Retirement Savings and the Poor Financial Behaviors of Workers

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Participation rates in 401(k) and 403(b) pension plans are not as high as they ought to be. According to a study by Access Research, average participation rates for 401(k) plans are about 78 percent, compared to 30 to 35 percent for 403(b) plans (Harrison, 1997). "While three out of four workers in firms with over 1,000 employees participate in a pension plan, only one in four workers in firms with fewer than 100 employees participate in a pension plan" (Berg, 1997). Fully half the people who do retire do so with no pension plan (Berg, 1997).

According to the Public Agenda/Fidelity study titled Miles to Go: A Status Report on Americans' Plans for Retirement, "three in 10 of the Americans closest to retirement say they have personally saved less than $10,000 for the years they are no longer working" (30% of Americans..., 1997). A Consumer Federation of America/NationsBank study on financial planning finds that Americans are "ignoring important goals" such as retirement (Bailey, 1997). The Workforce 2020 report of the Hudson Institute concludes that increasing numbers of workers will be "forced to stay on the job because they cannot afford to retire" (Swoboda, 1997).

The lack of active participation in planning for one's retirement is not solely the result of an absence of a matching contribution from employers, although that is an important factor. More than half of 401(k) and 403(b) sponsors contribute to employees' retirement accounts. There are other reasons for not saving for retirement.

Employees Do Not Save Because They Are Either Not Educated Or They Are Experiencing Personal Financial Difficulties

Many employers, even those which offer pension plans, offer minimal personal finance education programs. With little or no genuine employee education on investing, many workers will continue to fail to set realistic retirement goals, fail to take action to increase savings, and fail to select appropriate investments to achieve retirement goals.

A common weakness in many programs is that there is no financial incentive for the program administrators to motivate employees to change. To resolve this inadequacy, more employers should re-examine the proper role in pension plan promotion for a mix of fee- and commission-based providers. An Ernst & Young study of 151 large employers revealed a high level of satisfaction among employers with such provider services (Fee-based education favored, 1997).

It can be argued that perhaps one-half of those who do not participate in a pension plan fail to do so because they are uninformed about both the existence of the need and the motivation to make it happen. This lack of savings occurs in spite of evidence that employer-provided financial education increases the both the rates of saving and for the purposes of retirement. "Education significantly stimulates participation in and contributions to 401(k) plans" (Bernheim & Garrett, 1996). The other pension non-participants cannot save appropriately because they have credit and money management problems. A full "two-thirds of Americans say they have trouble paying their bills and worry about money" (Coping with money woes, 1996). Personal bankruptcies last year rose to "1,242,700 filings, up 35%" over the previous year. These bankruptcies occurred during the best economic times in forty years (Criticism...1997).

Research shows that "approximately 15 percent of workers in the United States are currently experiencing stress from poor financial behaviors to the extent that it negatively impacts their productivity" (Garman, Leech & Grable, 1996). Many employees who are not contributing to a retirement plan are likely to be workers who are regularly spending too much money and overusing credit, typically have liabilities in excess of assets and have received communications from debt collection agencies, habitually lose money gambling or buying lottery tickets, and generally feel stressed about money matters. These workers need information, education and counseling about effective use of credit and personal budgets.

Employees With Poor Personal Finances Cost Their Employers Big Money

It can be argued that probably one half of the workers with financial problems also are likely to be performing poorly on the job, and their poor personal financial behaviors negatively impact their employers. The extremely high costs incurred by employers include lower job productivity, absenteeism, tardiness, loss of customers who seek better service, accidents, healthcare costs for stress-related illnesses, disability and worker compensation claims, thefts from employers, time lost from the job dealing with personal finance matters, and employee turnover. According to a Canadian expert, "the cost to employers of not having a financial component for their EAP program" is substantial.

Lawsuits From Employees Will Claim That Their Employer Was Negligent

"Public policy is moving toward making employers more accountable for their employees' retirement funding deficiencies" (Harrison, 1997). Some law firms currently specialize in "workplace stress claims resulting from negligence, rather than deliberate victimization," and in the US "nine out of 10 are successful" (Pressure points, 1997). Leading-edge employers, if they are not doing so already, need to take proactive steps to avoid class-action lawsuits from former employees claiming that the employer was negligent "for having a "lousy pension plan," "for not teaching me how to invest," and "for not offering a comprehensive personal finance employee education program." Unisys Corporation will be defending itself from such litigation in a retrial this fall (Lee, 1997).

The 1996 Department of Labor Final Interpretative Bulletin regulations have "created a safe harbor for virtually all the commonly used forms of participant education" (Berg, 1997). The time has never been better for employers to offer comprehensive personal finance employee education programs.

What Should Be In A Comprehensive Personal Finance Employee Education Program?

