A Penny Saved

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HELPING EMPLOYEES TO HELP THEMSELVES WHEN IT COMES TO FINANCES COULD EARN EMPLOYERS A COMPETITIVE ADVANTAGE.

Clearly, internal factors are continuing to chip away at employee paychecks. Employers are probably looking at a fifth year of double-digit health care cost increases, even as merit increase budgets are their lowest in 30 years. Combine those figures with related U.S. external factors showing personal bankruptcies up 19 percent in 2002 over 2001, low personal savings rates, and financial matters serving as one of the most common stressors in marriage, and suddenly employees have the makings of monetary mayhem at home — and at work.

How involved should an employer be in employee financial education? And what exactly falls under the term "financial education"? While retirement planning often is the initial thought when the words "financial education" are introduced in organizational meetings, this article is meant to focus on a broader perspective: how employers can enhance the financial well being of employees. By addressing this issue, employers may find that there are strategic advantages and tangible benefits to both employees and employers.

And the beauty of this topic is that many employers likely already provide some of the benefits that are inherent in the core foundational elements (or at least the periphery) of financial education.

Appeal to the Masses

The need for proper financial education crosses over the entire employee base and has no boundaries, making it critical to understand employee demographics and how they affect related programs and offerings. For example, younger employees might not understand the importance of budgeting and managing debt, while older workers nearing retirement are worrying about tax-efficient plan withdrawals and their mix of collective streams of income. Some highly compensated key talent may well be experiencing undue stress over personal financial matters, such as asset accumulation and tax deferment strategies.

Debt Management

Debt management tops numerous financial and employee assistance program (EAP) provider call reports. Financial Finesse, a San Francisco-based financial education provider, saw a 25-percent surge in debt-related calls between second quarters 2002 and 2003. Additionally, these calls were the firm's highest financial help-line topic.

"I think employers that 'do' financial education focus a lot on retirement education, wanting to increase 401(k) participation, etc.," said Liz Davidson, CEO at Financial Finesse. "But if employees are struggling to make ends meet and don't feel their paycheck is sufficient as it is, how can they even afford to participate in their 401(k)? If you don't address that issue (of debt management), it doesn't matter how great other plan benefits are."

U.S. personal savings rates versus global trends, though still low, rose to 3.8 percent in August 2003 — the highest savings rate in six months. As income providers, employers can play a role in supporting this altruistic campaign. Even if this rate is increased solely for employee emergency funding for unexpected out-of-pocket expenses, it will serve at least part of its purpose.

Employees should find ways to increase discretionary income via debt reduction/elimination programs and tax-favored pay strategies. Employers can help in this endeavor, as well as offer proper income protection programs and appropriate financial and retirement investing and planning.

Employers Can 'Save' the Day

There are several ways employers can spark financial education opportunities — for both the employer and the employee.

Pre-Tax Deductions

If a company has a Section 125 cafeteria plan, or is looking for another reason to put one in place, an employer can determine how certain premiums are paid (deducted) on a pre-tax basis. This arrangement allows employees to both slightly increase take-home pay, as well as reducing his or her taxable income, which actually is a reduction in taxable wages for the employer, too.

Action: Essentially, in a qualified Section 125 plan, employees pay for some or all of their benefits. An employer can set up pre-tax payroll deductions for the employee portion of medical, dental, life, disability and vision insurance premiums. Third-party vendors can help in setting up these plans. An existing insurance carrier(s) may even provide this service. If payroll is outsourced, some vendors also provide this option for free. Proposing this change to your top decision-maker will be an instant win.

Form W-4

While many U.S. workers may purposely have more federal taxes deducted from their paychecks than is needed, other employees may not fully understand how to properly estimate personal allowances or how to compare current withholdings to projected federal taxes owed.

Employers can help to educate employees on how to reduce the size of their refunds by putting more money into their paychecks throughout the year, if desirable. The Internal Revenue Service (IRS) has a free withholding calculator

QUICK LOOK

- There are strategic benefits to helping employees rein in their finances.
- Many employers already have programs available to help employees take home the most money from each paycheck.
- Financial education should cross all organizational boundaries — from the lowest paid employee all the way to the CEO's office.

online that could assist in this effort. Go to www.irs.gov and click "Individuals."

Action: Educate employees on properly completing this form to his or her greatest benefit. Use or direct employees to the calculator referenced above. Distribute a handout that provides various situations that can affect how a W-4 is filled out. Create three or four scenarios with hypothetical figures shown. Come up with an FAQ guide to answer questions such as:

- How often should I check my withholding?
- What if I'm not withholding enough tax?
- When will my new W-4 go into effect?

Create a poster to remind employees to review their W-4s if they get married or divorced, gain or lose a dependent, change their name, etc.

Educational Tools

Everyone learns differently, and the point here is to communicate and deliver financial education in various forms and fashions. An employee's media preference may be print, verbal or electronic. Some will welcome a group setting in which information is exchanged openly, while other employees may prefer one-on-one learning. Online modeling tools might entice different employee types to investigate various investment scenarios, while face-to-face time with a financial adviser would be the favored choice for other interested parties.

