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FINANCIAL EDUCATION IN THE WORKPLACE
MOTIVATIONS, METHODS, AND BARRIERS

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EXECUTIVE SUMMARY

One of the most important lessons the subprime mortgage crisis holds for us is just how poorly informed many Americans are when it comes to making important financial decisions. Clearly, there is a need for basic financial education. But when, where, and how should such education be delivered? Financial literacy programs aimed at high school students do not appear to be effective, and few adults are willing to expend the time, money, and effort to acquire the sort of general education that would help them make good lifelong financial decisions.

This leads to the idea of delivering financial education in the workplace, which appears to hold real promise for reaching large numbers of adults in a cost-effective manner. Employers are theoretically capable of providing the time, the place, and the instructors for trusted financial education. But how many employers do so, and just how good is the education they provide? What motivates some employers to provide such education, particularly to low- and middle-income workers? This paper is a preliminary status report on what is being done in this area, by whom, and with what results.

Given the limited and often experimental nature of workplace-based financial education, it seemed premature to conduct a full-scale national survey of employers. Instead this overview is based on a review of the current academic literature, a special Gallup-NFIB survey to establish the incidence of such offerings by smaller firms, an analysis of statewide surveys of employers in Pennsylvania and Wisconsin, and interviews with human resources directors in companies that offer such benefits and third-party providers of financial education. We focused on the small and medium-sized enterprises that are responsible for much of the job creation in the United States.

Initially, we intended to look at workplace financial education that was not directly related to the provision of the employer's principal (primarily retirement) benefits. It was our belief that many individuals are in need of financial education in subject areas unrelated to employee benefits, such as how to finance a home purchase, choose investments for a personal retirement portfolio, pay for their children's education, and manage debt, and that they should be thinking in terms of an overall lifetime financial plan. However, relatively few employers offer financial education that is not closely related to their company's primary benefits; consequently, we expanded the scope of this study to include workplace financial education related to retirement.

Our research suggests that employers are primarily motivated to offer financial education to comply with the fiduciary duty standards of the Employee Retirement Income Security Act or to meet the federal nondiscrimination test to qualify their pension plan for favorable treatment by the IRS. But they appear to be motivated by other factors as well, including a desire to help their workers avoid getting into financial difficulties (the assumption being that a stressed worker is a less productive worker), the belief that offering financial education helps them recruit and retain employees, and out of a sense of social responsibility.

This overview looks at methods of delivering workplace financial education, including print media, workshops and seminars, Internet and intranet instructional programs, and counseling offered through employee assistance plans. It also looks at the self-selection problem with optional programs (higher-wage, financially savvy workers tend to welcome workplace financial education, while lower-wage workers, who would benefit the most from such education, generally do not), the use of incentives, the importance of following educational sessions with a chance to act immediately on what has been learned, worker-paid education, and interested versus disinterested third-party providers of financial education.

Most employers appear to agree with the social need to educate their workers, but in the current economic environment, they are unwilling to expend the necessary resources. This is mainly because 1) increased competition has squeezed profit margins, 2) other important benefits, particularly health care, have become more expensive, taking a greater share of the benefits pool, 3) employees do not seem to value financial education as highly as they do other corporate benefits, and 4) providing objective, effective financial education is expensive and hard for employers to justify on a cost-benefit basis.

Since there are few other effective means of providing basic financial education to American adults, we need to take another, pragmatic look at workplace delivery. In order to promote workplace financial education, we should consider 1) helping companies pay for financial education programs, 2) initiating pilot programs, perhaps funded by philanthropic organizations, focused primarily on lower-wage employees, who have the most to gain from such education, and 3) leveraging the educational opportunities provided by interested third parties willing to fully disclose their interests by certifying those who are competent, ethical, and willing to deliver financial education to all employees on a nondiscriminatory basis.

INTRODUCTION

The subprime mortgage crisis, which has wreaked havoc on the U.S. financial system, undoubtedly holds many lessons for us. One of the most significant is just how poorly informed many Americans are when it comes to making complex financial decisions. This shortcoming is not limited to a failure to understand artificially low introductory interest rates and balloon payments, but extends to every aspect of personal finance, including the wise use of credit and making the right investment decisions. Clearly, there is a need for basic financial education. But when, where, and how should such education be delivered?

It has been suggested that we should make financial education a mandatory part of the high school curriculum. However, the results of Jump$tart and other financial literacy programs aimed at high school students have been disappointing, with empirical studies pointing to low retention rates when it comes to the specifics of financial decision making.[1] Compounding this problem is the rapidly changing nature of financial products, which makes it unlikely, for example, that a mortgage for a first home taken out at age 30 will bear much resemblance to those studied in a mandatory financial education class 12 or more years earlier.

Thus, educating adults would seem to make more sense. However, only a small proportion of adults appear to be willing to expend the time, money, and effort to acquire the sort of general education that would help them make good lifelong financial decisions. The alternative—decision-specific or "just in time" financial education—may look like a good idea in terms of cost and time, but it is not an effective means of achieving overall financial stability. It is also problematic because the "educators" are often providers of insurance, retirement products, investment products, or loans.

This leads to the idea of delivering financial education in the workplace, which appears to hold real promise for reaching large numbers of adults in a cost-effective manner. Employers are theoretically capable of providing the time, the place, and the instructors for trusted financial education. But how many employers do so, and just how good is the education they provide? What motivates some employers to provide financial education in the workplace (other than that related to employee retirement benefits), particularly to low- and middle-income workers? This paper is a preliminary status report—based on a study commissioned by the New America Foundation—on what is being done in this area, by whom, and with what results.

How We Proceeded and What We Found

Given the limited and often experimental nature of workplace-based financial education, it seemed premature to conduct a full-scale national survey of employers. Instead, this overview is based on a review of the current academic literature, a special Gallup-NFIB survey to establish the incidence of such offerings by smaller firms as well as their intention to offer such benefits in the future, an analysis of statewide surveys of employers in Pennsylvania and Wisconsin, and interviews with about 20 human resources (HR) directors in companies that currently offer such benefits and third-party providers of financial education. Although the early adopters of workplace-based financial education appear to be large employers (IBM unveiled a $50 million personal finance and education benefit program for its employees in 2007), this study focuses on the small and medium-sized enterprises (SMEs) that are responsible for much of the job creation in the United States.[2]

Leaving aside the question of the effectiveness of workplace-based financial education (the results of empirical studies are mixed), we were interested in what motivates employers to provide such education. We wanted to discover the characteristics of employers who offer, or plan to offer, such education, and how their programs are constructed. We wanted to know whether the education is delivered in-house or through third parties. If offered through third parties, is it provided on a fee-only basis or without charge by commissioned salespersons or representatives of firms offering financial products, and is it part of an employee assistance plan (EAP) package or a stand-alone service? We also wanted to gather information on the costs of financial education to both employer and employee, on the perceived internal and external benefits for the company, and on what has and has not worked.

Initially, we wished to focus on financial education that was *not* directly related to the provision of the employer's principal (primarily retirement) benefits. It was our belief that many employees needed financial education in areas that were not related to employee benefits, such as how to finance a home purchase, choose investments for a personal retirement portfolio, pay for college, conduct tax planning, and manage debt, and that they should be thinking in terms of an overall lifetime financial plan.

However, for various reasons discussed below, relatively few employers offer financial education that is not closely related to their company's primary benefits. It is probably for this reason that few recently published studies offer insight into effective ways of offering non-retirement-related financial education in the workplace. On the other hand, economists and others interested in the macroeconomic and policy implications of our low savings rate in general and our low retirement savings rate in particular, have begun to study the effectiveness of workplace retirement education, and their work is often applicable to the delivery of other types of financial education in the workplace. Consequently, we expanded the scope of this study to include workplace financial education related to retirement.

Our research suggests that employers are primarily motivated to offer financial education to comply with the fiduciary duty standards of the Employee Retirement Income Security Act (ERISA) or to meet the federal nondiscrimination test to qualify their pension plan for favorable treatment by the IRS. But employers who offer financial education appear to be motivated by other factors as well. There is some research to suggest that workers who are less anxious about personal financial problems may be more productive.[3] There may also be benefits in recruiting (for example, some executive positions offer paid financial planning and tax counseling) and retention (if only by pointing out how good the existing benefits package is and how it can be utilized more efficiently). Finally, some employers who provide workplace-based financial education do so out of a sense of social responsibility.

