

# PUTTING THE PIECES IN PLACE

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**CINDY LIVELY** is a machinist at Ross Reels Inc., a small company in Montrose, Colo., that produces fly fishing reels. Lively and her co-workers attended financial education courses offered there. Research shows a company's bottom line can be affected by employees' financial knowledge.

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## Financial Education in the Workplace Is it Good for the Bottom Line?

**L**ast Christmas, Charity Littleton ended up with an unexpected item on her shopping list: a dishwasher.

In the midst of all the holiday chaos, the Littletons' kitchen appliance broke beyond repair. But the cost of purchasing a new dishwasher, in addition to toys, gifts and holiday meals, was hardly a crisis. Littleton was financially prepared for the surprise expense without having to rely on a credit card, like she would have in the past.

"How many people can walk out of the store with a \$400 dishwasher, especially around the holidays? We were able to pay (cash)," Littleton says.

Saving money is just one aspect of her newly adopted financial plan. Littleton recently completed financial education classes offered through her workplace—Ross Reels Inc. in Montrose, Colo., where she has helped produce fly fishing reels for nearly nine years. Now, the family of three (and one on the way) has a financial plan; lives on a budget; and, most importantly, is whittling down their credit card debt.

"Our research so far has established a link between financial knowledge and behavior," says Kelly Edmiston, a senior economist in the Community Affairs Department at the Federal Reserve Bank of Kansas City. Edmiston and colleagues Kate Fisher and Sharon Oamek studied the relationship between financial knowledge and financial behavior, with a special focus on the importance of financial education in the workplace.

Lately, more employers are offering financial education courses to their workers. Meeting good-faith responsibilities to their employees under the Employee Retirement Income Security Act (ERISA) or passing 401(k) nondiscrimination tests against lesser-compensated employees are often motivating factors for employers. Another goal is for employees to become better equipped at handling personal finances, which may reduce stress and, in turn, increase productivity on the job.

"Sometimes people make bad decisions because they don't know any better," Edmiston says. "Financial knowledge is critical for good financial behavior. Better personal financial outcomes can lead to better workers and we are seeking ways to confirm this linkage, too."

### **The American way**

"As a country," Edmiston says, "we're spending more than we take in."

Many Americans are living on credit and not saving. According to the most recent edition of the Federal Reserve's Survey of Consumer

Finances, less than half of the respondents, about 41 percent, save money regularly. The personal savings rate in the United States has been declining since the 1970s and, by the end of 2005, dropped to -0.7 percent. It's our culture: living in the moment and not planning for the future, Edmiston says.

Often people start their adult lives in debt from post-secondary education, whether it's from loans, credit card spending or both. Further spending perpetuates debt as people live beyond their means and forgo their future personal security.

"People think saving is harder than it is," Edmiston says. "They don't understand how fast it can build up. If they did, they would save."

Only about 26 percent of respondents in a recent national survey believed they could save \$200,000 during their lifetime, and 21 percent of respondents said winning a lottery is the most practical strategy to accumulate that amount. In reality, saving \$200 per month in an account earning 6 percent annually would yield \$200,000 in 30 years.

Not saving adequately can lead to significant financial problems, Edmiston says. Many don't budget, and their expenses exceed their incomes. This can lead to paying bills late, which racks up finance charges and weakens creditworthiness.

most were asking for advance paychecks regularly. Even more were not participating in the company's retirement plan. And others were having their wages garnished to pay off outstanding expenses. Clark asked his roughly 30 employees if they would be interested in attending a one-day class on financial education and optional follow-up courses.

"There wasn't a single employee who said 'no,'" Clark says.

His motivation was simple: "If an employee has a personal financial problem, they're distracted on the job."

Since completing the course, the number of workers taking advance pay has dropped by 60 percent, the company retirement plan has 100 percent participation and the level of emotional distress among employees has declined significantly. Clark is certain his employees are better workers now—they're more focused and they're happier.

"There's been a difference," Clark says. "There's no question about that."

Like Ross Reels, employers can potentially "reap enormous benefits" from workplace financial education, Edmiston says. Research shows stress negatively affects the bottom line. A study of about 80,000 employees published in the American Journal of Health Promotion found that employees consider financial prob-

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Personal consequences of bad financial behavior may include high stress, which can overlap into the workplace and hinder the employee's performance. For this and other reasons, it may be advantageous for employers to offer financial education in the workplace.

