

Personal Finance

About Personal Finance

Benefits of Workplace Comprehensive Financial Education

When employers offer comprehensive workplace financial education, everyone wins...employers, employees, and society.

Workplace financial education remains the best arena for reaching the most people; but it is not living up to its potential (Vitt, 2005). Workers are more likely to save through the workplace than on their own; more than 8 in 10 eligible workers (82%) say that they participate in workplace retirement savings plan (EBRI, 2005). To maximize the impact of these savings, employers need to offer comprehensive financial education programs that cover basic money management skills, as well as benefits education and retirement planning. Unfortunately, too many companies offer limited "benefits education" rather than comprehensive financial education.



"The traditional approach (to employee financial education) is to put together presentations focused exclusively on company benefits and how to enroll in them. This approach does nothing to provide a framework for decision making for very different employee situations. Another traditional alternative is to suggest employees find a financial advisor and wash your hands of any obligation and fiduciary liability. Neither approach provides a background for employees to feel more comfortable in their own ability to making increasingly sophisticated decisions regarding their financial future. We feel that people that are economically secure in their own lives are more productive employees."

— A UPS Corporate Compensation Manager

Since the 1980's, the increase of defined contribution plans [primarily 401(k)s] has shifted the decision making responsibility from employers as plan sponsors to employees as plan participants. Less than 1/3 of all employees are confident in their ability to make the right financial decisions for themselves and their families (MetLife, 2010). Most employees are in desperate need of reliable information that provides them with the knowledge and confidence to adequately plan for a financially secure retirement.

Benefits to Employers

Financially secure employees are more productive employees! Employees who increase their financial knowledge will also increase their ability and confidence to make quality financial decisions and reduce financial problems. Doing so enables employees to focus more energy on work activities and less on financial problems. The ultimate benefits to employers from providing comprehensive worksite financial education include legal, financial, and social impacts as follows:

- **Manage employer liability risks** — Providing comprehensive financial education to employees helps employers manage their risk of liability as a plan sponsor and meet the ERISA Section 404(c) requirement of providing employees with “sufficient information” to make informed decisions regarding investment alternatives (Pomeroy & Reed, 1998; Bernheim & Garrett, 1996).
- **Reduce expenses** — Increases in employee participation in health and dependent care flex plans will reduce employer paid Social Security/Medicare taxes by 7.65% (Pomeroy & Reed, 1998). HR expenses will also be reduced when employees improve their money management skills and require fewer payroll advances, wage garnishments, and 401k loans (Joo & Garman, 1998).
- **Increase ROI** — Conservatively estimated, financial education provides an ROI of up to 3:1; this results from increased productivity and reduced direct costs (Garman, 1999). Financial education also helps increase the ROI for benefit programs. When employees understand benefit programs, they are also more likely to participate in them (Bernheim, 1998).
- **Improve productivity** — Financial education increases productivity and enables employees to focus on work activities rather than financial problems. Sixty-five percent of employers said that employees are less productive at work when worried about personal financial issues (MetLife, 2010). In that same MetLife study, 45% of employers acknowledged that financial education programs are effective at improving employee productivity (MetLife, 2010)
- **Reduce employee stress** — Financial education helps reduce both financial stress levels and overall stress levels for employees (Bailey, 1998).
- **Improve workforce planning** — Increasing the financial security of employees and helping them plan for retirement also helps employers improve workforce planning and attrition rates. Financially secure employees are more likely to be able to retire when they choose rather than have to delay retirement.
- **Increase the employer's ability to attract and retain satisfied employees** — Employee retention is the second most important benefits objective; controlling health and welfare cost is the highest employer priority (MetLife, 2010). When unemployment is low, it becomes even more important to attract and retain quality employees; worksite financial education can be an inexpensive, attractive tool to help employers do so. Workers have identified their employers as trustworthy sources of information; and almost two-thirds of employees indicate a need for trustworthy financial advice to help them achieve their goals (MetLife, 2010). Employers offering worksite financial education can help address this employee need.

