



WHITE PAPER

Should you offer your employees basic financial literacy training?



© White paper written by
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TABLE OF CONTENTS

Should you offer your employees basic financial literacy training?	1
Eight steps to implement a successful financial literacy training program	9
What employers and employees told Alliant about financial literacy training	10



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SHOULD YOU OFFER YOUR EMPLOYEES BASIC FINANCIAL LITERACY TRAINING?

The economic toll on employers and employees

Take a close look at your employees. How have they been impacted by the current ongoing recession and to any recent changes in your company's benefit package?

From 2007 to 2009, more than 63 percent of Americans experienced a hefty decline in their total wealth – a median 45% decline, according to the Federal Reserve. The primary causes: the tumbling value of homes and of investment retirement accounts.¹

Meanwhile, many companies determined to remain competitive during today's recession have taken cost containment measures that take a larger chunk out of their employees' wallets by further cost sharing or eliminating some benefits (as well as cutting raises, work hours or jobs). Today, benefit packages don't generate the enthusiasm they once did, according to a 2011 Mercer study, which shows 68% of employees say their benefits are good or very good, down from 76% in 2005.²

This scenario, understandably, takes its toll on employees. Eight out of 10 Americans cite money (or, rather, the lack of it) to be a significant source of stress in their lives³ and, regardless of income, 77% of Americans now live paycheck to paycheck.⁴

Financial stress enters the workplace

In a Utopian world, employees would be able to keep their financial stress and home life issues separate from their working life. But, distress over financial matters is causing more than 52% of Americans to experience irritability, anger, fatigue and sleeplessness, according to *USA Today*.⁵ And, unfortunately, many employers have seen this financial stress play out in terms of decreased job performance and satisfaction, physical illness and greater absenteeism, less commitment to the company, as well as higher turnover.

At least 15% of U.S. workers currently experience so much stress from financial worry and ill-advised financial behavior that it negatively impacts their productivity.⁶ And, for profit-making organizations, employee productivity often makes the critical difference between success in business and financial ruin.⁷



“It’s obvious that financial stress has an impact on an employee’s productivity,” says Mary Parenti, HR manager for the Oakland-CA-based law firm, Wendel, Rosen Black & Dean LLP. “I’m sure most employers are aware that employees take care of personal issues during the day at work.”

Sometimes the effects are palpable. “Financial stress can take a big toll on a person’s health,” says Laura Lemmons, head of benefits for the global law firm Bingham McCutchen LLP. “And this has direct bearing on a firm’s health care costs and disability claims. That’s one reason why we take financial literacy seriously at our firm. Fiscal fitness, as we call it, is an integral part of our wellness program.”

Financial illiteracy costs an employer plenty

So, how bad is the problem? “Employers need to recognize that at any given time, in every workplace, part of the workforce is seriously financially distressed,” says Dr. E. Thomas Garman. He’s a scholar who has become a sort of guru for employee financial education, well before he founded the Personal Finance Employee Education Foundation in 2005 to promote the cause.

“Workers with money problems are like sharks swimming around the job site taking bites out of the bottom line,” Garman says.

And he estimates that the price tag to an employer for ignoring a worker’s financial illiteracy and poor money choices ranges from \$750 to \$2,000 annually.⁸

Given this scenario, what does a smart employer do to retain valued employees, as well as maintain and stimulate employee productivity? One answer gaining traction in companies across America is to offer financial literacy courses that help employees to gain greater skill and confidence in handling their finances.

Financial literacy is the ability to understand money and make informed, effective judgments about how to use it.

Topics for financial literacy courses can include how to save for an emergency fund, how to plan for retirement, and even more basic skills, such as how to develop a household budget or distinguish between wants and needs.

Financial illiteracy not a top benefits objective

Financial illiteracy has been called “the most glossed over and ignored worker issue today.”⁹

And although 45% of employers state that financial advice and guidance programs can be effective at improving employee productivity, only 8% have actually made it a top benefits objective, perhaps due to economic pressures and a primary focus on containing health care costs.¹⁰



Just how financially illiterate are America's employees? A full 41% percent of Americans (which means more than 92 million people) would give themselves a grade of C, D or F, according to the 2011 Consumer Literacy Survey Report.¹¹ This is up from 33% in 2010. Other findings from the survey:

22% of Americans have a poor idea of how much they spend on food, housing and entertainment – and 43% do not budget or track their expenses at all

36% are saving less than they did a year ago and 33% have no nonretirement savings at all