On the flip side, employers who are reluctant to provide such education are concerned about the high costs of employee benefits and cite increased competition, especially from foreign companies with lower labor and benefits costs. They point out that few employees appear to value financial education enough to sacrifice other benefits to pay for it. And although financial education may help to lower employee stress levels, employers report that it is difficult to link productivity to any single stressor. Lastly, financial education paid for by the employer is not exempt from federal taxation unless it relates to retirement planning.

Financial Education as an Employee Benefit

When provided by an employer, financial education is generally seen as an employee benefit. If partly or fully paid for by the employer, it is considered to be a "hard" benefit that constitutes part of the employee's overall compensation. Even if the direct cost of the financial education is fully paid for by the employee or an interested third party (such as a financial services firm), the employer may absorb some costs of the program in the form of employee release time, use of facilities, etc. (This is often referred to as a "soft" benefit.)

Although some employers offered pre-retirement planning seminars in the early 1980s, interest in providing such education increased as the number of defined benefit pension plans decreased and employee-directed retirement plans such as 401(k)s became more widespread.[4] According to the Employee Benefits Research Institute, the number of employees whose primary pension plan was a defined benefit plan declined from 27 million to 23 million in the last quarter of the 20th century, while the number of employees with a defined contribution plan increased from 4 million to 31 million. By 2006, 46 percent of private-industry workers participated in defined contribution plans, and just 20 percent remained in defined benefit plans.

The shift from defined benefit to defined contribution pensions has generally benefited employers at the expense of workers, a fact not widely understood by employees.[5] Under these circumstances, why would employers with defined contribution plans wish to offer financial education to their employees? There are a number of possible reasons:

1. Some type of retirement education is required by ERISA to enable employees to make an informed choice regarding asset allocation within their defined contribution plans.
2. If employers wish to offer defined contribution plans to their highly compensated employees who may benefit significantly from the associated tax savings, they must abide by IRS nondiscrimination rules that require that a sizeable proportion of other employees sign up as well.[6] Retirement education may help employers persuade employees who are not highly compensated to sign up for defined contribution plans, thereby helping them meet the IRS's nondiscrimination rules. (The Pension Protection Act of 2006 gives employers a safe harbor from the nondiscrimination rules if they offer employees an opt-out rather than an opt-in defined contribution plan. However, most employers have not switched to opt-out plans.)
3. Many financial service vendors and asset gatherers offer free financial education.
4. Employers are worried that valuable employees may be retiring early because they fail to realize how poorly prepared financially they are for retirement. (According to the Employee Benefit Research Institute's 1997 Retirement Confidence Survey, only 18 percent of workers knew the correct age at which they would be able to get full Social Security benefits.)
5. Employers are genuinely concerned that their employees are not saving enough for retirement or the education of their children, or have excessive debt.
6. Employers believe that workers who are in good financial shape may be more productive and cost less in terms of absenteeism and the need to garnish wages.

7. Employers believe that offering financial education is an added benefit that will help them attract the best workers.

According to the available evidence, employers who provide financial education today are largely moved to do so for reasons 1–3. Some employers worried about brain drain have also cited reason 4. Reason 5 may apply to some businesses, particularly those that are privately owned. There does not appear to be much evidence in support of reasons 6 and 7.

Reluctant Employers
Although surveys show that many employers agree that their employees would benefit from objective, comprehensive financial education, few are willing to pay for it. Falling U.S. corporate earnings in the post-9/11 global environment, accompanied by huge increases in the cost of health benefits, have caused many companies to engage in strategic benefits planning in which every dollar spent on benefits has to be justified and aligned with the company's goals, although it should be noted that employees generally pay for all of their benefits by accepting lower compensation in the form of salary and wages.[7] This reluctance to provide comprehensive financial education is primarily attributable to three factors:

The cost of adding another benefit at a time when the costs of existing benefits (primarily health care) are rising dramatically. According to the U.S. Bureau of Labor Statistics, employer benefits costs in March 2008 averaged $8.63 an hour, or 30.3 percent of the total average hourly wage of $28.46.[8] Legally required benefits (Social Security, Medicare, unemployment insurance, and workers compensation) accounted for about 26 percent of total benefit costs, as did employer health coverage, the cost of which has increased by some 14 percent since 2003.

The apparent lack of employee demand for such education. Since employees are paying the costs of their benefits (in forgone wages), it is advantageous to employers to offer those benefits that are valued most highly by their workforce. According to a survey conducted by the Employee Benefits Research Institute (EBRI) and Matthew Greenwald & Associates in 2001, the most highly valued employee benefit was health insurance, ranked first by 60 percent of workers, down slightly from 64 percent in 1999. The second most highly ranked benefit was a retirement savings plan, ranked first by 23 percent of workers. This was followed by traditional (defined benefit) pension plans at 6 percent, retiree health insurance and long-term care insurance at 3 percent, life insurance at 2 percent, and stock options at 1 percent.[9] The survey also found that 77 percent of workers reported that benefits were very important in their decision to accept a job offer. However, only a quarter of workers said that they had accepted, quit, or changed jobs because of benefits.

Possible adverse tax consequences. Unless specifically exempted by law, fringe benefits are considered to be taxable income by the IRS.[10] Financial counseling and tax preparation services are considered to be taxable fringe benefits. With a single exception, financial education paid for by the employer has never been exempt from federal taxation. The one exception is employer-provided qualified retirement planning services, defined by the IRS under the Economic Growth and Tax Relief Reconciliation Act of 2001 as "any retirement planning advice or information provided to an employee and his spouse by an employer maintaining a qualified employer plan." The act specifically excludes services that might be tangentially related to retirement planning, such as accounting, brokerage, or legal services or tax preparation. While it might be argued that investment planning, lifetime financial planning, and even estate planning are, broadly speaking, a part of retirement planning, it would be more difficult to argue that advice on how to pay for college or manage debt falls under that heading.

THE CURRENT STATE OF WORKPLACE FINANCIAL EDUCATION

It appears that nearly half of U.S. employees receive some financial education at the workplace, primarily related to retirement benefits and planning.[11] A 2001 survey of employers by the Profit Sharing/401(k) Council of America found that 22 percent provided *investment* advice.[12] Our own Gallup survey of small and medium-sized businesses, covered in more detail below, found that 10.6 percent offered *non-retirement-related* financial education to their employees, while an additional 8.7 percent planned to do so.

National Survey of Small Businesses

In December 2007, the following question was added to a national Gallup study of approximately 800 small and medium-sized independent businesses (250 employees or fewer), commissioned by the National Federation of Independent Businesses:

> Recently, a number of businesses have begun to offer financial education or planning services to their employees beyond just an understanding of the business's employee benefits. Topics might include overall financial planning, investment planning, buying and financing a home, financing higher education, or debt and credit card information. Does your business currently:
>
> 1. Offer such financial education to employees
> 2. NOT offer financial education, but plans to do so in the future, OR
> 3. NOT offer financial education and has no plans to do so in the future.

According to the survey, the results of which are displayed in table 1, 10.5 percent of businesses currently offer such financial education and an additional 8.9 percent plan to do so, while 79.3 percent do not offer such financial education and do not plan to do so.

Small and medium-sized companies most likely to offer non-benefits-related financial education to their employees include those with 20 or more employees, those located in the East, South, and Central regions of the United States, those in smaller towns and cities, those that have done well in the past few years, and those whose CEOs are better educated, female, managers rather than owners, and have an interest in their *own* finances as evidenced by their having checked their credit records. If we include businesses that plan to offer this type of financial education with those that currently do so, the leaders are those with 20 or more employees (29.9 percent, compared to 19.4 percent overall), those in the South (22.9 percent), those in business four to five years (28.2 percent), those in urban, but not highly urban, areas (27.3 percent), those whose sales have increased between 20 percent and 30 percent over the past two years (28.1 percent), those that have outperformed their competitors over the past three years (28.4 percent), and businesses headed by college graduates (23.1 percent), females (21.5 percent), non-owning managers (24.5 percent), and individuals with an interest in their own personal finances (22.4 percent).

Thus, slightly more than a fifth of small and medium-sized enterprises either offer non-benefits-related financial education to their employees or plan to do so, and those most likely to provide such education are the larger firms, those located in smaller cities or urban areas, and those with good recent performance. This makes sense in that larger firms have the scale needed to offer such education on more economically, urban firms have greater access to educational resources, and firms that are doing better tend to have the resources (and perhaps the optimism) needed to commit to this type of employee benefit.