Comprehensive financial education is less expensive and more effective than the alternative of offering workers a 3% match (Garman, 1999).

Benefits to Employees

Employees want financial education! Over 80% of employees indicate they would participate in financial education and counseling if it were available in the workplace. (Joo & Grable, 2000). When employees are provided with financial education in the workplace, the road to saving for retirement will be a much "smoother ride." Worksite financial education benefits employees in the following ways:

- **Improve decision making and increase confidence.**

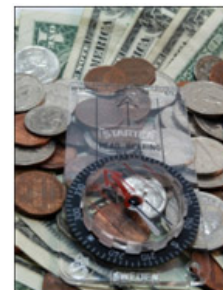
- **For personal issues** — Over 70% of employees are not confident in their ability to make the right financial decisions for themselves and their families (MetLife, 2010). In addition, 64% of employees are concerned with finding a trusted source to provide financial advice to help them achieve their goals (MetLife, 2010). By increasing their knowledge and skills, participants in financial education programs are able to make smarter and more informed decisions; this in turn results in increased confidence in their abilities.
- **For issues related to aging parents** — Many employees are dealing with the issue of caring for aging parents, as well as planning for their own later life. A majority of workers have aging parents, with four to five living generations of family members becoming the norm. Of Minnesotan's age 50-59 who are providing assistance to others, 42% are assisting aging parents (Minnesota Board on Aging, 2005).

- **Improve understanding and utilization of compensation and benefit programs**

— Increasing the use of these financial tools helps employees maximize their resources and increases the money they have available to them to achieve their financial goals. Employees who thoroughly understand benefit programs place a higher value on them (Office of Personnel Management, 2005; Storms, 1999).

- **Provide employees with a "reality check"** — Employees, especially baby boomers, are often naïve about later life financial security decisions, such as:

- **Cost of living after retirement** — About 5 out of ten workers (54%) have not tried to calculate how much they need to accumulate for retirement (EBRI, 2010). While many financial professionals recommend planning for a retirement income replacement ratio of at least 70% of their pre-retirement income, only 39% of employees estimate that they will need 70% or more of their pre-retirement income levels. Almost 60% of Minnesotans over 50 and 75% of those over 65 have difficulty managing money and paying bills (Minnesota Board on Aging, 2005). If their income after retirement declines, they will probably have even more difficulty.
- **What it takes to retire** — About 3 in 10 workers (31%) have not saved for retirement; nonetheless, they say they are confident they will have enough money to live comfortably throughout their retirement years. Many (16%) of those who indicate they are "very confident" are not currently saving for retirement; 56% of those between 25 and 34 years of age have less than \$10,000 in savings (EBRI, 2010).
- **Social Security** — Despite the importance of Social Security, over 80% of American workers cannot accurately predict when they will be eligible for full Social Security benefits (EBRI, 2004).
- **Working after retirement** — There is increasing evidence that many workers, especially baby



boomers, do not intend to retire as their parents did. Seventy percent of workers plan to work for pay after retirement to supplement their income (EBRI, 2010). The reality is approximately 40% of employees leave the workplace earlier than expected due to health problems, disability, or changes in their company. Thirty-six percent of employees ages 60-74 and 15.6% of employees over 75 are "very" or "somewhat" concerned about having to go back to work to make ends meet (Minnesota Board on Aging, 2005).

- **Complex later life issues** — Comprehensive financial education encourages employees to think about all aspects of later life. Research indicates that 1/3 of the employees (ages 51-61) have not begun to think about retirement (Lusardi, 1999). Decision making becomes complex when employees are faced with the financial implications of such later life issues as changing health and independence, longer life expectancies, changing work and retirement patterns, family transitions, involvement with aging parents, and death.



