This study was conducted to obtain insights into workers' demands for individual financial advice and to examine the impacts of individual financial counseling advice sessions and financial education workshops. The subjects for this research were white-collar workers of an insurance company geographically located in three different mid-western states. Prior to the present study, workers participated in financial education seminars and occasionally received related materials. During the spring of 1999, the workers (N=476) received a 90-minute financial education seminar. The employees completed a survey questionnaire before the seminar and three months later they (N=482) completed a post-assessment survey. In addition, free 30-minute individual one-on-one financial advice sessions were provided to all the workers who participated in the educational seminar. One month after the individual financial advice sessions, an additional survey questionnaire was completed (yielding a usable response rate of 58 percent).

Two-thirds of plan participants want professional financial advice.

Ninety-one employees received the financial counseling advice provided by the same provider as the workplace financial education seminars. They received personal advice on their investments, individual financial goals, and debt management. Respondents were asked to give the last four digits of their social security numbers on the survey form. Out of 52 cases, 39 were matched to the second survey. Thirteen people did not complete two surveys or did not give the last four digits of their social security numbers. There were no significant differences in demographics between the workers who participated in individual financial advice and those who did not.

Demographics

The demographics of the respondents are shown in Exhibit 1 (previous page). About three-fifths (57.7 percent) were female and 42.3 percent were male. Almost all of the participants (94.2 percent) were white. Seven-tenths (71.2 percent) were married. The respondents were well-educated and half of them held college degrees. Ages ranged from twenties to sixties with three-fifths between 30 and 49 years. Household income ranged from less than $20,000 to more than $100,000. By combining categories, more than half (55.8 percent) reported that they earned $60,000 or more in household income.

RESULTS

The following results indicate the value of financial advice as well as changes in financial attitudes and behaviors.

Financial Advice

Eight-tenths of the participants (84.6 percent, not in the above table) found that the individual financial advice session was beneficial. Slightly more than one half (53.8 percent) thought 30 minutes was about the right length of time, and nearly half (46.2 percent) thought it was too short. Three-quarters (76.5 percent) reported that they might need a more comprehensive analysis on financial planning. Workers prefer individual financial advice at the worksite (61.5 percent) with spouse/partner present (63.5 percent), during work hours (51.9 percent). Additionally, nine out of ten workers (92.3 percent) were willing to pay for a comprehensive financial analysis provided by a different outside financial planner if the government paid for some of the cost.

Those who were provided with a financial education and counseling advice session at the workplace considered themselves to have very moderate investment knowledge. The respondents were asked to self-rate their knowledge about investing on a seven-point scale (1 = beginner, 7 = expert). No one marked expert. Combining categories (1, 2, and 3) showed that 55.8 percent of the respondents reported their knowledge as beginner or below the mid-point. About three-tenths (28.3 percent) marked above the mid-point when combining categories (5, 6, and 7) while 15.4 percent marked the mid-point of the scale.

Respondents were asked why they decided to participate in the individual financial advice session. The results showed that the majority expressed need for professional assistance regarding their overall financial plan while some had specific interests in retirement and investing. One-third wanted to get advice about their retirement and investments (35.6 percent). Three out of ten desired to check their financial plan and learn how to improve it if needed (31.1 percent). A quarter reported that they needed more information and answers to their individual questions (26.7 percent).

Participants were also asked to reveal the most important advice they obtained from the advice session. The most frequent response was diversification and reallocation of their portfolio (44.4 percent). One-fifth confirmed that they were on the "right track" in terms of their financial planning (20.0 percent). One-third received specific advice targeted to their financial situation (33.4 percent), such as answers to other individual financial goals (17.8 percent) and debt management (15.6 percent).

Changes in Financial Attitudes and Behaviors

There were significant changes in workers' financial attitudes as a result of a combination of the workplace financial education and the individual counseling advice session as shown in Exhibit 2 (next page). About four-fifths of the respondents (80.8 percent) reported that they now had a more adequate knowledge of personal finances and three-quarters (73.1 percent) felt more confident in managing money to achieve financial goals. About two-thirds (65.4 percent) reported that they felt that they were in better control of their personal finances. More than half of the respondents agreed that they had a better understanding of the relationship between risks and returns in investing (57.7 percent) and they felt more confident in making investment decisions (51.0 percent).