TABLE 1. Provision of Financial Education to Employees by U. S. Small Businesses

	Currently Offer to Employees	Do Not Offer But Plan to Do So	Do Not Offer But Do Not Plan to Do So	Total[a]	Number of Businesses
All Businesses	10.5	8.9	79.3	100	796
Number of Employees					
1–9	8.6	9.0	81.1	100.0	630
10–19	15.7	7.9	74.2	100.0	89
20 or more	20.8	9.1	70.1	100.0	77
Region					
East	11.3	10.5	78.2	100.0	133
South	12.4	10.5	75.2	100.0	153
Midwest	8.6	6.3	84.6	100.0	221
Central	12.6	9.0	75.4	100.0	167
Pacific	8.6	7.6	83.3	100.0	105
Business Age					
1–3 years	8.5	10.9	80.6	100.0	129
4–5 years	18.3	9.9	69.0	100.0	71
6–10 years	7.6	13.2	77.1	100.0	144
11–15 years	9.8	5.7	84.4	100.0	122
16–25 years	12.4	5.3	79.9	100.0	169
More than 25 years	9.6	6.8	83.6	100.0	146
Urbanization					
Rural	6.8	6.8	85.4	100.0	206
Small Cities/Towns	16.2	7.2	76.6	100.0	167
Fringe Urban	12.2	7.3	80.5	100.0	123
Urban	11.7	15.6	68.2	100.0	154
Highly Urban	2.1	7.4	89.4	100.0	94
Change in Sales Last Two Years					
Increased 30% or more	11.9	15.8	71.3	100.0	101
Increased 20–29%	14.6	13.5	71.9	100.0	89
Increased 10–19%	14.6	10.4	72.6	100.0	164
Increased less than 10%	5.8	1.5	92.7	100.0	119
Decreased	7.6	8.4	82.4	100.0	119
Competitive Performance Last Three Years					
Lower Than Competition	9.0	4.0	87.0	100.0	100
Similar to Competition	7.2	6.9	84.4	100.0	320
Somewhat Higher	15.6	12.2	71.9	100.0	167
Higher	16.1	12.3	71.0	100.0	155

Checked Personal Credit Record					
Yes	12.8	9.6	76.2	100.0	509
No	6.8	7.1	84.7	100.0	281
Education					
High School or Less	2.9	9.8	85.6	100.0	173
Some College or Vocational	12.2	5.6	79.9	100.0	197
College Graduate	12.6	10.5	76.5	100.0	277
Graduate/Professional	14.4	6.5	77.7	100.0	139
Gender					
Male	10.1	8.8	79.7	100.0	651
Female	12.5	9.0	77.1	100.0	144
Position					
Owner/Manager	10.1	8.4	80.2	100.0	653
Owner, Not Manager	2.5	17.5	80.0	100.0	40
Manager, Not Owner	16.7	7.8	72.5	100.0	102

[a] Totals may not add up to 100 percent because of non-responses and rounding errors.

FINANCIAL EDUCATION IN A MEDIUM-SIZED BUSINESS

U.S. Engineering is a mechanical construction firm with just under 1,000 employees, headquartered in Kansas City. Tyler Nottberg, the company's CEO, cares a great deal about the financial education of his employees. He divides his "customers" into two groups: the external customers (clients) who pay the bills and the internal customers (employees) who do the work. He tries to focus on the needs of each.

Mr. Nottberg is concerned about the ability and willingness of the government to provide social services in the future. He wants to be sure that his employees can take care of themselves financially, without overreliance on government. As a result, U.S. Engineering has contracted with American Century Financial to give financial workshops and provide counseling for all employees.

American Century Financial is an investment advisor, unaffiliated with the company's 401(k) plan, and it provides its services without charge at U.S. Engineering's offices in Kansas City, California, and Tennessee. Workshops and counseling sessions are held at varying times, including at 4:00 p.m., so union employees can attend after finishing their shift. Sessions last for as long as employees wish. All employees, including union employees who are not part of the company's 401(k) plan, are invited to attend, and spouses are welcome. Presentations are designed to cover practical issues. Mr. Nottberg feels that private counseling is attractive because employees are reluctant to talk about themselves during group meetings.

The company is unusual in its emphasis on saving for the education of children, which it encourages by matching the contributions made by its non-union employees to a 529 plan on a two-to-one basis. Mr. Nottberg thinks that college savings are as important as retirement savings, and he would like to see the federal government extend the same tax savings to 529 plans as to 401(k) plans, allowing contributions to be made with pre-tax dollars.

Mr. Nottberg believes that there is a correlation between a lack of financial worries, personal happiness, and productivity, especially with respect to younger workers. He sees an overdependence on credit and debt as big problems that he would like to help his workers avoid.

When asked about his use of an asset-gatherer to provide his financial education and counseling, he expressed great trust in American Century Financial. He feels certain that he would hear about it if American Century were to use arm-twisting techniques to get his employees to transfer their 401(k)s to itself.

Pennsylvania Survey of Businesses

The Pennsylvania Office of Financial Education, which is part of that state's banking department, conducted a survey of employers in 2008 to find out what type of financial education they offered to their employees. The Internet survey elicited replies from 189 of the 7,000 companies with the largest number of employees. All told, 71.7 percent of respondents said that they offer some type of financial education to their employees; 27.2 percent reported that they provide personal financial planning *as a benefit* to employees. (It is possible that the low response rate—under 3 percent—had a disproportionate representation of companies who offered financial education and were proud to do so.)

Seminars were the most frequently reported means of providing financial education, employed by 40.2 percent of respondents. Other means included posters in common areas (27.2 percent), pamphlets in paychecks and mailboxes (26.1 percent), e-mail messages or links (also 26.1 percent), and DVDs or other media (5.4 percent). More than half the sampled firms (53 percent) reported having offered financial education for at least five years. On the other hand, financial education is offered relatively infrequently, with 43.4 percent of firms offering it yearly and 21.7 percent biannually.

The most common offerings are those directly related to employee benefits, including planning for retirement (89.6 percent), health, disability, and life insurance (86.8 percent), and maximizing employee benefits (76.8 percent). Basic investing (68.4 percent) and basic money management (51.8 percent) are the only other financial education programs offered by at least half of those offering such programs. Planning for education costs is offered by 46 percent of respondents, and instruction regarding credit and credit reports/scores by 38.9 percent. The only programs offered frequently by more than 30 percent of employers are those involving retirement, insurance, and maximizing benefits.

When asked why they offered financial education, 62.2 percent of respondents said that it was to improve employee morale, productivity, and loyalty; 52.9 percent said that it was because of its low cost; 41.2 percent said it was to reduce employee stress and health care costs; 31.9 percent said it was in response to employee demand; and 26.1 percent said it was because an outside provider solicited the audience. While 55.9 percent of employers reported conducting at least some financial education internally, through their HR department or an in-house trainer, 74 percent also relied on benefits providers (of health coverage, life insurance, disability insurance, and retirement plans), 41.7 percent used a financial institution, 36.2 percent used financial firms (such as Fidelity, Edward Jones, etc.), and 23.6 percent used independent consultants to supply financial education.

More than two-thirds (68.8 percent) of employers conducted at least some financial education seminars during working hours, while 26.4 percent did so over lunch, and 26.4 percent did so after work hours. Most seminars were optional: only 15.6 percent of employers made attendance mandatory. Slightly over a quarter (26.9 percent) evaluated their financial education efforts.

When asked about the impact of financial education on their company, 68.3 percent said that they were not aware of any significant impact. Increased productivity was reported by 5.8 percent, reduced absenteeism by 3.3 percent, reduced turnover by 17.5 percent, and fewer requests for paycheck advances and fewer garnishments by 4.2 percent. Some 10.7 percent reported that the impact was measurable, although most were unwilling to share their data.

When asked about barriers to offering more financial education to their employees, the most frequent response by far (42.9 percent) was that other business priorities took precedence. Other barriers cited by more than 20 percent of respondents included lack of employee interest, lack of internal trainers, small company size, and the logistics of offering financial education.

When respondents were asked how the Pennsylvania Office of Financial Education could help businesses provide financial education to their employees, making available a "tool kit" of low-cost approaches—including paycheck stuffers, posters, weekly tips, etc.—elicited the most positive responses. Respondents also said that they would welcome an e-mail newsletter, a suggested curriculum or packaged programs, train-the-trainer programs, success stories from other companies, and an approved vendors list of third-party providers who had been screened for competency and high ethical standards.

Wisconsin Survey of Businesses

In 2008, Michael Gutter of the University of Florida conducted an on online survey of Wisconsin businesses, receiving 330 completed questionnaires. The majority of respondents (66.4 percent) reported that they were providing some type of financial education to their employees, if only in the form of handouts. Most said that they did so as an employee perk (76.8 percent), rather than as a result of employee demand (28.6 percent). Those who did not offer financial education said that they were not sure employees wanted it and/or that they had no one to provide it. Seminars conducted by outside providers, such as financial planners, were the most frequently cited means of providing financial education (71.5 percent), followed by seminars conducted by HR employees (26.6 percent). Only 15.9 percent reported offering seminars by outside providers who were purely educators.