- **Increase savings and financial security of employees** — Forty-two percent of workers between ages 25 and 34 are not saving for retirement; and many of those who do save, aren't saving as much as they would like (EBRI, 2010). While American workers are more likely to save for retirement than for any other goal, more than half of all American workers (54%) indicate that the total value of their savings, excluding the value of their primary home, is less than \$25,000 (EBRI, 2010).
- **Reduce stress** — By reducing financial stress, employees also reduce their overall stress (Bailey, 1998). Planning ahead for financial security in later life increases peace of mind, financial control and independence, choices, improves one's quality of life, reduces the burden for others, and reduces the potential for conflict.

Benefits to the Community

The local community, the state, and the nation also benefit when employees become more financially secure.

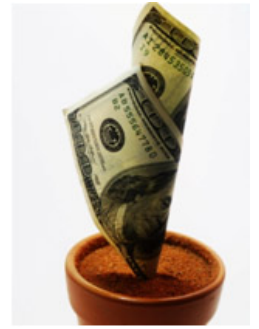
- **Financial impacts** — Financially secure individuals are more likely to be able to afford to pay for their own later life care. Consequently, they are less dependent on the state and federal government for subsidies to their living expenses and health care.
- **Accessibility to education impacts** — Reliable, accessible worksite financial education provides equal access to trustworthy information for individuals of all socio-economic levels and for all employees in worksites of all sizes, both public and private.
- **Social impacts** — When employees "get their financial house in order," they also become more engaged in the community, their children's school, and the neighborhood (National Endowment for Financial Education, 2004).

Why Benefits are Needed Now

Employees of all ages are becoming increasingly responsible for their financial security. Since the 1980's there has been a major shift in retirement planning; the shift has been away from defined benefit plans and

toward defined contribution plans. This means that the responsibility has shifted away from the employer and toward the employee.

Now is the time for worksite education to make a major shift and to evolve from "pre-retirement planning" for a selected few to the comprehensive, holistic, later life planning that is needed by employees of all ages. Now is the time for workplace education to provide individuals with the knowledge, skills, and confidence to plan for as much as thirty years of life after age 60.



The statistics are staggering...

- **As many as 33% of employees ages 51-61 have not begun to think about retirement** (Lusardi, 1999). About 32% of those between ages 25 and 34 have tried to calculate the amount of savings they will need for retirement (EBRI, 2010). When they do these calculations, about half change either their retirement goal or their expected age of retirement (EBRI, 2005).
- **Forty percent of workers are not saving for retirement.** A majority of workers (55%) believe they are behind schedule when it comes to planning and saving for retirement (EBRI, 2005).
- **Workers who are saving often underestimate how much of their pre-retirement income they will need to replace** in order to fund an adequate lifestyle in retirement. Only 39% of employees estimate that they will need 70% or more of their pre-retirement income levels (EBRI, 2005).
- **Many workers are overly confident about their financial future** given the lack of saving and actions being taken to build income sources and assets (EBRI, 2005).
- **More than one in five Minnesotans (24%) currently ages 40-69 are projected to have insufficient resources** for basic living and long term care in later life. (Minnesota Board on Aging, 2005).
- **Forty percent of workers are forced to retire earlier than expected**, either because of health problems or changes at their company (EBRI, 2005). These workers are then forced to pay for additional years of retirement and they are often ill-equipped to do so.
- **Over 80% of workers are unable to identify the age at which they will be able to receive full Social Security benefits** as one income source in later life (EBRI, 2005).

The Minnesota Department of Human Services and the Minnesota State legislature recognize the need to help Minnesotans plan for their retirement and later life. Specific needs include:

- Making universally available information and education on retirement and long term care planning opportunities.
- Working with employers to reach all workers between 20 and 70 with quality curriculum.

Employees need workplace financial education to understand the saving and investing options open to them at their workplace to save for retirement and later life.

Workers are more likely to save through the workplace than on their own. The time has come for employers to support workplace financial education and to enable it to reach its full potential. This can happen only when employers provide comprehensive worksite financial education for all employees.

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