### **Learning on the job**

A few years ago, Dan Clark, CEO of Ross Reels and a past member of the Bank's Community Development Advisory Council, took notice of a few disturbing habits some of his employees had developed. Many were participating in the company's payroll advance program, designed to help workers in a pinch. However,

lems to be a major contributor to their stress levels, second only to the job itself.

In recognition of the potential benefits, the Federal Reserve Bank of Kansas City offered its employees financial education last fall. Participants were from a variety of backgrounds and worked in a range of the Bank's departments. Nearly 80 employees in Kansas City and Denver participated in a group class, and more than half attended individual financial counseling sessions. Credit scores were collected by the class facilitator to better assess financial behavior in these one-on-one meetings.

Based on existing research, the Bank's Community Affairs staff first developed a set of

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**ROBERT HAUCK** uses 3-D computer imaging to develop fly fishing reels for Ross Reels Inc. He attended financial education classes that the company offered its employees not long ago. Since completing the courses, the number of employees experiencing stress from financial problems has declined.

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components necessary for an effective workplace-based financial education course. Staff then anonymously surveyed participants before and after the courses. Participants will be surveyed again one year later to measure any change in financial behavior. Questions focused on personal finance knowledge and behavior, workplace behavior, and past experience with financial training.

Additionally, other Bank employees who did not participate in the financial education classes were surveyed to measure their personal financial knowledge and behavior against those who did participate.

The study shows those with greater financial knowledge tend to have no or low credit card balances relative to their credit limit and more often have a sufficient “emergency fund.” In contrast, those with lower levels of financial knowledge tend to have higher credit card balances relative to their credit limit and inadequate or no emergency funds. And more than 40 percent of people with a high level of

financial knowledge were in the top third of retirement savers, while only 12 percent of those with low financial knowledge fall into that same category.

“Financial satisfaction is likely to be closely tied to stress levels, and financial knowledge is likely to affect financial satisfaction,” the Bank’s study says. “If (financial) satisfaction does indeed reflect stress levels, the results would suggest that those with higher levels of financial knowledge have lower levels of stress.”

Personal financial problems can affect the workplace in a number of ways, including absenteeism, high turnover, wage garnishment (compliance with regulations are costly to employers), drain on employee-assistance programs, theft or embezzlement, and low productivity, Edmiston says.

In addition to possibly reducing stress and increasing productivity, research shows that, in many cases, financial education at work increases participation in employer-sponsored

savings plans and leads to lower personal debt, Edmiston says.

Offering this education within the workplace is vital for a few reasons. The setting is optimal—employees on the clock are a captive audience, Edmiston says. Additionally, it may be the only opportunity for many to take a financial education class.

It hasn't been until recently that financial training has become increasingly prevalent in public school districts. In 2003, Congress passed the Financial Literacy and Improvement Act, and the Financial Literacy and Education Commission was created to improve financial knowledge nationwide.

In the Tenth District, Kansas and Colorado recently passed laws requiring their schools to teach finance curricula. And last year, Missouri mandated the completion of a personal finance course as a high school graduation requirement.

"While the movement encouraging personal finance instruction in high schools is critical, a major challenge is providing financial education to American adults who have completed their formal education," the Bank's study says. "Financial education at the workplace, included as part of an employer's compensation and benefits package, may provide such an opportunity."

### Back in the classroom

Nancy Nauser describes financial education in the workplace quite simply.

"It's a gift," says Nauser, president of the Kansas and Missouri division of Consumer Credit Council Service of the Midwest Inc., a nonprofit agency that partners with companies and organizations to provide financial education.

