Consumer Educators, Now Is The Time For A Paradigm Shift Toward Employee Financial Education

In order to better reach all people, there must be a paradigm shift for consumer educators toward employee education. Workers with money problems cost their employers big money, and those money problems occur because of personal difficulties with credit, budgeting, and consumer rip-offs. Consumer educators are qualified to teach such concepts in the workplace, and this will in turn help more workers overcome financial obstacles to fully fund their retirement plans. Virginia Tech's Personal Finance Employee Education outreach effort (www.chre.vt.edu/~/pfee/) can help educators partner with employers.

E. Thomas Garman, Virginia Tech[1]

Times have changed for consumer educators, and so has the audience. Budget cuts and downsizing at universities in recent years has reduced the number of academic programs. Fewer states and school districts are mandating consumer education in the public schools. The lives of consumers, especially for families, have become busier than ever, leaving them precious little time for important matters, such as leisure time with children and spouse, as well as participation in community education programs. Today's time-pressured lifestyles often leave consumers largely unable to pay attention to public service announcements about the latest product recall or to read the Consumer Information Center's newest publication on whether it is better to buy or lease a car. Thus, it is not surprising to find that, "only about a quarter of adults feel confident in their ability to choose a mutual fund that suits their needs (Atchley, 1998)."

It is not, however, time for consumer educators to give up! With today's marketing efforts targeting younger consumers, such as primary and secondary school pupils, students need consumer education more than ever. They need good decision making skills. They need to learn how to resist the sales pressure of the media. They need to learn how to establish spending and credit use priorities. They need to plan for and take action to secure their financial futures. All young consumers need to learn how to make such informed decisions. No, that's not correct. All people need to know how to make these informed decisions.

Employers Today are Offering Employees Financial Education

In order to better reach all people, there must be a paradigm shift for consumer educators toward employee education. Over 130 million consumers are in the paid labor force, and most work for employers who are now genuinely interested in helping workers make good consumption decisions, although this was not true a decade ago.

To be specific, employers are offering "financial education" to their employees. This usually means educating workers about saving for retirement. Fifty-six percent of employers "are offering employees financial education on saving and investing for retirement" (KPMG..., 1997). This has occurred primarily because of recent changes in retirement plans in American society. The shift by most employers from offering employees a defined-benefit pension plan to providing a defined contribution plan, such as a 401(k) and 403(b) pensions, is a nationwide phenomena.
In a survey of more that 1,000 employee benefits specialists nationwide, three-quarters "said developing and providing investment education is their number one concern moving into 1998 (Investment education, 1998)." One expert says that this represents a "sea change in attitudes to benefits" from managed care to investment education.

Why Employers are Offering Financial Education

There is a rapidly growing national movement to offer financial education in the workplace (Lee, 1997). This is occurring primarily because so many workers are not saving for retirement that they are going to have extreme difficulty finding the money for retirement (Swoboda, 1997). Workplace financial education increases participation in retirement plans (Bernheim & Garrett, 1996; Lee, 1997).

However, employers have long been hesitant to offer employees anything beyond a minimal amount of information about their retirement plans and investment options. This reticence was based upon the lack of legal protection from employee lawsuits claiming that the employer gave them faulty advice, unsatisfactory investment choices, and/or injurious financial education.

While employers remain "legally constrained from offering investment advice [underscore added]," the law covering retirement plans now "requires firms to give workers educational material on the basics of investing" (Egan, 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). In essence, employers today must offer financial education to employees. A concurrent motivation has been the growing recognition that employees who experience difficulties with their personal finances bring those personal problems into the workplace, causing negative costs for the employer.

Employees are Not Saving for Retirement

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).

Employees with Personal Financial Problems Cannot Save for Retirement and they Cost their Employers Big Money

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; Garman & Leech, 1996; Gentile, 1997).[2] One employer recently was quoted saying that, "40 to 50 percent of my employees are over-stressed about their debts such that it reduces their productivity, and that is a very conservative estimate" (Garman, 1997). Depending upon employee income level, age, stage in the life cycle, and the cost of living, the proportion of workers experiencing financial problems that negatively impact productivity for a single employer could range as high as 40 to 50 percent. This is not an unrealistic number.

