

# Money matters

FINANCIAL EDUCATION MAKES HEADWAY  
AS AN EMPLOYEE BENEFIT

By Liz Davidson, Financial Finesse

**5** years ago, financial education wasn't even on the radar for HR executives. In fact, it wasn't even a term. Today, some of the nation's largest and most prestigious corporations are implementing companywide financial education programs as a new employee benefit. In a time when companies are cutting back on health care costs and retiring expensive pension plans, employers are actually finding extra dollars in their HR budgets for employee financial education programs.

## QUICK LOOK

- ❖ Often, financial education programs are used to soften the impact of cost reductions in other areas and help with change management associated with reducing or eliminating retirement benefits.
- ❖ These programs can be implemented for less money than many other benefits, making it possible to add a new benefit in an environment in which many key employee benefits are being cut.
- ❖ Chances are that most HR managers are receiving more questions about the company's financial benefits and employees' personal finances than ever before.

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In many cases, financial education programs are used to soften the impact of cost reductions in other areas and help with change management associated with reducing or eliminating retirement benefits. Even more compelling to employers, these programs can be implemented for much less money than the majority of other benefits, making it possible to add a new benefit in an environment in which many key employee benefits are being cut.

## How Employees' Financial Issues Affect Employers

There are other factors motivating employers to add financial education as a benefit, as well. This is a world in which employees' financial issues can have a huge impact on their company, and vice versa. Where there once existed a separation between employees and employers, now the fates of their finances are inextricably linked. Consider:

- Last year alone, employees initiated more than 11,000 lawsuits because they felt their companies had breached their fiduciary responsibilities by mishandling their retirement plans, according to financial planning firm Whitehorse Advisors.

- A recent PlanSponsor study of more than 2,800 401(k) plans found that average plan participation rates dipped in every market segment, even with no apparent change in company match. The survey also found that participant communication materials ranked eighth on a list of nine key participant services by plan sponsors. The only service criterion ranked lower was "overall participant education program."
- The total pensions shortfall among underfunded pension plans is up dramatically over the past few years (\$278.6 billion in 2003 versus \$18.4 billion in 1999), according to PlanSponsor.com. Companies are scrambling to find ways to deal with huge shortfalls.
- Employees' personal finances cause more stress in the workplace than any other personal issue, according to a 2003 ComPsych study.

Chances are that most HR managers are receiving more questions about the company's financial benefits and employees' personal finances than ever before. Eighty-five percent of HR managers surveyed by the International Society of Certified Employee Benefits Specialists admitted that they regularly deal with employees soliciting advice as to how to invest within their plans —

advice that could cost their companies millions of dollars down the road if these employees make unwise investment decisions and decide to sue for breach of fiduciary responsibility.

## Financial Education to Achieve Strategic HR Goals

Most companies use financial education in three key ways.

### A Standalone Benefit

Employers position this benefit to employees as giving access to free, unlimited financial coaching and planning support as part of the overall benefits package. For most employees, this is a great perk — especially when they realize that all the financial information they will receive is unbiased. Most companies quickly discover that their employees have never met with a financial expert who wasn't trying to sell them something. These employees are in desperate need of financial guidance from a source they can trust.

### A Tool to Maximize the Value of Retirement Plans

Financial Finesse has worked with companies in which more than 50 percent of employees didn't even realize they had a pension plan. In these cases, employers spend considerable dollars funding a pension that isn't an effective recruiting or retention tool — a key reason to offer a pension in the first place. There also are companies in which the majority of employees are not participating at all in the defined contribution (DC) plan, despite generous program matches and a strong selection of funds. Many of these employers have significant discrimination testing problems and are forced to pay additional dollars into the plan to rectify these issues, or are forced to limit contributions for highly compensated employees.

Many companies are moving away from defined benefit (DB) plans, meaning that the responsibility for retirement planning shifts exclusively to employees. In these environments, it is critical that employees receive ongoing retirement education that highlights the plan's value as well as basic money management education so employees who are paid less better manage their money and can afford to participate in the plan.

### Addressing Employees Whose Financial Woes Cause Performance Problems

The Institute of Personal Financial Education at Virginia Tech worked with several corporations and government agencies to study how employees' financial problems affect employers' profitability. The study concluded that at most workforces, at least 15 percent of employees have serious financial problems that cause them to spend up to 27 hours per month at work focused on their own financial issues rather than their jobs. The loss of productivity was estimated to be well into the millions of dollars for large and medium-sized corporations, and this is only what could be measured. The study tracked employees who had received extensive financial education and counseling versus those who hadn't. Results concluded that financial education not only increased productivity, but also reduced turnover, moonlighting, workplace violence, absenteeism, embezzlement and a host of other HR problems.

Companies that choose the right provider and effectively communicate the service have achieved several positive results:

- Significant increases in plan participation. Financial Finesse has seen employers increase employee participation by 20 percent or more within a one-year period.

- An estimated 80 percent decrease in the amount of time spent dealing with retirement and other financial questions.
- Employees have significantly fewer complaints. Recently, Financial Finesse worked with a company that transitioned a large group of employees from a DB plan to a DC plan and heard no complaints because financial counseling was offered. In fact, many employees thanked the company for subsidizing the counseling, as it helped them make informed decisions about their new plans.
- Improved employee appreciation. Nearly all employees who have used financial education services have said they are better prepared to make financial decisions and have a better understanding of their benefits plans.

### Finding a Provider

As fiduciaries, plan sponsors cannot offer financial planning information directly to employees — a third party must be brought in to provide the information. If an employer is interested in offering a financial education program, certain criteria should be expected — and met — by a provider:

- **Independent Providers.** Look for a firm whose entire business is focused on providing financial education programs to companies and who does not have a conflict of interest that might compromise the quality of education. Don't bring in firms that sell financial products or services to individuals. These firms have a conflict of interest and may perceive employees as a sales channel rather than focusing on how to best educate them
- **Extensive Experience.** Look for firms whose financial planners have at least 10 years' experience and who require their financial planning staff to maintain high-quality planning

- credentials, such as the Certified Financial Planning (CFP) designation. Avoid firms that use staff with a legal or credit counseling background only — this is not sufficient to handle the breadth of employees' financial issues.
- **Customized Programs.** Every company is unique and financial education programs should take this into account. This is not a "one size fits all" benefit. The provider should conduct an in-depth assessment upfront to determine company goals and objectives; the demographics of the workforce and any special needs it may require; geographic locations, company culture and values; and the specifics of the retirement plan. The provider then should tailor a program that meets the company's specific needs.

### Financial Education That Pays

A financial education program can be a critical component of any company's overall benefits package and is an excellent tool for enhancing the value of the financial benefits already provided. In today's workplace, it is becoming an increasingly popular solution for employers that are dealing with the effects of employees' financial problems. By partnering with the right education provider, HR managers can make an enduring impact on both employees and the company.

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