28% do not pay their bills on time and 40% carry credit card debt month to month

63% have not reviewed their credit score in the previous 12 months

32% do not save any portion of their income for retirement

Meanwhile wishful thinking and ignorance instead of smart financial decisions and constructive actions rule the day for many Americans. In fact, 21% of Americans report that winning the lottery is the most practical and viable way for a person to accumulate money for retirement.¹²

Americans feel out of control of their finances

All told, only 32% of Americans feel in control of their finances.¹⁰ And this grim scenario is playing out in households across the nation: people waist-deep in

debt, struggling to pay their mortgage and credit card balances – and thus, unable to save for an emergency “rainy day” fund, let alone their retirement. Economic hard times, poor financial decisions plus financial illiteracy can equal unbearable financial stress. And, becoming financially savvy can be a daunting task. To many, financial topics are confusing and overwhelming – as difficult as mastering a foreign language.

But while foreign languages are taught in most high schools, financial literacy is not. Until recently, financial literacy was not seen as a necessary life skill. Rather, it was considered as the kind of matter best learned in the home. Schools usually consigned personal finance to a home economics course, if they taught it at all.

Today only 13 states require a personal financial course for graduation, up from seven states in 2007.¹³ And if high schools and colleges graduate financially illiterate students, it's no wonder that adults in our workforce lack finesse when it comes to personal finance.

Financial illiteracy is an old story that remains ever new. “Americans lack of financial literacy predates the current recession,” observes Terri Byron, benefits manager for the Charlotte-NC-based Sonic Automotive, an auto retailer with 130 dealerships nationwide. “The recession has only magnified the extent of the problem.”



How can Americans become financially literate?

If Americans are not learning about financial decision making in the home or at school, where will they?

This question has led many to share this conclusion: “The worksite is the perfect place to provide basic, unbiased financial education and training for employees. When employees learn about basic saving, debt management and investing concepts, they can immediately apply these concepts to their health care, retirement savings and personal savings plans.”¹⁴

For many companies, the financial literacy effort is limited in scope and focuses exclusively on helping employees to fully understand and leverage the company’s benefits, such as the 401(k) savings plan or health insurance options.

In some cases, employers also offer Employee Assistance Programs (EAPs) that an employee can refer to when he or she is in the financial crisis mode. To some HR professionals, including a United Parcel Service corporate compensation manager, this remedy is not strong enough to take care of the symptoms. “The traditional approach is to put together presentations focused exclusively on company benefits and how to enroll in them,” the manager says. “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,” he says. “Neither approach provides a background for employees to feel more comfortable in their own ability to make increasingly sophisticated decisions regarding their financial future. We feel that people that are economically secure in their own lives are more productive employees.”¹⁵

Rita Harris agrees. She’s the HR manager for GreenbergFarrow, an eight-office architectural firm. “Companies have a responsibility to develop their employees in a way that is both professional and personal,” she says. “Financial literacy training makes employees and managers more knowledgeable. A spin-off is that employees feel taken care of. And with greater financial literacy and confidence, they are usually more productive while working and less distracted by financial woes.”

More employers consider financial training

How many employers offer financial literacy training and what is its value? Various surveys cite various numbers.

- In November 2008, nearly 83% of HR professionals said their organizations were considering providing employees with financial literacy literature or workshops by investment professionals, according to a Society of Human Resource Management (SHRM) survey¹⁶



- Today, 59% of corporations offer some type of financial or retirement planning assistance. Retirement counseling, in particular, is available at 91% of those places, according to the 2011 Employee Benefits Survey conducted by The International Foundation of Employee Benefit Plans (IFEBP). (This is up from 43% in the association's 2009 survey.)¹⁷

Additionally, Alliant Credit Union conducted its own surveys. Alliant surveyed two groups, employers and employees through two separate online surveys. Employers were represented by 46 individuals working in the benefits function for companies with more than 100 employees. Employees were represented through an online panel of 400 employed individuals over the age of 18. Alliant conducted the employer survey in June 2011 and employee survey in April 2011.

Alliant found that only 36% of American workers work at a place that offers financial education and 26% at a place that offers access to financial counseling.

Those employers who offer financial literacy training, according to Alliant's survey, do so for the following reasons:

- 79% think the benefits outweigh the costs
- 72% think the knowledge is something that employees value
- 57% think it improves employee productivity
- 35% think it reduces the number of employees taking out 401(k) loans
- 28% think it reduces the number of employee EAP visits

More than 71% of the companies that offer some financial training have done so for more than five years and 93% are satisfied with their offering, according to Alliant's survey.