A research study by the Military Family Institute (MFI) concludes that the indirect costs of poor personal financial behaviors of U.S. Navy service members is conservatively estimated to be between "208 and $294 million annually in overall productivity costs" (Luther, 1997; Luther, et al., 1997; Associated Press, 1998a; Associated Press, 1998b). "Most sailor's problems stem from poor financial planning and management rather than too little money (Peniston, 1997)." While "financial mismanagement is very widespread in the lower enlisted ranks, many senior enlisted members and officers are also experiencing financial problems (Luther, 1998)." The annual cost of financial illiteracy for the entire Department of Defense may be $1 billion (Service members'..., 1998; Kristof, 1998)." To reduce these high costs to the military, the government is considering requiring annual training in personal finance (Tennant, 1997)."

The nation's elder statesman on financial counseling for employees is the R. J. Reynolds Company's recently retired pastoral counselor Rodney Brown. He says that, "No company is immune to the effects of financial entanglements no matter how good the pay and benefits (Brown, R. C., personal communication to E. Thomas Garman, July 17, 1997)." Brown (1993) very conservatively deduced that "employees with financial problems cost their employer no less than 10% of their salaries per year in lost productivity...The waste factor could be 15-20%!" Money problems of workers not only cost their employers but they also are an obstacle "for workers wanting to contribute to their employer-sponsored retirement plan (Garman, 1998)."

This is a Golden Opportunity to Teach 130 Million Employees Consumer Education

Consumer educators should realize that such financial education for employees offers them a golden opportunity to provide consumer education to an audience that has been largely ignored by educators million people called workers. Consumer educators are quite capable of providing information and education for employees to help them save for retirement and make informed decisions about investment risks. Consumer educators also should realize that such a captive audience provides the perfect opportunity to offer employees more than just retirement education.

They can teach many critically important aspects of consumer education, such as helping employees make satisfactory choice on health benefits, life insurance, long-term disability, and dependent care. Consumer educators can teach workers how to make personal assessments about money management and how to use consumer credit. They can teach employees how to use consumer protection laws and regulations.

This is consumer education! Who cares what the real world calls consumer education—financial education, retirement education, personal finance education—because it does not matter as long as people are educated on making informed consumer decisions.

Today's Personal Finance Employee Education

Participation rates in defined contribution pension plans, such as 401(k) and 403(b) plans, are not as high as they ought to be. The two key reasons are (1) money problems are the number one obstacle for workers wanting to contribute to their employer-sponsored retirement plan, and (2) many workers are uninformed about both the existence of the need and the motivation to save for their own retirement. It is estimated that one-half of workers with personal financial problems also are likely to be performing poorly on the job, and this negatively impacts their employers.

Tomorrow's Personal Finance Employee Education

To remain competitive in the labor market, leading edge employers are offering a more comprehensive personal finance employee education program, rather than narrowly focused retirement education, to attract and retain the best employees. For many employers, this represents a paradigm shift, and that is exactly what is needed to effectively reach all workers.

This broader vision of financial education for employees is at the heart of the efforts of the Personal Finance Employee Education (PFEE) outreach effort sponsored by Virginia Tech's Center for Organizational and Technological Advancement. The PFEE project staff believes that personal finance employee education should be made available to all workers in the United States. It defines personal finance employee education as information, education, and services provided by an employer to help its employees make informed decisions about employer-sponsored retirement plans, other employer furnished fringe benefits, credit and money management, and consumer protection rights.

How Educators can Teach Consumer Education Concepts as Part of Financial Education for Employees

The time has never been better for employers to offer comprehensive personal finance employee education programs. Experts are calling for "developing a cadre of personal finance educators...to provide effective and unbiased training to enable adults to create their own financial self-sufficiency over the lifespan (Atchley, 1998)." Employers have heard the wake-up call. Employers want to take proactive measures to guide employees toward organizations and agencies that can provide them with financial help, such as credit unions, non-profit credit and budget counseling services, and reputable providers of information, education, and services.

Consumer educators are ideally situated to assist employers in their communities. They bring a research-based, broad perspective to the subject. They are grounded in family theory and economics. They are competent in all areas considered vital to comprehensive personal finance employee education.