The most widely covered topics related to employee benefits, led by retirement planning (89.3 percent), understanding employee benefits (63.3 percent), and health insurance (55.8 percent). Other popular topics that were not directly related to employee benefits included basic investing (50.7 percent), basic money management (40.5 percent), and investing for education (23.7 percent). Just 19.5 percent offered education regarding credit and credit reports/scores, and 13 percent offered education on homeownership.

Interpreting the Three Surveys

Since the three surveys covered different populations, had significantly varying response rates, and asked different questions, it is difficult to point to conclusions supported by all three. Only one of the surveys was national in scope, but it focused on small and medium-sized enterprises, and simply asked if employers offered or planned to offer non-benefits-related financial education to their employees. The Pennsylvania and Wisconsin surveys were more comprehensive, but provide only state-specific information. The state surveys were also more likely to be answered by companies that offer financial education since, unlike the NFIB survey, they focused on that topic. The regularly administered NFIB survey had just one question relating to financial education out of many covering other issues.

However, based on the available data from the three surveys, we can say with some assurance that:

1. Only a small minority of employers currently offer financial education that is *not* directly related to their package of traditional benefits such as health and retirement, and their desire to increase such offerings is not high. Some small and medium-sized businesses appear to be more committed to offering such education as the result of personal interest on the part of their CEOs.
2. The financial education that is currently offered is largely provided by outside financial product vendors (including asset gatherers) and less frequently by in-house personnel.
3. Seminars appear to be the most widely used delivery vehicle, followed by such less expensive means as posters, paycheck stuffers, and newsletters.

METHODS OF DELIVERING WORKPLACE FINANCIAL EDUCATION

Businesses deliver financial education to their employees in a number of ways. They may provide it themselves or they may outsource it. They may deliver it by means of printed explanatory materials, through educational pieces in the company newsletter, through their computer systems, in workshops or by means of one-on-one counseling. Some of these methods may be used in conjunction with others. For example, employers may use newsletters or e-mail to market workshops. Workshops may be followed by individual counseling in person, by telephone, or by e-mail.

According to EBRI's 2006 Retirement Confidence Survey, among workers who were saving for retirement 72 percent used written material supplied by their employer or employer's plan provider when making investment decisions, 63 percent relied on the advice of a financial professional, 46 percent used the Internet to gather information, 24 percent used computer software, 21 percent used information from seminars (without specifying who delivered the seminars), and 20 percent used online professional investment advice services. The "most helpful" advice, those surveyed said, came from financial professionals (40 percent), written material supplied by their employer or employer's plan providers (15 percent), and family, friends, and coworkers (13 percent). Only 2 percent rated information from seminars as "most helpful."[13]

Forty-eight percent of workers said that they had received retirement planning materials from their employer and/or attended seminars offered by their employer or retirement plan provider over the previous 12 months. Of these, about 30 percent reported modifying their retirement planning as a result, either by saving more or modifying their asset allocation. Only 28 percent of those using a financial professional did so through work. Among respondents who reported receiving the advice of a financial professional at work, 69 percent said the advice was delivered in person, 23 percent said it was delivered online, and 13 percent said they received the advice over the telephone. Workers with incomes of $35,000 or more were more likely than lower-income workers to report that their employer provided this type of investment advice.

Finally, among workers who did not have access to professional advice at work, 30 percent said that they would be "very likely" to use it if it were offered in person through work, and 14 percent said that they would be "very likely" to use it if it were provided online. Just 9 percent would use professional advice if it were only available by telephone.

Print Media

The authors of a 1996 Stanford University working paper reported that they could find no effects of written materials such as newsletters and summary plan descriptions on pension plan participation or contributions.[14] They relied on data from the 1993–94 KPMG Retirements Benefits Survey in which employees were re-interviewed in the year following their first interview to see the effect of various types of workplace education. A later study by Douglas Bernheim and Daniel Garrett, published in 2003, also found that financial education delivered through various types of print media, including newsletters and plan descriptions, had little, if any, effect on pension plan participation or contributions.[15] However, there is some evidence that the *quality* of printed financial information may affect participation rates, with better materials leading to increased participation.[16]

Workshops and Seminars

The evidence regarding the effectiveness of workshops or seminars is mixed. Only a small number of studies suggest that employees who have attended a retirement seminar are much more likely to save and contribute to pensions than those who have not.[17] According to EBRI's 2006 Retirement Confidence Survey, 29 percent of employees who attended workshops subsequently modified their retirement planning: 48 percent said that they had increased their savings, and a third reported that they had altered their asset allocation.

A number of studies between 1997 and 2006 found financial planning seminars to be useful in boosting retirement preparedness and retirement confidence.[18] However, employee behavior is not entirely consistent with these findings. When employees leave a job, they are entitled to take their defined contribution retirement savings as a lump sum, which they can use for any purpose. In a 2001 analysis by Hewitt Associates of nearly 170,000 defined contribution plan distributions, 68 percent of 401(k) plan participants opted for lump-sum cash payments.[19] For many individuals, taking a lump-sum distribution may be disadvantageous because these distributions are taxable as ordinary income and may bump the worker to a higher tax bracket. In contrast, in trustee-to-trustee transfers (to a new employer, bank, or broker) taxes are deferred until the funds are withdrawn, not only establishing a larger corpus to continue earning tax-deferred interest or dividends but also allowing for the payment of taxes at a generally lower rate after retirement. Obviously, by taking the distribution, the worker is also potentially reducing retirement income.

While employees must be told of their distribution options, there is little incentive for employers to educate departing employees about the type of distribution that would be most beneficial for them. Only "stewardship" or social responsibility would motivate an employer to do so. Consequently, it is not surprising to learn from an analysis of the relationship between workplace retirement education and the saving of lump-sum distributions based on the National Institute on Aging's 1992 Health and Retirement Study that retirement education, in and of itself, does not appear to increase the saving of lump-sum distributions.[20]

Robert L. Clark and Madeleine D'Ambrosio of the TIAA-CREF Institute recently conducted a study to assess the effects of hour-length TIAA-CREF retirement planning seminars. Participants were asked to complete a questionnaire before the start of the seminar, a second at the end of the seminar, and a third three months later.

Immediately after the seminar, 7 percent of participants said that they intended to change their retirement age, by an average of 4.1 years, and 20 percent said that they had increased their desired level of retirement income. Three months later, many of those who earlier said that they intended to make changes following the seminar had not yet implemented them. For example, at the end of the seminar, 41 percent of attendees who had not opened a supplemental retirement plan said that they intended to do so. Three months later, only a quarter of those who said they intended to open a supplemental plan had actually done so. Thirty-seven percent of those with supplemental plans said that they planned to increase their contribution. Three months later, only 42 percent had actually done so. On the other hand, 30 percent of those who had said that they would not increase their contribution did so. Commenting on the less than desired effects of the seminar on financial behavior, Clark and D'Ambrosio concluded:

> This lack of follow through suggests that it would be useful if arrangements are made so that participants in financial education programs could open new supplemental plans or alter contributions rates at the conclusion of educational programs. The ability to make on-site changes in their savings plans at the end of a seminar would tend to reduce the forces of inertia and procrastination. The addition of post-seminar communications and encouragement could also increase the likelihood that participants will adopt their new retirement plans.[21]

The economist Annamaria Lusardi believes that the task of curing widespread financial illiteracy cannot be handled with a single seminar: "This is not because financial education is ineffective, but because these programs are too small with respect to the size of the problem they try to address."[22]

Mark Schreiner and Michael Sherraden analyze the costs and benefits of required financial education sessions for low-income users of individual development accounts (IDAs) in their book, *Can the Poor Save?* IDAs are subsidized savings accounts that match savings with government funds to encourage the poor to begin to save. According to Schreiner and Sherraden, each hour of financial education resulted in additional savings of $1.16. The effect was pretty much linear (consistent) up to 10 hours of education. This would appear to show that more financial education results in better financial outcomes. However, the cost of the education was $3.00 per participant hour, leading the authors to question the sustainability of such education.[23]

The Self-Selection Problem with Workshops or Seminars

Optional workplace workshops and seminars present a severe self-selection problem. In general, those who need financial education the most are the least likely to take advantage of it when it is offered. Jing Xiao of the University of Rhode Island, the editor of the *Journal of Family and Economic Issues* and of *Advances in Consumer Financial Research*, confirms this. He also stated in a recent interview with the author that he thinks it is particularly hard to interest employers in financial education at present because of the economic downturn.[24]