Workers also reported that they improved their financial behaviors in positive ways (shown in Exhibit 3, next page). Over half of the respondents (56.0 percent) tried to determine how much they would need to live comfortably in retirement. One-tenth (9.6 percent) of the respondents decided to start making contributions to the 401(k) plan. Nearly one-fifth (17.3 percent) decided to increase the amount of their 401(k) contribution up to the maximum and a few (6.7 percent) decided to increase their contribution but not to the maximum.

A quarter of the respondents (25.5 percent) changed the way the money in their 401(k) plan was invested while half (54.0 percent) did not change their 401(k) plan investments because they found that it was unnecessary. Of those who were making 401(k) loan repayments, one person increased the amount they repaid on the 401(k) loan and 14 people did not.

The workplace financial education and individual counseling advice session together were found to be effective in changing workers' financial behaviors. More than two-fifths of the respondents (44.2 percent) developed a plan for their financial future. About one-third reduced some of their personal debts (37.2 percent), increased the amount of their savings outside of the 401(k) plan (36.5 percent), paid their credit card bills on time (35.3 percent), and developed a budget or spending plan (32.7 percent).

Although participation rates in the pre-tax health and dependent care programs were very high (over 90 percent) before the education or counseling advice, a few workers decided to make changes in those pre-tax programs. A handful (3.8 percent) reported that they decided to participate in or increase their contributions to the pre-tax dependent care program and the pre-tax health care program. A similar number decided to change the amount of life insurance they purchased through their employer.

The workplace financial education and individual counseling advice also encouraged the workers to seek the services of a professional financial advisor. One in seven (15.6 percent) sought financial advice from a financial advisor other than the worksite provider. One in eight (13.5 percent) sought advice from an attorney to develop or update a will or for other estate planning purposes.

EXHIBIT 2
Changes in Financial Attitudes

As a result of participating in the financial education and individual financial counseling, I:	**YES N (%)**	**NO N (%)**
Have a more adequate knowledge of personal finances	42 (80.8)	10 (19.2)
Feel that I am in more control of my personal finances	34 (65.4)	18 (34.6)
Feel more confident in managing money to achieve my financial goals	38 (73.1)	14 (26.9)
Feel more confident in making investment decisions	26 (51.0)	25 (49.0)
Have a better understanding of the relationship between risks and returns in investing	30 (57.7)	22 (42.3)

DISCUSSION

The findings have some remarkable meanings in terms of workplace financial education and individual financial advice. The findings suggest that financial advice combined with education provided to employees at the worksite results in a positive impact on workers' personal finances. Most respondents evaluated the workplace financial education positively and the great majority thought the individual financial advice sessions were beneficial. Many workers became more confident in their personal finances and changed their personal financial behaviors in positive directions.

Almost half of the workshop participants took advantage of the free individual financial advice session. More than seven out of eight participants found the individual financial advice to be beneficial. Some wanted to simply have a financial advisor check their current financial management efforts while others likely wanted specific advice on what actions to take in investments and other areas.

More than half of the financial advice participants indicated that, following the education and advice sessions, they felt they had a more adequate knowledge of personal finances, felt more in control of their personal finances, felt more confident in managing money to achieve personal financial goals, had a better understanding of the relationship between risks

EXHIBIT 3
Changes in Financial Behaviors

As a result of participating in the education and individual counseling, I:	YES N (%)	NO N (%)	NA N (%)
Tried to determine how much I will need to live comfortably in retirement	28 (56.0)	16 (32.0)	6 (12.0)
Started making contributions to my 401(k) retirement plan	5 (9.6)	11 (21.1)	36 (69.2)
Increased the amount of my contributions to my 401(k) retirement plan *but not* to the maximum	9 (17.3)	24 (46.1)	19 (36.5)
Increased the amount of my contributions to my 401(k) plan up to the maximum	3 (6.7)	28 (53.8)	21 (40.4)
Changed the way the money in my 401(k) plan is invested	13 (25.5)	29 (56.9)	9 (17.6)
Did *not* change my 401(k) plan investments because it was unnecessary	27 (54.0)	14 (28.0)	9 (18.0)
Increased the amount I repay on the loan that I obtained from my 401(k) retirement plan	1 (1.9)	14 (26.9)	37 (71.2)
Decided to participate in or increase my contribution to the pre-tax dependent care program	2 (3.8)	21 (40.3)	29 (55.8)
Decided to participate in or increase my contribution to the pre-tax health care program	2 (3.8)	28 (53.9)	22 (42.3)
Decided to change the amount of life insurance I purchase through my employer	2 (3.8)	32 (61.5)	18 (34.6)
Sought additional financial advice from a financial advisor other than this outside financial education provider	8 (15.6)	35 (68.6)	8 (15.7)
Increased the amount of my savings outside of my 401(k) plan	19 (36.5)	26 (50.0)	7 (13.5)
Developed a budget or spending plan	17 (32.7)	25 (48.1)	10 (19.2)
Developed a plan for my financial future	23 (44.2)	23 (44.2)	6 (11.5)
Reduced some of my personal debts	19 (37.2)	19 (36.5)	13 (25.5)
Paid my credit card bills on time	18 (35.3)	8 (25.4)	25 (49.0)
Sought advice from an attorney to develop or update a will or for other estate planning purposes	7 (13.5)	30 (57.7)	15 (28.8)