Consumer Educators Can Facilitate Offering Employees Information, Education, and Counseling Services

Workers today live in a financial world of great complexity and challenge, a world far different than a generation ago. "In the past, most workers could rely on the financial knowledge that was built into employee benefits, especially defined benefit pension programs, and retiree health insurance. Today we are moving away from institutional forms of income security toward a more individualistic approach. But we are not providing the public with the knowledge and skills needed to cope with this new model of income security in later life (Atchley, 1998)." Employers with the help of consumer educators need to help workers make good decisions about pension plans, cafeteria plan benefits, credit and money management, and consumer rights. Consumer educators themselves need not personally offer every type of conceivable service to employers. Rather they can coordinate the convergence of area employers with various types of personal financial employee education experts.

Consumer Educators Can Offer Their Research Expertise

Consumer educators must conduct research in order to convince employers of the value of any personal finance education they might provide in the workplace. Action research is an inquiry or investigation into a problem with the expectation that the findings, not definitive answers, might provide some insights to its resolution. Action research is often conducted with questionnaires that contain only a few questions and variables. Consumer educators must conduct action research in their communities, share research instruments with others, and publicize findings with employers and with others.

What Types of Research Should Consumer Educators Conduct?

Evidence on the bottom-line benefits of personal finance employee education needs to 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 healthier 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.[4]

Employers and consumer educators can work together to place values on these factors. The best way to obtain the information is to bring the key people together employers along with providers of information, education and services that they can agree on data analysis as well as the solutions.

After offering work site educational programs, such as seminars, workshops, and classroom instruction, as well as face-to-face interactions, it is vital to measure the results and share the findings with employers. Calculating the numbers should reveal that the personal financial wellness of employees is something that can be turned from a cost into an asset for employees, employers and shareholders.

Proponents of comprehensive 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." The return-on-investment calculation will do no good, however, unless the information is publicized.

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. The second goal of employers should be to identify employees experiencing stress from personal financial management difficulties and provide them with assistance. These workers, and possibly members of their families, need information, education and perhaps counseling to help them make better financial decisions.

How Can the Personal Finance Employee Education Outreach Effort Help?

How can consumer educators find out more about how to help employers in their geographic area educate their employees? The Personal Finance Employee Education outreach effort is a Commonwealth of Virginia outreach effort to exhibit model financial education programs, conduct research, and host national conferences to share knowledge about best practices and collaborations.

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.

Join us in Roanoke, Virginia to help build the body of research and the numbers of examples of successful model programs. Please come to these conferences, share your research and collaborations with employers, and tell others about your action research findings.

The next national conferences will be held June 9 - 10 and November 10 - 11, 1998, in Roanoke, Virginia (for details see www.chre.vt.edu/~/pfee/). As with last year's meeting, published conference proceedings are available for sale.

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Endnotes

1. Fellow and Professor, Center for Organizational and Technological Advancement, Personal Finance Employee Education, NE Department, Virginia Tech, Blacksburg, VA 24061-0410, Telephone: 540-231-6677, Fax: 540-231-3250 http://www.chre.vt.edu/~/pfee/
2. Examples of costs to employers caused by the stresses associated with the poor personal financial behaviors of employees include taking time away from productive labor to confer on the telephone with creditors, seeking sources of additional credit, conversing with co-workers about stresses, talking with supervisors about financial problems, placing gambling wagers, calling in sick to their employers so they can make court appearances, talking with attorneys, meeting with others concerning their personal financial problems, and taking occasional extended work breaks, supposedly to use restroom facilities or to eat a meal, but instead spend the time dealing with financial stress.
3. The problem of excessive household debt is serious, even though the nation is experiencing the best economic times in 40 years. "Two-thirds of Americans say they have trouble paying their bills and worry about money" (Coping with money woes, 1996). A national survey reveals that 3 out of 4 Americans faced at least one significant financial problem recently, such as being unable to save for future needs, delaying medical care, or having problems with a collection agency. Personal bankruptcies last year rose to "1,242,700 filings, up 35%" over the previous year (Criticism..., 1997). Projections are for further increases (McDonnell, 1997).
4. Jill Landauer in the July 1997 issue of HRFOCUS (pp. 3-4) describes the first five broad areas, using similar but different terminology, as useful to demonstrating the benefits of work/life programs for employees.