

Conference *room to* classroom



Financial education in the workplace benefits employees, employers

Tiffany Kuper (pictured far right) and her husband work full-time, save for retirement and have minimal debt, but they weren't sure they could afford to start a family.

"We didn't think we had enough money," Kuper, 31, remembers. "I had no idea if I was even on track."

So Kuper enrolled in an on-site financial education program offered by Nebraska Furniture Mart, where she works as a benefits administrator at the company's Omaha headquarters. After attending a general course in a group setting, Kuper and her husband, John, met with an adviser to discuss their finances.

"We realized we were blowing 400 bucks

a month on, well, we didn't know what. That's the same cost as daycare."

Since completing the program a couple of years ago, Kuper has set up accounts for bills, savings and spending, and she has started budgeting for emergencies and vacations. She and her husband have continued to meet with an adviser and, more recently, the couple started a college savings plan for their 1-year-old daughter, Delaney.

Having a better understanding of their finances and clearly defined goals "is a stress relief," Kuper says. "I know I can live off what I make, and I don't have to live paycheck to paycheck."

Megan Berry Barlow, who oversees the financial education program offered at

Nebraska Furniture Mart, hears similar stories from many of the 150 or so employees who have participated. To her, this means more satisfied workers.

Other businesses also cite less-stressed and more-productive employees. Research shows financial education generally improves personal financial outcomes, says Kelly Edmiston, a senior economist at the Federal Reserve Bank of Kansas City. Furthermore, he says, these improvements can cross over and affect employers' bottom lines in the form of fewer requests for pay advances, increased participation in 401(k) plans and more.

Edmiston and Molly McGrath, who works in the Community Affairs Department at the Kansas City Fed's Omaha Branch, conduct ongoing research on the effects of participation in financial education programs and the link between personal financial improvements and the workplace.

Edmiston and McGrath reviewed national trends in savings, debt and retirement funding. They also surveyed and interviewed employees from several large companies who participated in financial education programs at work as well as their employers. Responses were used to gauge financial knowledge and financial behavior, both before and after participating in the class. The companies included a financial institution, a health-care organization, a chain restaurant and a retail business in the Kansas City, Mo., and Omaha metro areas.

"There seems to be a relationship between financial knowledge, financial behavior and, in turn, workplace outcomes," McGrath says. "This leads us to believe it can be advantageous for employers to offer these programs at work, where the knowledge can be applied right away, benefiting both the worker and the employer."

A need

In many instances, consumers may not understand the consequences of over-spending and not saving. Participants in one financial education course said they now realize not

paying off their credit card balance each month meant they were paying interest on a meal at McDonald's or on hairspray that was purchased in college.

It's generally accepted that Americans like to consume—big houses, nice cars, designer clothes. But whether this constitutes over-consumption isn't as important to maintaining personal financial health as is "consumption smoothing," or balancing spending over a lifetime, Edmiston says. Generally, this means some borrowing when young, saving during peak earning years and drawing down savings during retirement.

Although the basics of personal finance may be well-known—pay bills on time, limit debt, build an emergency fund and save for the golden years—consumer debt (excluding home mortgages) was \$2.6 trillion in January 2009. Before the most recent recession that began in December 2007, the national savings rate was negative, meaning that in addition to



MEGAN BERRY BARLOW, center, oversees the financial education program at Omaha-based Nebraska Furniture Mart for employees such as Stacy Harbaugh, left, and Tiffaney Kuper. Such programs have benefits not only for the employees but also for the employer, say Kansas City Fed researchers.



not saving, people were spending more than they were earning. The personal savings rate jumped back into positive territory during the recession.

“Time will tell whether the increase in saving is a permanent change, or whether Americans will go back to their old ways once the economy improves,” Edmiston says. “Regardless, most Americans aren’t financially prepared for retirement. Most people aren’t saving enough during their working years to maintain their optimal consumption during retirement years. The balance of accumulated retirement savings is just as important, if not more so, than the savings rate.”

As it is, just more than half of the families recently surveyed by the Federal Reserve hold financial assets in a retirement account. Another study revealed roughly 45 percent of workers cash out their 401(k) accounts when they change jobs. And, about three-quarters of families held some kind of debt, according to data from 2007.