As Annamaria Lusardi notes, "Those who attend seminars are not necessarily a random group of workers. Because attendance is voluntary, it is likely that those who attend have a proclivity to save and it is hard to disentangle whether it is seminars, per se, or simply the characteristics of seminar attendees that explain the higher savings of attendees shown in the empirical estimates."[25] In essence, those who need financial education the most—workers with little formal education, who have accumulated few assets and are in the greatest danger of retiring without sufficient income—are least likely to attend. This is consistent with the author's preliminary findings from a study of Jump$tart, namely that individuals who are completing or who have completed a four-year college education are far more financially literate than others.[26] Researchers who looked at financial management among soldiers at Fort Bliss found that "good financial behaviors" were strongly and directly correlated with levels of formal education, to the extent that college graduates exhibited almost no "bad" behaviors. They also found it difficult to motivate soldiers who most needed financial education to participate in it.[27]

An Important Exception: Effectiveness with Lower-Wage Workers

Financial education seminars are often offered by companies whose employees do little or no saving, probably in an effort to make their 401(k) plans conform to nondiscrimination rules. Douglas Bernheim and Daniel Garrett found that it is under such circumstances, with workers in the lowest two quartiles of wealth, that the seminars appear to do the most good; they also found that the impact of the seminars decreases or disappears among wealthier workers.[28] This finding was verified by Annamaria Lusardi, using data from the ongoing Health and Retirement Study. She also found that the effect of seminars was especially strong for those with little wealth or education, boosting financial wealth by some 18 percent.[29]

In a subsequent study, Lusardi found "an effect of retirement seminars for African-Americans, but only in the first (lowest) quartile of the wealth distribution. Given that the families at the bottom of the wealth distribution save so little, this is still a remarkable effect. Similarly, the effect of seminars is positive and significant among both Whites and African-Americans, but only for those with low education." She adds that "only 5% of Hispanics ever attended retirement seminars while 13% of Whites and 12% of African-Americans attended retirement seminars."[30]

This important finding is one of the most promising arguments in favor of workplace financial education. However, the strong relationship between interest in participating in financial seminars and formal education places benevolent companies in a quandary. If they offer financial seminars, they will easily attract those with education and wealth who enjoy learning in this setting while missing the workers who need it the most. There are three possible solutions to this problem: 1) make sessions mandatory (with some type of learning assessment), 2) offer incentives to encourage employees to attend voluntary seminars, and 3) change the method of education to reach those individuals who learn best outside of a traditional classroom setting.

The Use of Incentives

Since employees who need financial education the most are least likely to attend voluntary seminars, the use of incentives would appear to be appropriate. In one study, a random sample of non-faculty employees at a large university were given a financial incentive of $20 to participate in a benefits fair. The incentive increased participation by 500 percent relative to employees in the control group, who were not given the incentive. Moreover, employees who were not offered the incentive but were in the same department as their luckier colleagues were three times as likely to attend the benefits fair as other employees, reflecting peer influence, or the effect now known as "viral marketing." Employees who attended the benefit fair were significantly more likely to sign up for the university's pension plan, irrespective of whether they received the incentive. The only negative was that those who had already signed up for the plan increased their contributions only negligibly. By and large, however, incentives work.

Computer-Based Financial Education

Increasingly, financial education is being made available to workers through the Internet or through intranet servers within companies. A number of companies covered in this report offer their employees online programs relating to corporate benefits. Some offer interactive programs that enable employees to make calculations regarding pension benefits and necessary contributions. Others make available financial education seminars in streaming video format. Still others buy interactive programs from companies like Financial Finesse that cover a wide variety of financial issues.

Perhaps the greatest drawback to computer-based financial education is that many people get bored with it. Sophisticated computer users will go after specific answers to specific questions, but many aspects of financial education are complex and require greater study. Without carrots or sticks, few workers will voluntarily sit through an hour-long program on the computer. This makes it a much less compelling form of education than one-on-one counseling or group seminars, where interaction with other participants makes the process more interesting. However, mandatory computer-based education, with quizzes to insure accountability, combined with incentives, can be an effective means of providing financial education to lower-compensated employees.

PRECISION INFORMATION

Founded in 1998 and funded by angel investors, Precision Information delivers financial education exclusively through the Internet. What differentiates its product from other types of computer-based financial education is that it is designed for employees of financial institutions, primarily those in customer service. The personal financial education of the employee is a job skill required by the employer. This is the carrots and sticks needed to motivate employees to learn from computer-based programs.

Many non-bankers are surprised to learn that tellers and platform personnel are not naturally savvy about money, but the truth is that these are generally non-highly-compensated employees who lack a college degree. Training programs tend to be limited to the technical aspects of the job, such as how to cash a check or what form to fill out for a loan, and as a result many of these workers have difficulty relating to a more affluent customer base because they have no personal experience with the management of stocks, bonds, or mutual funds. In addition, workers at this level are no more likely to have a 401(k) than workers with similar incomes in other industries.

Credit unions and other financial service employers use Precision Information's programs not only to train customer service employees but also to improve participation in 401(k) plans and to help employees with their personal finances, with the aim of lowering turnover rates, which are very high for low-skilled employees. Program completion rates are amazingly high, in part because the programs are mandatory or employers provide very desirable incentives. One incentive that has worked well is the promise of a pizza party if every employee in the group completes the program successfully.

Precision Information's Educated Investor University offers degrees in three categories: Basics of Personal Finance, Retirement and Wealth Management, and Investing Basics. Each category is broken up into modules (articles, plus quizzes) and the modules are grouped into courses.

According to CEO Joe Saari, the most important determinant of success is the active involvement of senior leadership. Moreover, he says, in order to turn a traditional culture into a learning culture, it is necessary to offer individual and group incentives, the two most important being recognition and rewards.

Financial Education for Workers with Very Low Incomes

In the past few years, attempts have been made by government agencies and philanthropic organizations to provide basic financial education to workers with very low incomes, some of whom are not fluent in English. Their employers, often in competitive industries, cannot afford to offer financial education to workers who speak different languages and who are from different cultures as a benefit and believe that their employees would not value it in lieu of health care coverage, for example, or be willing to accept lower take-home pay. Moreover, "free" providers of financial education, such as financial services salespersons or asset gatherers, tend not to be interested in employees who have few assets and little or no discretionary income. This is why such organizations as the Jane Addams Resource Corporation in Chicago and CDTech in Los Angeles are trying to fill the void, with varying degrees of success.

JANE ADDAMS RESOURCE CENTER

The Jane Addams Resource Center (JARC) of Chicago provides financial education to low-income employees (for the most part) of about 20 small and medium-sized companies annually. With some funding from outside organizations, it trains low-skilled individuals for jobs in manufacturing and also provides many of them with financial education. It does not charge for its services, which are paid for by the city of Chicago and outside foundations. JARC first began to bundle financial education with its other services aimed at readying unemployed workers for manufacturing jobs in 2003.

One company sought JARC's services because of its poor 401(k) participation rate, presumably in an effort to meet the IRS's nondiscrimination requirements. Another client was concerned about the large proportion of its employees whose wages had to be garnished and sought to reduce the associated expenses by educating them about credit. This company, which wanted to minimize training costs, was also concerned about employee retention. JARC's solution was to educate primarily through one-on-one, in-person counseling.

All employees are eligible to participate in JARC's financial education programs, but it is up to employers to invite their workers to do so. Programs are offered in English and Spanish, with most given in English. New programs are introduced as needed, the most recent being on the subject of debt consolidation.

Programs are primarily offered at the workplace, generally during working hours, although JARC is moving toward after-hours counseling because of the time required to teach effectively. It also adapts its schedule to accommodate workers on overlapping shifts and conducts some of its sessions on its own premises. All presentations are made by JARC staff or permanent contractors.

JARC now offers a course in personal finance to unemployed workers consisting of five two-and-a-half-hour classes. It will customize this program for employers as well.

Ray Prendergast, who heads JARC, supports contextual learning as a best practice. He feels that many workers, particularly those at risk, need some experience in how to make basic financial decisions. To this end, he assigns students to find out which lender has the lowest interest rates. He teaches individuals how to make a budget. He believes that one-on-one counseling delivers the best results, but it is expensive and his ability to offer it depends on available funding.

When trying to interest employers in employee training, JARC tries to sell them on the idea of incorporating financial education as part of a bundle of services. Unfortunately, few employers ask for financial education. However, once they have been persuaded to try it, most like it.