The number one goal of employers should be to provide personal finance education that will change employee behaviors and motivate 100 percent of them to participate in retirement plans. Employers with lower participation rates do not offer employees a leading-edge personal finance employee education program. Such employers are inviting future lawsuits and, even worse, they are not effectively competing to attract and retain the best employees. Such information and education programs should emphasize the importance of equities as part of a diversified portfolio. "The size of a worker's pension distribution will be directly dependent upon several key financial decisions made by that worker..." thus, "it is crucial for workers to become financially knowledgeable" (Berg, 1997).

The second goal of employers should be to seek out employees experiencing stress from personal financial management difficulties and provide them with assistance. These employees, and possibly members of their families, need information, education and perhaps counseling to help them make better financial decisions. It is vitally important to recognize that most people with personal financial problems typically suffer from these problems not because of bad luck, but because they have made bad financial decisions. Workers today live in a financial world of great complexity and challenge, a world far different than a generation ago. The Ford Foundation study titled Relinking Work and Life concludes that "paying attention to employees personal lives increases corporate productivity" (Kleiman, 1997).

In essence, employers need to recognize that personal finance education for employees is a "work and family issue," and then make serious efforts to provide information and education programs throughout the employees' years with an employer to help workers make good decisions about pension plans, cafeteria plan benefits, credit and money management, and consumer rights. These must be bona fide education programs—such as seminars, workshops, classroom instruction, and face-to-face interaction—rather than quarterly newsletters and computer software.

A DALBAR nationwide survey of 4,000 households about personal financial advice revealed that while making money is important to investors and potential investors, "most people (83%) seek to be educated" (Investors rank...1997). Dallas Salisbury, head of Employee Benefits Research Institute, asks "When are employers going to mandate that employees attend financial education seminars?" (Salisbury, 1997). One employee was heard to say, "Boss, please don't give me a $100 raise this year—instead, give me $100 worth of personal finance education."

Armed with useful information and confidence about making financial decisions, employees can live more satisfying lives and enjoy all the benefits of employment with a top quality employer. And those who are currently experiencing stress about financial matters, often in a matter of months, can move from lives of anxiety and consternation to comfort and confidence, and then move on to a life of personal financial security.

Employers should know that these goals can be achieved. Success requires employing professionals with appropriate expertise to educate employees who will then make decisions to enhance their personal finances. Success also requires aggressive promotion of programs in personal finance for employees.

It Takes A Bottom-line Argument To Convince An Employer To Offer Comprehensive Personal Finance Employee Education

No one will ever give a damn about personal finance education for employees—especially top management—until the value can be traced back to the big buck of the bottom line. To convince an employer about the bottom-line

benefits of personal finance employee education, evidence must be accumulated in one or more of six areas: (1) increasing employee motivation, self-confidence and job productivity, (2) decreasing absenteeism due to matters associated with personal finances, (3) decreasing healthcare costs, particularly for stress-related illnesses, (4) saving work time from not attending to personal finances during the workday, (5) securing employee loyalty and retention, and (6) avoiding lawsuits from employees claiming employer negligence. Proponents of personal finance employee education must be able to make a dollar-based economic impact statement such as, "This calculation shows that a PFEE program valued at X dollars will save the company Y dollars per year."

How Personal Finance Employee Education Can Be Offered To Employees

Personal finance education may be offered via written materials (brochures, newsletters and memos containing useful information), lunch-time and after-shift education sessions, half- to full-day information and education seminars and workshops, drop-in sessions at work sites, displays at work sites, focus groups, educational videos, interactive voice response systems, interactive computer software, intranet- and Internet-based self-service to manage data and conduct transactions (Burzawa, 1997), free 800-number telephone, and face-to-face counseling/planning for employees and significant others.

How the Personal Finance Employee Education Effort Can Help You

The Personal Finance Employee Education (PFEE) outreach effort seeks the answers to these questions. Some of you here today currently possess useful research data. I invite you to share your findings and listen to others at a national conference on "Personal Finance Employee Education: Best Practices and Collaborations" to be held in Roanoke, Virginia on November 5-6, 1997. Those who should attend include heads of private and non-profit organizations, human resource managers, directors of employee assistance programs, providers of information, education and services in personal finance, and others responsible for remaining up to date on cutting-edge ideas that affect workers.

The purposes of the conference are twofold: (1) to bring together employers and providers of information, education and services on personal finances together in a luxurious setting and comfortable networking format, and (2) to feature the latest research, position papers and model employer programs in PFEE.

The PFEE conference is sponsored by the Commonwealth of Virginia and the Center for Organizational and Technological Advancement, an outreach project of Virginia Tech, a major research university. Our vision of the future is that leading-edge employers increasingly must compete to attract as well as retain the very best employees by offering top quality, comprehensive personal finance employee education programs. Our PFEE credo is "Personal financial wellness increases employee productivity, and our 'best practices and collaborations' conferences will prove it beyond a doubt." Join us in Roanoke, Virginia to help build the body of research and the numbers of examples of successful model programs.

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Jill Landauer in the July 1997 issue of HRFOCUS (pp. 3-4) describes the first five broad areas, using similar but different terminology, as vital to demonstrating the benefits of work/life programs for employees.