and returns in investing, and felt more confident in making investment decisions. A substantial number of employees reported increasing the amount of contributions to their employer's 401(k) plans as well as increasing the amount of savings outside their 401(k) plan. One in seven sought financial advice from another outside financial advisor and one in eight had already sought advice from an attorney to develop or update a will or for other estate planning purposes. As a result of the financial education and advice, many employees had developed a plan for their financial future, developed a budget or spending plan, reduced some personal debts, and paid their credit card bills on time.

RECOMMENDATION

Financial education and advice also had an indirect impact on participants' financial wellness by increasing employees' awareness of their financial status and motivating them to improve their personal finances. Some of the participants already sought further professional advice from a lawyer or financial advisor as a result of the program. Three-quarters of the respondents thought that they might need more comprehensive financial advice, and almost all would be willing to pay some of the cost out-of-pocket if it were subsidized.

People who have received financial education materials at the workplace need and use such assistance to better handle their personal finances. They desire individual financial advice to help review and manage their current financial situation. Individual financial advice can help people by reviewing their individual financial plans, answering questions, checking current financial strategies, and learning how to improve their personal finances.

Although investment advice is beneficial to most plan participants, workers have a full range of financial situations and needs. Some may need debt management while others may desire to save for a college education for a child or to buy a home. Any type of individual financial advice (e.g. individual counseling, online advice) would be helpful to complement general financial education, but it should be comprehensive enough to permit workers to check on their financial progress and not be limited solely to investment advice.

Plan sponsors are required by the U.S. Department of Labor (DOL) regulations to be certain that "the participant or beneficiary is provided or has the opportunity to obtain sufficient information to make informed decisions with regard to investment alternatives available under the plan…" (29 CFR § 2550.404c-1(b)(2)(i)(B)). The present findings indicate that current workplace financial education efforts may not fulfill the legal requirements of the DOL or meet the genuine needs of workers trying to make wise decisions about their financial future. Financial education seminars and materials at the workplace may not be enough for workers to make good decisions. Even after participation in a financial education seminar, many employees still desire individual financial advice.

This study reveals that when workplace financial education was combined with individual financial counseling advice sessions, it had some positive effects on workers' financial attitudes and behaviors. Moreover, it may be necessary for the DOL to propose new provisions that require employers to provide more extensive workplace financial education combined with individual financial advice for all workers who save and invest in defined-contribution retirement plans. Also, there should be some protection for employers either officially sanctioned by Congress or the DOL to provide financial advice for employees. However, there should be enough protection for individuals against conflict of interest.

The Economic Growth and Tax Relief Reconciliation Act of 2001 made employer-provided retirement planning advice a "de minimis fringe" benefit for employees so long as such services are available on substantially the same terms to all employees.

The Economic Growth and Tax Relief Reconciliation Act of 2001 made employer-provided retirement planning advice a "de minimis fringe" benefit for employees so long as such services are available on substantially the same terms to all employees. As a voluntary fringe benefit, the value of qualified retirement planning services is excluded from employees' gross income. Qualified retirement planning services are defined as any retirement planning advice or information that an employer who maintains a qualified retirement plan provides to an employee or the employee's spouse. Employers can also take income tax deductions for the expenses to provide such services for employees and their spouses. This exclusion is expected to motivate more employers to provide retirement planning services to their employees. However, the law does not cover general financial planning or advice for employees or retirement planning services provided by independent outside providers. Policymakers need to consider creating additional tax incentives to both employers and employees regarding workplace financial planning and advice. The broadest improvement in personal financial well-being for millions of employees is most likely to occur when employees can afford quality financial planning education and advice that they believe is necessary to improve their financial well-being. Perhaps a dollar-for-dollar federal income tax credit for such services could provide that motivation. ■

NOTES:

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