Action: Generally speaking, the biggest barrier to successful financial management for workers may well be a "lack of knowledge" in this area. There are many opportunities to educate employees on financial matters via various tools and services. If the company hosts an intranet, link to various online financial tools available on the Web. Prepare a list of resources (recommended readings, financial sites online, etc.) for employees who are interested in financial education. Identify and/or subsidize financial planning services. Contract with an outside third party to help answer employee questions. Financial newsletters are out there for employers to use in general communications. Group workshops on various financial matters are popular.

Protection Programs

Employees' financial dreams, along with those of their family members, can easily be shattered by illness, injury or death. Income protection programs help to take care of some of the costs and income replacement needs during these unfortunate events. Review short- and long-term disability programs, as well as accidental death and dismemberment (AD&D) and basic life insurance coverage.

Action: Regarding a short-term disability (STD) program, most employers provide this benefit and "self-insure," which basically means the benefit is paid out of company general assets. STD plans generally pay a percentage of an employee's base salary, often as high as 100 percent, for a specified number of weeks (sometimes the percentage is based on an employee's length of service).

Long-term disability (LTD) plans generally provide wage replacement benefits to employees who can no longer work due to a permanent and total disability. Look at offering an LTD plan through an insurance policy in which the employer pays all or part of the premiums. Also, employers usually provide group life coverage for employees on a non-contributory (employer-paid) basis — typically, a matching amount of AD&D is included with this coverage.

Defined Benefit or Defined Contribution Plan

These plans offer many advantages for employees' future retirement income. It is almost an expectation that employers play a major role in assisting in the retirement adequacy for their workers. Financial education plays a big part in effective utilization of these plans.

Action: While the full descriptions and advantages/disadvantages for these two main types of employer-sponsored retirement plans is beyond the scope and focus of this article, a lot of employees and employers primarily focus on this aspect of achieving financial independence when thinking about financial education. In particular with these plans, companies seem to worry about fiduciary responsibility and potential liability in connection with rendering "financial advice" in participant-directed investments. But, per the Department of Labor's Interpretive Bulletin 96-1, (DOL IB 96-1), *Participant Investment Education*, it is OK to provide financial education to employees in the following categories of investment information and materials — plan information, general financial and investment information, asset allocation models and interactive investment materials.

FSAs and HRAs

Flexible spending accounts (FSAs) allow employees to set aside money on a pre-tax basis to pay for eligible, non-reimbursed medical and dependent care expenses. Health reimbursement arrangements (HRAs) promote employer efforts in consumer-driven health care (CDHC) and have some favorable tax aspects to coverage and benefits. For HRAs, providing stored-value cards is one way to make it easier for employees to take charge of their health care budgets without putting a serious dent in their bank accounts.

Action: Education here helps to create higher participation by employees, which leads to lower FICA taxes an employer needs to pay. Decide whether to introduce and administer these activities in-house or outsource the plan(s) to a third-party administrator. Software applications can aid in the account tracking and disbursement processing. Ongoing communication and account updates help employees in claiming contributions made. As mentioned, stored-value or debit cards are a growing trend.

529 Plans

A company-sponsored 529 college savings plan (Section 529 of the Internal Revenue Code) can be offered at little or no cost to the employer, and enables employees to save for their children's (or even their own) education on a tax-advantaged basis. Although this offering would mostly cater to a certain demographic slice of the employee base, the perceived value and its return on investment (ROI) is excellent.

Action: For an employer, the main items of implementation and educating employees are:

- Carefully choosing the plan
- Setting up payroll deductions
- Educating employees on how 529s work.

Essentially, the sponsor or fund company handles the rest.

Tuition Reimbursement

A popular work/life benefit, tuition assistance allows employers to provide an investment in human capital while getting a tax break by deducting qualified reimbursements (currently up to $5,250 per employee).

Action: Think about the design of a program. How liberal should eligibility be? Should there be caps or limits on expenses? Consider assessing a reimbursement arrangement for nontraditional programs like accelerated course offerings, Internet classes or classes offered for working adults.

Assisted Living and LTC Programs

Eldercare is a growing concern in the United States, and could lead to both financial distress for affected employees and lost productivity to employers. It may be advantageous to look into dependent care spending accounts, providing resource and referral information, and/or offering long-term care insurance. Educating the work force on this important topic will build loyalty and potentially mitigate some monetary challenges for employees. (See "When Silence Is Not Golden: Eldercare Communications Can Enhance Productivity" on page 44.)

Action: In addition to ideas mentioned above, creating a general awareness of this topic among the work force may spur appropriate planning. Because group LTC insurance is fairly new in the benefits arena, invest in appropriate research on providers. Want to be a leader within your competitor group or industry regarding this benefit? Sponsoring this type of program might be your ticket.

A Competitive Advantage

Though it is not legally required for employers to provide these types of work experience elements to employees, they often are inherent in standard company programs. Employers who take the time to ensure that their employees know how to grow themselves financially may well uncover a competitive advantage. Additionally, organizations may solidify their attraction, retention and motivation efforts, creating a win-win situation.

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FOOT NOTES

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