CDTech

The Community Development Technologies Center (CDTech) is a Los Angeles–based nonprofit that attempts to revitalize poor neighborhoods by helping to rebuild the local industrial job base, largely by training low-wage workers. It developed its Worker Income Security Program (WISP) to help strengthen the workforce for manufacturers and small businesses in Los Angeles County. The goals of the program, which consisted of basic skills training, including English as a second language, an individual development account (IDA) savings program, financial literacy training, and follow-up counseling and referral, were to reduce employee turnover, improve workplace communications, and increase employee morale and motivation.

The IDA savings program was the first such workplace-based program in the country. To encourage employee saving, the federal government agreed to contribute two dollars for every dollar put into an IDA, provided the funds were saved for a minimum period of time and were used only for approved purposes, such as education or the purchase of a home or business. The intent was to get poor people banked and accustomed to saving and to enable them to accumulate assets that could be used for an investment in their future.

The financial literacy program was seven and a half hours long and included subjects such as building credit, budgeting, home buying, starting a small business, and investing in education. There was no cost to the employees except for their time.

Dr. Denise Fairchild, who heads CDTech, found this to be a difficult program to manage since both employers and workers, most of them immigrants, were difficult to work with. Workers failed to take advantage of the IDA program, perhaps because it sounded so improbable. It took years to develop workers' trust, which was finally achieved on a limited basis only through the use of floor leaders who could relate to the employees. Employers were mostly interested in reducing the costs of garnishing wages.

Dr. Fairchild found that some employers, particularly female business owners, went for the program naturally. This reinforces a similar finding from the NFIB survey, mentioned in the text. Other employers, however, "never got it." Ultimately, only a small segment of business owners wanted to offer IDAs through their companies, seeing the accounts as competing for employee 401(k) funds needed to meet nondiscrimination rules.

When the IDA program ended and federal funding dried up, some of the local banks became the primary funders of the financial education effort. Like many organizations, CDTech found it difficult to attract workers to its financial education program even though it offered free one-on-one counseling, a method of education that many lower-income workers prefer. Dr. Fairchild found that only about 2 percent of eligible workers took advantage of the counseling when it was available, making it a hard to justify the program's cost to sponsors.

Following Education with Implementation

While education may promote good intentions, the likelihood that an individual will act on those intentions appears to decline rapidly over time. Advertisers know this, which is largely why they are shifting advertising dollars from traditional media, such as newspapers, television, and radio to the Internet. When we learn something favorable about a product on the Internet, we can buy it with a single click of a mouse, whereas if we learn the same thing through a newspaper article, acquiring the product requires a separate action, such as visiting a store or calling a telephone number or booting up the computer.

Scholars from Harvard and Yale, in a study published by the National Bureau of Economic Research, looked at "Quick Enrollment," a 401(k) option that reduces complexity by automatically setting default contributions and asset allocation. They found that participation rates tripled in the first month of the program and that the simplified program was especially helpful in boosting the participation rates of African Americans and lower-income workers.[31]

Annamaria Lusardi, Punam Keller, and Adam Keller built upon this work by giving new employees the opportunity to make some simplified financial decisions and implement them almost immediately afterward. This greatly increased enrollments in supplemental retirement plans.[32]

Third-Party Providers

Many companies employ third parties to provide financial education to their workers. They do so to supplement in-house expertise, to reduce ERISA-related liability, and often to reduce cost.

As our discussions with corporate HR directors and prominent third-party providers of financial education made clear, the primary motivation behind workplace financial education is the desire to avoid liability imposed by the Employee Retirement Income Security Act of 1974 and clarified by the Pension Protection Act. Section 404(C) of 2006. ERISA absolves employers (plan sponsors) of liability for the performance of employee retirement investments if employees are given control of their own investments. However, relief from liability demands that employers give their workers information that will increase their ability to exercise control over their investments, including a description of investment alternatives, and their objectives and risk and return characteristics. Subsequent Department of Labor interpretive rulings explicitly state that employers do not have to offer participants investment advice or investment education relating to general investment principles and strategies that would assist them in making investment decisions.

Plan sponsors that have wanted to give investment advice (such as asset allocation) to employees have tended to select a financial services firm, such as Fidelity or Charles Schwab, to provide investment products and an independent investment management company to provide investment advice. The use of an independent investment management company to provide financial education appears to relieve both the employer and the financial services firm of fiduciary liability if an employee's portfolio performs poorly, in essence by transferring the liability to the fiduciary advisor who provided the education.[33]

The 2006 Pension Protection Act made more explicit the shield provided to employers who use a fiduciary advisor independent of the plan sponsor. The fiduciary advisor may be a bank, a registered investment advisor, an insurance company, or a broker-dealer. The fiduciary advisor must be paid a flat fee and cannot profit from any advice given, and adequate disclosures must be given to employees.

The 2006 Pension Protection Act also made it possible for employers to offer a "default option for employees who were unwilling to choose their own 401(k) investments." The default option automatically allocates the employee's investment funds based on the employee's age, leaning toward higher risk, growth-oriented investments for younger workers and capital-preservation investments as workers near retirement age.

The result of ERISA and the subsequent 2006 Pension Protection Act was to make the fiduciary advisor the de facto provider of financial education in the workplace. This third-party "educator" shields the employer from fiduciary liability for not offering sufficient investment information or offering incorrect information.

Why would employers, who could fully protect themselves from fiduciary liability by hiring fee-only financial advisors, hire interested third-party advisors instead?

Based on the interviews conducted with employers for this study, it comes down to cost. Financial advisors who operate exclusively on a fee-only basis (who sell no products and gather no assets) and are skilled in making presentations and building client trust have high opportunity costs and are consequently very expensive. Financial advisors who are equally skilled but make the bulk of their income from selling commissioned products or gathering assets generally offer their educational programs without charge to the company. To be fair, the companies that use interested third parties generally prohibit outright solicitation of employees during seminars (which also appears to be a requirement of the Pension Protection Act), although they may allow (or even encourage) the presenters to meet one-on-one with their employees on and/or off premises after the seminars are over.

This presents a real policy dilemma. If interested third parties were prohibited from being fiduciary advisors, chances are that few employers would hire disinterested fiduciary advisors because of the cost. Many interested fiduciary advisors are good educators and provide useful materials and counseling. If they were prohibited from conducting educational sessions, many employees would be deprived of useful financial education. The trick is to protect employees from unscrupulous advisors who might use their position of trust to steer them into inappropriate products or asset management with excessive fees. This might be accomplished through ethical standards and disclosure rules created and enforced by a new self-regulatory organization (SRO).[34] Regulatory oversight might also be needed.

Employee Assistance Plans

Employee assistance plans (EAPs) are counseling services generally provided by disinterested third parties, usually via telephone or the Internet. These services tend to be bundled by the provider and sold on a per capita basis (perhaps $5 per employee per year), and often include personal or family counseling, legal counseling, and financial counseling. Their low cost, which makes them attractive to many employers, is based on low expected rates of utilization.

BALANCE: A FINANCIAL COUNSELING PROVIDER TO EAPS

Perhaps the largest provider of workplace financial counseling through employee assistance plans is Balance, headquartered in San Francisco. Its president, Joanne Budde, was head of the Consumer Credit Counseling Center of San Francisco in the mid-1990s when an outside consultant reported that 17 million American workers needed help with their finances. Given the widespread nature of this (national) market, the credit counseling agency, which typically counseled clients in person, decided to begin offering financial counseling services by telephone. To differentiate this new service from its credit counseling service, the center chose the name "Balance," as in the need to balance one's checkbook.

Initially, Balance employed a certified financial planner, with the idea of creating basic financial plans for each client. However, it soon became clear that individuals did not want to do a lot of preparatory work. Instead, they wanted a quick answer to their questions. For example: "What do I do with my bonus?" To further differentiate itself from the center's consumer credit counseling arm, Balance looked primarily to serve those who were not in crisis, referring those who were to other agencies better equipped to handle the need for more involved counseling.

Balance first tried to sell itself directly to employers as a stand-alone service. This turned out to be a hard sell: employers simply did not want to pay for it. Realizing that employers were offering employee assistance plans to help their workers cope with legal and financial problems, and family difficulties, Balance approached EAP providers, offering its financial counseling service as an add-on.

The initial interest came from credit unions, which still form the core of Balance's business, along with 10 EAPs. Balance's original aim was to preach prevention, but it soon discovered that the workers it served had little interest in financial planning. As Ms. Budde put it, "You don't get your drapes cleaned until they are dirty." Moreover, individuals who want to plan their financial future know that they can get "free" planning advice from those who sell financial products and/or charge a fee for managing their assets. Thirteen years later, most of Balance's business comes from individuals in crisis.