The various forms of training

Financial literacy can take a variety of forms. At GreenbergFarrow, Rita Harris notes, the company has leveraged its vendor relationships with Alliant Credit Union, independent investment advisors and nonprofit organizations to provide programs, such as how to save for retirement, how to budget, how to lease or buy a car, how to find the best mortgage for yourself, as well as higher-level seminars on investment diversification. "We offer these seminars over lunch," she says. "Our vendors provide the seminars for free and we provide lunch for our employees who attend."

Sonic Automotive has also begun to offer lunch and learn workshops. A recent seminar in the Alabama region on how to rebuild credit was especially well-received by employees, Terri Bryon says. "Feedback from participants indicated that there was a lot of honest and open discussion, as well as highly useful information."

Other venues include providing:

- online links to financial self-help websites, off-the-shelf classes and webcasts
- access to one-on-one financial management and planning counselors
- in-depth training courses on topics, such as debt management and savings
- financial help literature in newsletter articles and brochures



Financial literacy training, experts note, should be provided on an ongoing basis, not just during an annual review because the more often employees are exposed to financial topics, the more they will be able to retain and apply what they learn.¹⁸

Employers see a growing need for training

Although the majority of companies are not focused on offering financial literacy, many are recognizing the need for it. In fact, 57% of employers have seen a greater demand for financial literacy training in the last two years, according to Alliant's survey.

Meanwhile, the Society for Human Resource Management and the American Institute of Certified Public Accountants in March 2011 announced they have established a new national award to honor employers who offer outstanding employee financial literacy programs. One motivation: "to mobilize employers who currently aren't offering programs to their employees to do so," says SHRM interim President and CEO Henry Jackson.¹⁹

Mobilizing employers to offer programs should be easy and a no brainer because of its ROI. At least according to some experts.

Various experts rationalize that:

- Even a small increase in an employee's financial security can add significantly to the bottom line²⁰

- You should look at spending on training as an investment that rewards employers as well as employees. Those rewards will come from an investment equal to a mere ¼ or ½ of 1 percent of an employee's income²¹
- Comprehensive financial education is less expensive and more effective than the alternative of offering workers a 3% 401(k) match²²
- The potential first-year return on investment in workplace financial education is over \$450 for employees who make improvements in their financial wellness⁸

One financial literacy class vendor goes so far as to say "help with money management decreases employee financial distress and increases financial well-being more than salary increases, bonuses, most retirement workshops, marriage counseling and Employee Assistance Programs."²³

The ROI of financial literacy training

How does financial literacy training provide its ROI? In ways both tangible (and quantifiable), as well as intangible. These include fewer garnishments, fewer 401(k) loans, fewer workers' compensation claims, fewer accidents and workplace violence incidents, less short term disability, less health care costs, less absenteeism, less turnover and improved work productivity.



“We want to provide resources to our employees to help them deal with financial problems,” says Laura Lemmons of Bingham McCutchen LLP. “We know that with financial literacy training, one size doesn’t fit all. That’s why we offer our employees a variety of resources.” Plus, adds Jamie Kelly, benefits manager of Bingham McCutchen LLP, “We’re also proactive. For instance, when employees take multiple hardship withdrawals from their 401(k) plan, we send them an email suggesting that they avail themselves of the firm’s resources, such as free financial counseling or access to a financial advisor through our Employee Assistance Plan.”

Is financial literacy a panacea? Obviously not, given today’s harsh economic realities. But there are indications that it can be a great help in building employee confidence and skills in money matters.

Nevertheless, not all employers (or employees) are keen to jump on the financial literacy bandwagon or avail themselves of this training.

Philosophical opposition to training

Some HR managers are philosophically opposed to offering financial literacy training. “Employees need to take personal responsibility for their own financial well-being,” says Mary Parenti of Wendel, Rosen Black & Dean LLP. “Although we offer diversity in our fund choices and educational sessions annually, because of privacy issues and fiduciary issues, I don’t think it’s a proper focus for a company to be too involved

in employees’ personal lives.” Cheryl Layton, HR coordinator for the South Adams County, Colorado, Water and Sanitation District agrees: “Each employee is responsible for his or her own finances,” she says. “We provide them with some financial information, an EAP and have had a lunch and learn session on identity theft. But ultimately, a person’s finances are very personal, private and confidential. And an employer should respect that boundary.”