There is “good debt,” which helps the borrower smooth lifetime consumption, such as student loans or a mortgage (as long as it is proportionate to the household’s income).

WORKERS WHO HAVE USED FINANCIAL EDUCATION opportunities offered through their employers report improvements in how they handle their finances, such as using a more formal budget and making it a priority to pay off credit card balances each month. In turn, employers report seeing positive effects on their bottom line, both directly and indirectly.

“There is nothing inherently bad about holding debt,” Edmiston says. “Consumption smoothing means there is some accumulation of debt early on for most people. However, for many, debt is rising faster than income, and people find they have more than they can manage.”

“Unmanageable debt is too much debt,” McGrath adds. “Especially when it’s coupled with no personal savings.”

On-the-job learning

It’s not too late for adults to learn—and practice—good financial behavior, says Shawn Macken, who teaches programs across the nation as a financial adviser at Overland Park, Kan.-based Waddell & Reed Inc. Adults are usually responsible for their own financial well-being, so a financial program likely resonates more so with them than it would for school-aged children. Also beneficial is learning in the same place where the participant can invest for retirement.

Participants learn common financial tenets, such as budgeting, credit and taxes, and attend a series of one-on-one meetings with a financial adviser as well as periodic reviews for one year.

Whether their goals are to pay an unexpected medical bill in full, buy holiday gifts without carrying a credit card balance, or save for a down payment on a house, participants find that the financial education programs help them focus on making better decisions with their money—not necessarily on increasing their income. After completing the program, many participants reported using a more formal budget, paying off credit card

balances each month, paying bills on time and forgoing payday lenders.

Why do these facets of an employee's personal life affect his or her employer? It's simple, Macken says: "A business runs on its people."

Edmiston and McGrath cite several ways workers' personal financial condition can affect employers' bottom lines, both directly and indirectly:

- Wage garnishment may be the most direct impact, which is costly and cannot be recouped. Employers can't charge a fee or fire a worker for garnishment.
- Employee recruitment could be affected because nondiscrimination requirements mandate a balance between 401(k) contributions for high- and low-paid workers. If lower-paid workers aren't saving, then the employer may not be able to attract other employees with generous retirement benefits.
- Advances on paychecks and loans from 401(k) plans are administratively expensive.
- Employee theft, embezzlement, absenteeism and time spent at the workplace dealing with personal financial problems are costly and decrease productivity.
- General stress from financial problems can hinder productivity, and in more extreme cases, lead to workplace accidents or violence.

"On so many levels, financial education programs can and do influence personal financial behavior, so it would seem advantageous for employers to offer formal assistance to workers," Edmiston says. "And those employees should take advantage of that. After all, people see professionals for other areas where they lack expertise, such as doctors, mechanics and personal trainers. Those who need help managing their finances should also seek guidance."

Making the grade, getting results

Although employers' benefits aren't easily quantified, it seems those who offer subsidized financial education to employees see a positive

impact on their bottom lines. Results from surveys and interviews show success for employers and employees alike. Furthermore, all of the companies surveyed by the Kansas City Fed that hosted the pilot programs three years ago still have the program in place now and are offering it to more employees.

At Nebraska Furniture Mart, it's also a retention tool, Barlow says.

"There's always going to be someone who pays more or offers better health insurance," but Nebraska Furniture Mart wants to let its 3,000 employees know the company cares about them.

"Should we really be doing this at work? Yes. It's the right thing to do," Barlow says. "I'm happy to say we're an employer who offers it."

As a result of her participation, long-time employee Stacy Harbaugh and her husband, Craig, increased their insurance coverage and started college savings plans for their two pre-teen children.

"It was very convenient for us," Harbaugh says. "There was no reason not to (enroll in the program)."

Tiffany Kuper agrees.

"My parents never told me (about finances); you don't learn it in school or hear it from your friends."

She learned at work.



BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

"WEIGHING THE EFFECTS OF FINANCIAL EDUCATION IN THE WORKPLACE"

By Kelly D. Edmiston, Mary C. Gillett-Fisher and Molly McGrath
KansasCityFed.org/TEN

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.