Currently, Balance works with 500 credit unions across the country, providing access to its services not only to their employees but also to their 21 million members as a membership benefit. It receives approximately 18,000 calls a month, or 216,000 calls a year, for an annual utilization rate of just about 1 percent. The calls are answered by financial counselors who have a college degree in a related field, have completed a 30-day training program, and have been mentored for three months.

Balance, which is a for-profit subsidiary of the Consumer Credit Counseling Service, maintains a "wall" between itself and its parent organization. Its employees are paid more than the credit counselors working for the parent because of the higher educational requirements for financial counselors. Balance does not offer credit counseling services, referring those in need of such services to its parent, to which it provides an important stream of customers.

In addition to providing financial counseling over the telephone, Balance conducts 150 workshops annually through its credit union clients, which pay for them. They are offered at the workplaces of companies affiliated with the credit unions without charge to the employer. However, the relative lack of demand for this type of financial education at the workplace does not allow Balance to justify even a single full-time financial educator to present these workshops. Ms. Budde feels that workers greatly prefer one-on-one counseling to workshops.

Most of the employers who offer Balance's service to their employees are small or medium-sized enterprises. The capitated cost of the service for the larger employers tends to be in the range of 40 cents to 50 cents a year per employee.

Interview with a Former EAP Provider and Balance Customer

A former executive of a large employee assistance plan provider that used Balance to provide financial counseling to its customers says that in the 1990s, businesses often provided their employees with pre-paid financial and legal services. Her EAP offered a product that combined the services of Balance with a legal services provider and a counseling firm to handle other types of personal problems.

Beginning around 2004, there was increased corporate interest in risk management to control costs. Companies became more interested in health and wellness programs that, by helping to control employee weight and blood pressure, had a direct impact on the bottom line by lowering medical claims and keeping health insurance rates down. However, the relatively negligible cost of EAP services kept employer demand stable.

Her EAP charged per capita rates for its bundle of three services, ranging from 50 cents to $27 per person annually, depending on the size of a company's employee base. Smaller firms were quoted higher rates, partly to discourage adverse selection in which firms with a high percentage of troubled employees would be more likely to enroll. Personal (non-financial) counseling cost the most because it was used by the greatest number of employees.

Her EAP offered brown bag financial education seminars to employees but soon discovered that "nobody [would] come." In fact, EAPs could offer attractively low prices precisely because so few workers used their services. The average utilization for *any* EAP service was no more than 5 percent. From an HR perspective, the executive said, offering an EAP entailed the "lowest possible cost to show that you are compassionate." Many employers adopted EAPs because it enhanced their self-image. (Recently, life and disability companies have begun to offer EAPs at reduced rates, sometimes for free, as a way of getting into a company to sell their products. This threatens the future of independently priced EAPs.)

When she was asked about the state of financial education in general, the executive gave some historical perspective. In the 1990s, financial literacy was seen as an important life skill and was more widely supported by companies than it is now. Employers began losing interest in financial education before the turn of the millennium for a number of reasons. In the 1990s, companies could sustain larger HR budgets because profits were generally high and health insurance was less costly than it has become. They were bombarded by vendors of financial education, and many of them signed on because they wanted to do "the right thing."

Now, she said, companies are increasingly focused on the bottom line, and HR has become a visible cost center. These days, companies are primarily interested in not being sued, so they treat benefits as part of risk management. And since health care costs dominate any discussion of benefits, "If employees are lucky, they might get a 401(k) match. If they are very lucky, they may get a place to exercise."

Based on her experience, the executive believes that financial education is still needed and that government matching dollars would help. Rather than provide incentives for employees to participate, she thinks it is more important for financial education programs to have clear objectives, meet employee needs, and incorporate follow-up.

She thinks that even lower-paid employees, who are most of need in financial education, would participate if programs were characterized as being part of a "wellness" regimen instead of as a cure for financial disfunctionality. She thinks that spouses, partners, and even teenaged children should be invited to participate and that workers should be given time off to attend educational sessions. She would serve lunch and market financial education as something "you couldn't buy on the market if you were willing to pay for it." Programs should offer practical solutions to common problems: for example, you might "learn how to talk to your kid who is begging for a car." Echoing a common marketing mantra, she would sell the benefits, not the features ("one-hour workshop taught by finance professional"), of the program. She would narrow the focus, because "financial planning" is too big a concept to be meaningful to most individuals.

When asked whether the lack of financial education hurts productivity or increases absenteeism, she said that she had seen no metrics showing that lowering stress improves attendance or that personal problems cause absenteeism.

She suggested that one way of studying the impact of financial education on employee productivity would be to offer financial education to a random sample of call center employees, whose productivity is routinely tracked by computers to the second ("time per call"). The impact of such education should show up immediately in a bottom-line metric.

BEST PRACTICES IN WORKPLACE FINANCIAL EDUCATION

It is clear that relatively few employers put a lot of resources into offering financial education, particularly education that is not directly tied to their primary benefits. There are a number of reasons for this, primarily relating to cost and perceived lack of employee demand. There is also the question of effectiveness. Why offer costly programs if the returns are negligible? As we have seen, employers are primarily motivated to offer financial education to lower their fiduciary risk under ERISA and to ensure compliance with 401(k) nondiscrimination rules. Some also do so in the hope of improving employee morale and productivity, to attract and retain workers, and out of a sense of social responsibility. William Arnone, a retirement and financial education expert at Ernst & Young, further suggests that financial education can improve a company's bottom line by leading to savings on payroll taxes (as a result of employees enrolling in flexible medical and dependent care spending accounts), cut the risk of litigation by disgruntled employees, improve workforce management, encourage a culture of self-reliance and flexibility, increase support for company values, and have a positive impact on public relations.[35]

In interviewing company HR directors and third-party financial advisors, we wanted to discover how these factors came into play, and we sought answers to a number of questions: What type of employee is likely to participate in voluntary financial education? What are the best marketing practices to encourage employees of all types to participate? What types of education are most successful with various types of employees? Who learns the most and implements what is learned? How useful are incentives in encouraging employees to participate in workplace financial education?

HR DIRECTOR, 40,000 EMPLOYEE COMPANY

We interviewed the director of human resources for a company with more than 40,000 employees and $2 billion in revenue. Her company offers a full benefits package to its employees, including a 401(k) plan to which it makes contributions equal to 100 percent of the first 3 percent of salary and 50 percent of the next 2 percent of salary. It promotes participation in its 401(k) plan through education and also offers education regarding the company's health care plan. This education is supplied internally by means of brochures, newsletters, and an "online university," which is mostly used to educate employees about the company's 401(k) plan. The company is just starting to make use of the Internet to supply health-related information.

Like many sophisticated companies seeking maximum protection from ERISA litigation, this company uses one financial services provider for its 401(k) plan and a second "investment advisor" to provide financial education and counseling to its employees on a fee-only basis. The second is also the company's financial advisor on pensions. The company's financial education is not motivated by a desire to avoid 401(k) nondiscrimination rules because its 3 percent across-the-board match with no vesting period means that it meets the "safe harbor" provisions of federal tax law. This allows the more highly compensated career employees to defer 401(k) contributions to the maximum amount allowed by law.

Financial education is delivered primarily in one-on-one half-hour sessions, either in person or by telephone. It is open to everyone who is eligible to participate in the 401(k) plan and is supplied by the company's investment advisor under an annual contract. The investment advisor offers financial education seminars primarily related to retirement, but it is willing to cover other areas as well. Hour-length seminars are offered three to four times a year but are very poorly attended. The HR director estimates that only about 1 percent of the eligible workforce uses this service. In an attempt to reach employees who need financial education the most, the company encourages those who keep all of their 401(k) assets in cash to attend the seminars.

When asked why her company does not offer more comprehensive financial education, the HR director gave several reasons. The first was related to the company's philosophical approach, which is that it can only take on so much responsibility for its employees' financial well-being. The second was that the company thinks that medical coverage is a much more important benefit, since without good coverage an illness can bankrupt an employee.

Her other justifications were related to the bottom line. She said that productivity and absenteeism "are affected much less by lack of financial education than by a host of other problems, ranging from [the need for] elder care, child care, and tuition payments." From her perspective, leadership training, day care, legal services (such as help in writing a will), and "a thousand other things" provide better returns. The company's part-time seasonal workers had very basic needs, she said, and were being "killed by inflation." And their lower-paid full-time workers, earning $10 per hour, "don't care about managing money."