Last year, Nauser gave more than 100 pre-

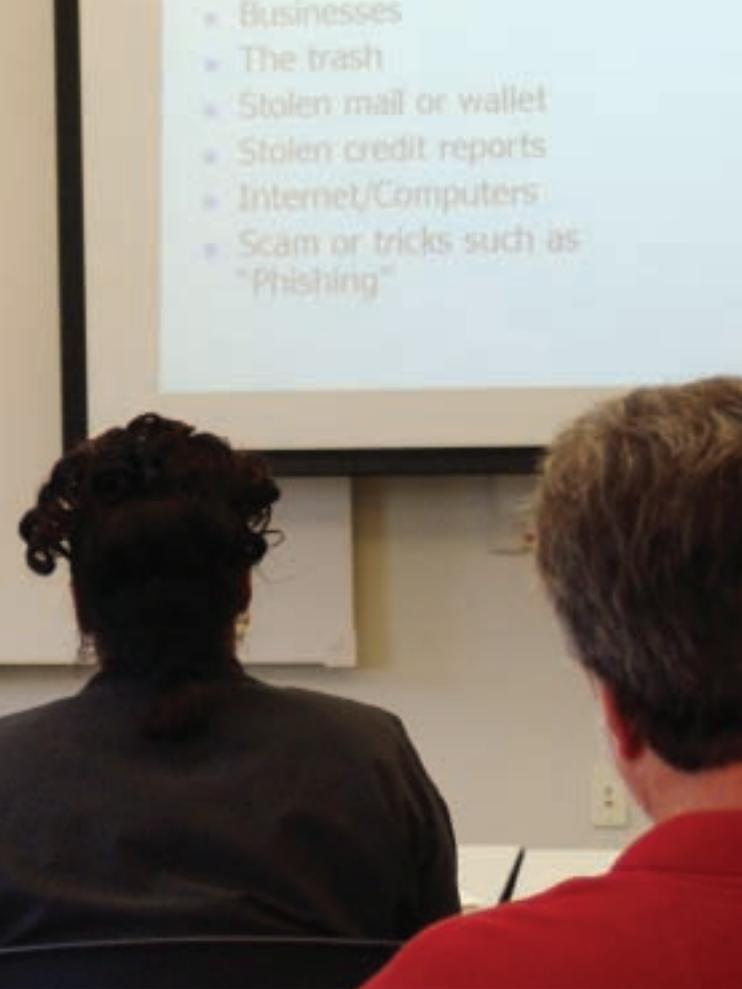


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sentations in schools, churches, community organizations and companies, including the Bank's Kansas City office and Denver Branch. Her message: "Build wealth not debt."

Getting this into play can be challenging for educators, according to the Bank's study. Personal money management is growing increasingly complex with the number of financial products and services offered by banks, credit card companies and employers. So many options coupled with little knowledge can be overwhelming, Edmiston says often individuals don't realize their current financial lifestyle is a problem with the potential to get worse—possibly leading to inadequate retirement funds or even bankruptcy.

Nauser's teachings compete with the marketing of materialism, she says, which is a tough battle. But it's a fight to which she's willing to devote her efforts. In time, results are evident.



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**NANCY NAUSER, OF CONSUMER CREDIT COUNCIL SERVICE,** teaches financial education classes at businesses and organizations predominately in Kansas and Missouri. She advocates both saving and restrained spending in her basic lesson plans. For many adults today, their only option to increase their financial knowledge is through the workplace.

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“The more you hear something, the more you’re likely to use it,” Nauser says.

Growing up, Charity Littleton’s father warned his children against accumulating debt. But at 19 years old, Littleton was approved for her first credit card. More cards arrived through the years, peaking at half a dozen. Financial debt followed, peaking in the tens of thousands of dollars.

“It was overwhelming,” she says.

Littleton’s experiences are comparable to those of other class participants, and the sessions are tailored to meet their needs. The classes range from basic practices, such as money management and getting loans, to more advanced topics, such as investing.

Material can be presented in either a group or one-on-one setting. Most programs offer the fundamentals for the class as a whole and more advanced sessions and individual counseling sessions at a later time.

Attendance rates are high, Nauser says, and the sessions attract a variety of participants. At Ross Reels, participants in the program ranged from single 20-somethings to those nearing retirement age, Clark says. Many of his employees attended follow-up courses. Littleton did.

“I’m doing so much better for my family,” she says. “I feel like a lot of burden is lifted off my shoulders.”

All of the family’s bills are paid on time. Money is regularly stashed away for the future. And any extras, such as dining out or shopping, are paid for with cash.

The Littletons are financially prepared for the arrival of their second child this summer, and recently they’ve done what was once the unthinkable: taken a family trip without racking up any credit card debt. A little financial knowledge helped them travel a long way—to Alaska for two weeks last summer.

“We can enjoy a vacation and not have it follow us home,” Littleton says. “It’s financial freedom.”

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**BY BRYE STEEVES, SENIOR WRITER**

## FURTHER RESOURCES

**THE RELATIONSHIP BETWEEN FINANCIAL KNOWLEDGE AND BEHAVIOR: EVIDENCE FROM A SURVEY OF FEDERAL RESERVE BANK OF KANSAS CITY EMPLOYEES,**  
BY MARY C. GILLET FISHER AND KELLY D. EDMISTON

**PERSONAL FINANCIAL EDUCATION RESOURCES FROM THE FEDERAL RESERVE**

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