



Personal Debt Can Drive Employees to Distraction

Employers are beginning to realize the negative effect that debt can have on their workforces, and many are taking action by offering financial education programs.

By **Eilene Zimmerman**

Americans' attitude toward debt has changed dramatically in the past two decades, from embarrassment to acceptance. Many people now see debt as simply part of modern life.

Two results of this change of heart are the lowest personal savings rate since the Great Depression—in January 2006 it dropped to minus 0.7 percent—and a penchant for using credit cards. More than half of workers surveyed by the Employment Benefit Research Institute for its "2005 Retirement Confidence Survey" say they carry credit card debt month-to-month.

Despite its social acceptability, debt problems cause stress and anxiety that sap workers' productivity, cause health problems and increase the likelihood they will leave a job in search of better pay.

"They are absent more frequently and waste time at work dealing with financial matters—on the telephone with creditors, trying to get a loan from their 401(k)," says E. Thomas Garman, author of more than 30 books on personal finance, a professor emeritus at Virginia Tech and former executive director of the university's National Institute for Personal Finance Employee Education.

Personal debt may be a personal problem, but many employers now recognize the potential drag on their bottom line. Increasingly, companies are including basic financial education courses as part of their employee assistance programs.

The timing is right: Garman's March 2005 research showed that 30 percent of U.S. employees feel overwhelming distress over their finances. At the end of 2005, Chicago-based EAP provider ComPsych asked employees that it serves to describe their financial situation. Twenty-eight percent said they were not only worse off than last year, but are also just one major setback away from financial disaster.

Kathy Stoughton, a financial specialist with ComPsych, says the company has seen a rise in demand from clients for basic money management, budget strategizing and debt management courses. Its most requested workshop is "How to Get Beyond Living From Paycheck to Paycheck."

Last year, 45 percent of calls to a financial hotline run by Financial Finesse, a financial education provider in Manhattan Beach, California, were about debt, up from 39 percent in 2004. Two of the most commonly asked questions were "How do I put together a budget?" and "How do I deal with my creditors?"

Liz Davidson, CEO of Financial Finesse, says her company used to conduct workshops for clients related to events like layoffs or mergers to help employees figure out what to do about their benefits. Now Davidson says almost all of her company's clients are asking for financial education courses.

Aflac, an international insurance company headquartered in Columbus, Georgia, began offering financial lunch-and-learn sessions for employees seven years ago. The focus largely was retirement planning, investment strategies, college savings plans and home buying. But in the past year and a half the company has added several basic money management courses that teach employees how to create a budget so that what is spent doesn't exceed what's coming in.

"These are all very well attended. In fact, because we limit the number in each session to control costs, most of our sessions have wait lists," says Chad Melvin, manager of corporate training and development.

Still, that cost is minimal--just lunch--since most of the presenters do not charge a fee and Aflac provides the classroom space. Many presenters are local nonprofits that provide financial education or investment advice, but if the presenter is a vendor that might gain financially from the program--such as Merrill Lynch or Wachovia--that vendor pays for lunch.

Although Melvin doesn't know how many employees have changed their habits as a result of these sessions, he does know that morale and retention are better because of them.

"I see that employees really feel the company has their best interests at heart," he says. And Aflac's retention rate is 87.3 percent, a few points higher than the industry average.

Another benefit employers hope to realize as a result of these courses is an increase in 401(k) plan participation--it's the primary reason a majority of Financial Finesse clients say they offer financial education.

"The challenge for these companies is that about 30 percent of their employees aren't participating in retirement plans because they just can't afford to do so," Financial Finesse's Davidson says.

In fact, next to the desire to increase retirement plan participation, Davidson says employers' biggest concern is reducing the number of 401(k) loans employees are taking.

But it's a Catch-22. Jinhee Kim, an assistant professor of family studies and personal finance at the University of Maryland, studies how financial education changes workers' attitudes and behaviors. Kim says that although many employers continue to offer traditional retirement planning seminars, they are useless if employees don't have cash to invest in the first place.

For many employees, rising health insurance premiums exacerbate debt problems.

Professor and author Garman says he recently consulted with an employer that had 300 employees, and although he gave those employees a raise each year, it wound up being less than the increase in their health care insurance premiums. "He urges them to put money into their 401(k) plans and they look at him like he's crazy," Garman says.

Another complication for employees is the recent changes in bankruptcy laws that have made it much harder to qualify.

"We get lots of calls about bankruptcy. A lot of folks who want to know if they are still eligible for it and the pros and cons," says Jonathan Hefner, manager of legal and financial services for Ceridian, a human resources outsourcing company in Minneapolis whose EAP serves about 1.2 million employees nationwide. Many of those in serious financial straits that now can't file for bankruptcy are looking for help in formulating another plan.

Basic financial management courses can help with those plans, and although they aren't a panacea for a workforce mired in debt, research shows education can change bad spending and saving habits. A study conducted by professors Kim and Garman in 2003 and published in the *Journal of Compensation and Benefits*, showed that 80 percent of respondents who had received a combination of workplace financial education and individual financial counseling felt they had a more adequate knowledge of personal finances. More than 44 percent said they had developed a plan for their financial future and about 37 percent reduced some of their personal debt.

Businesses also benefit by having a less preoccupied workforce. Financially distressed workers make lots of poor financial decisions for themselves and their employers, Garman says.

ComPsych's Stoughton agrees.

"This is a decision-making skill employers are teaching," she says. "If an employee learns how to make good decisions--financial and otherwise—for themselves, chances are they will make good decisions on behalf of the company."

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