Another reason companies balk at offering financial literacy training: it has an upfront price tag, however minimal. As one of the employers Alliant surveyed put it: “We have no budget for this type of service. This type of education comes at a time when our company costs have to be kept to a minimum.”

The pros and cons

Then again, many companies that do provide financial literacy training find that not all employees buy into it. In the companies that offer such training, only 61% of the employees participate, according to the Alliant survey. Indeed, one of the employer survey respondents remarked, “We are concerned about our employees’ financial well-being and security. And sometimes I think we are more concerned than they are.”

So, is financial literacy training right for your company? “If you’re unsure, perhaps you should first take a survey of your employees to find out,” Terri Byron of Sonic Automotive suggests. “Why not



conduct a survey to find out where your employees fall in terms of financial literacy? You can also find out their level of interest, including what they already know and what they want to know more about. Then, you can decide what kind of financial literacy is appropriate for your company.”

“There are always naysayers and those that don’t participate” says Rita Harris of GreenbergFarrow. “Some companies may shy away from offering financial literacy training because of perceived fiduciary liability. But, I feel like there is more liability for not doing some of this training as opposed to doing it.”

Harris concludes: “Overall, I think that this training adds to a sense of care and concern for the well-being of your employees – and I think this goes a long way with people.”

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EIGHT STEPS TO IMPLEMENT A SUCCESSFUL FINANCIAL LITERACY TRAINING PROGRAM

If you've decided that you want to offer your employees financial literacy training, here are some guidelines to follow, suggested by the American Institute of Certified Public Accountants.

1. Secure the support of senior management and iron-out any budgeting issues for the program.
2. Ask employees what topics they would like to have covered.
3. Identify presenters, including CPAs on staff. Do not invite presenters who will only promote fee-based products.
4. Select topics for presentations, such as buying a home, making retirement a reality, supporting elderly parents, managing cash flow, maximizing your company's benefits, how to rebuild credit, etc.
5. Choose presentation type, such as pre- or post-working hour sessions, lunch-and-learn sessions, teleconferences or webcasts.
6. Select day(s) and time(s) for the program. Be sure to allow time for discussion and questions. Plus, provide relevant handouts.
7. Promote the program through internal communications starting four-to-six weeks before the first session. Send a reminder the week of the presentation. At the end of presentation, promote the details for the next presentation and, again, ask what topics employees would like to have covered.
8. Create a page on your company's intranet to promote the workplace program and include resources related to each session, such as presentations, handouts and links to relevant financial websites.

Source: www.life.org



WHAT EMPLOYERS AND EMPLOYEES TOLD ALLIANT ABOUT FINANCIAL LITERACY TRAINING

To help determine whether employers should offer employees financial literacy training, Alliant Credit Union surveyed two groups, employers and employees through two separate online surveys. Employers were represented by 46 individuals working in the benefits function for companies with more than 100 employees. Employees were represented through an online panel of 400 employed individuals over the age of 18. Alliant conducted the employer survey in June 2011 and employee survey in April 2011. Here are some key findings.

Employers

Financial literacy is not a commonplace company benefit: 36% of U.S. companies offer financial education and 26% offer financial counseling (compared to 91% who offer a retirement plan, 91% who offer medical insurance and 85% who offer long-term disability).

Among companies that do offer financial education/financial counseling, most have offered these benefits for quite a while: 71% have offered these benefits for more than five years and 91% of the companies that provide these benefits were “satisfied” with their offering.

The majority of employers have seen an increase in demand for financial literacy training in the workplace during the last two years: 57%.

The topics most covered in employers’ programs were retirement planning (57%), evaluating investments (43%), managing debt (40%), creating an emergency savings fund (33%), saving for future goals such as children’s college education (29%), learning about credit reports and credit scores (26%) and protecting oneself from identity theft (22%).

Employees

In companies that do offer financial education/financial counseling, the majority of employees do not participate: 43% do.

The majority of employees that do participate in financial education/financial counseling find it valuable: 29% of the employees who participated in the training found it “very valuable” and 61% found it “valuable.”

Outside of work, employees relied on various sources for financial education: 30% used retirement planning managers, 24% used a bank or credit union, 22% used certified financial planners, 20% used debt counseling managers and 22% used advice from family and/or friends.

If financial education were offered by their employers, employees were most interested in the following topics: 56% planning for retirement, 56% saving more, 44% managing debt, 43% financial planning and budgeting and 41% understanding one’s credit report and score.