Although financial education is personally important to her, she said, it is not that important to the business. In part, her reluctance to offer more financial education is based on a lack of evidence that it works: "In the nineties, a lot of people were selling it, but nothing stuck." She feels that it is her job to help people get what they need in the form of tuition aid, exercise, elder care, etc., and is considering offering a cafeteria plan to that end.

She said that one aspect of financial education in particular was becoming important to the company, which employs many Hispanic Americans, some of whom are relatively new to the United States. Many of these workers are reluctant to participate in the company's 401(k) plan because they are unfamiliar with that mode of saving. Some, who are unfamiliar with U.S. financial institutions, believe that if they don't spend their money or send it home, it will be "taken" by the government. For such employees, she said, the company "must start education at a different place."

The Impact of Financial Education on Worker Productivity

A number of researchers have posited a relationship between financial stress, pay satisfaction, and workplace performance.[36] According to a report issued by the Personal Finance Employee Education Foundation in 2005, some 30 million American workers (one in four) are subject to serious financial distress, often because they are living paycheck to paycheck with no money for extras.[37] Researchers found a correlation between financial distress and poor health (as reported by those in financial distress), which has a negative impact on productivity. In some instances, up to 80 percent of financially distressed workers reported spending time at their place of employment worrying about their personal finances and dealing with financial issues instead of working.

In light of such findings, it has been suggested that workplace financial education could enhance corporate profitability because workers who are financially literate are less likely have their wages garnished (a cost to payroll), less likely to take time off to handle personal financial emergencies, and less distracted by this element of stress in their lives. A few studies have shown a relationship between personal finance and absenteeism.[38] Nonetheless, there is little evidence to show that the gains to a corporation directly attributable to financial education are worth the cost.[39]

As several HR executives pointed out, many factors add to the personal stress of workers, including marital difficulties, problems with children and older parents, the cost of education, the price of gasoline, and even toothaches. The question for proponents of financial education is what amount of financial education, of what sort, and delivered in what way would have a significant effect on employee stress, and how much would it cost? Based on the available research, it is unlikely that the low-cost alternatives, including brief workshops, newsletters or handouts, or even an EAP program will be very efficient. A series of workshops, coupled with one-on-one financial counseling with a skilled and impartial counselor might help reduce employee stress, but such financial education is expensive. As such, it becomes competitive with other benefits that offer more immediate palliatives for worker stress, including child care, elder care, tuition reimbursement, and dental insurance.

20 YEARS OF EXPERIENCE AT WEYERHAEUSER

We interviewed Sally Hass, one of the most celebrated providers of workplace financial education in America. The recently retired manager of benefits education for Weyerhaeuser, a forest products company headquartered in the Seattle area, has often been cited as an exemplar in terms of employee financial education.

It should be noted that Weyerhaeuser, a company that has long been distinguished for the benefits it provides to its workers, has fallen on hard times, in part due to the falloff in homebuilding. According to a recent newspaper article, there have been massive layoffs, concentrated at corporate headquarters, and severe cuts in benefits.[40] Among other things, the company has eliminated post-retirement health care benefits for all employees who are still working. It is impossible at this writing to tell what impact the cost cutting will have on the company's financial education offerings. As a result, our focus here is on the best practices for which the company has been known over the last two decades.

Weyerhaeuser's financial education focused primarily, but comprehensively, on long-term issues such as retirement and investment planning. The company did not offer programs on such subjects as budgeting or buying and financing a home, and handled credit management and counseling only through an employee assistance plan provider.

At one time, Ernst & Young was Weyerhaeuser's third-party provider of financial education, supplying workshops and counseling through disinterested, fee-only financial planners. However, in more recent years, the company sought a less expensive means of providing financial education and began supplementing in-house presentations by Ms. Hass and her HR colleagues with workshops conducted by interested third-party providers. These workshops were offered on a regular basis, and employees who could not attend in person could view them in recorded form on their computers.

Some time ago, Weyerhaeuser discovered that it was not optimal to mix hourly and salaried workers in the same educational sessions, in part because benefit packages were different. The company also began to further differentiate among salaried employees, offering special programs for top executives who received stock options as part of their compensation and whose estate planning included bequests to family members and charitable organizations. The company also found it useful, from an educational perspective, to organize its educational sessions around employees with similar backgrounds and interests. For example, under its "Colors" program, it organized separate sessions for Asian-American employees and for its gay and lesbian workers. It limited pre-retirement seminars to those over the age of 50. Occasionally, it offered issue-specific financial education programs. For example, when the company was forced to begin downsizing, it created a seminar under the heading "Dealing With the Unplanned."

Programs were offered on company time, but also in the evening and on weekends to accommodate those who wished to bring their spouses or life partners. The company was also flexible in offering programs both at the workplace and off-site.

As mentioned above, the company brought in outsiders to supplement its offerings. It hired mental health gerontologists to talk about the transition to retirement, as well as certified financial planners, long-term care brokers, and estate planners. It offered two-and-a-half-day retirement planning seminars for salaried employees over the age of 50, and even paid for employees and spouses to travel across the country, if need be, to attend.

The company adopted a creative practice designed to encourage employees to act on the financial advice they received. At the end of seminar and workshop sessions, it supplied participants with paper and asked them to write letters to themselves enumerating the three most important things they should do. The letters were collected and mailed to the seminar participants 90 days later.

Although Weyerhaeuser never formally measured the return on its investment in financial education, Ms. Hass believes that top company officials regarded it favorably because they continued the program for more than 20 years, even when other benefits were being cut. When surveyed, employees consistently cited financial education as a valued benefit, and the company developed a reputation as a good employer.

After the company ended its relationship with Ernst & Young, the cost of its entire financial education program came to less than $500,000 a year. At that cost, the historically well-regarded program was considered to be a bargain, particularly when measured against the cost of other benefits.

In the past few years, the company has made a concerted effort to retain the “gray matter” of the company, that is, the scientists and others with unique skills who are approaching retirement age. Many employers conduct pre-retirement seminars to help ease highly paid personnel into retirement so that they can be replaced with younger, less expensive employees. However, Weyerhaeuser has some highly trained specialists, or “critical keepers,” who are literally irreplaceable. Pre-retirement seminars designed for these employees stress the youthfulness of today’s 60-year-old and remind employees that they could well live into their nineties, perhaps outliving their financial resources. To accommodate the needs of the “critical keepers,” the company is adopting flexible arrangements, including part-time schedules, and allowing valued employees to work at home.

The use of financial education to stretch the service of older workers with unique skills is a superb example of how workplace financial education can make an immediate and measurable difference in the bottom line. In Ms. Hass’s words, “Retirement planning is now workforce planning.”

Weyerhaeuser has put a lot of effort into making its financial education special. The presentations are designed to be fun and interactive. Ms. Hass said that she tried to make the programs “off the wall” by, for example, giving speakers “rock-star welcomes.”

Best Practices of an Investment Advisor

Paul Merriman, a well-known author, speaker, radio talk show host, and investment advisor, is the founder of the Seattle money management firm Merriman Berkman Next. He also delivers the investment portion of the multi-day pre-retirement seminar to the over-50s at Weyerhaeuser. His investment advice is consistent with modern finance theory taught in virtually every business school: create a well-diversified portfolio with an asset mix that is consistent with age, risk preference, and financial situation, and stick with it regardless of market cycle.

Mr. Merriman is an experienced presenter who follows the mode of other successful financial educators. He keeps his presentations as simple as possible while focusing on the questions that most pre-retirement employees want answered. These include: How much money do I need to retire? How much can I safely take out of my investments in retirement? What is the best asset allocation given my needs and risk tolerance?

He offers his services with no charge to Weyerhaeuser or the employees he addresses. Nor is there a charge for a follow-up consultation of 60 to 90 minutes with a certified financial planner from his company. These consultations can be conducted over the telephone or in the company’s offices, and focus on the individual needs and asset allocation of the employee. No one is denied this service, regardless of age or pension size, and up to 40 percent of attendees request it.

Merriman Berkman Next derives certain benefits from providing the free financial education. Among other things, some employees approaching retirement are likely to employ it to manage their investment portfolio after they retire. In addition, Weyerhaeuser, along with many larger companies, permits in-service transfers of 401(k) balances at certain “trigger points,” generally including the attainment of age 59 ½. This means that most employees approaching retirement age can transfer their 401(k) plans from Weyerhaeuser to Merriman Berkamn Next. Why would they choose to do so?

There are two primary reasons for seeking an in-service transfer of 401(k) assets following the pre-retirement seminar. The first is that attendees learn, many for the first time, that true asset diversification in today’s world involves the inclusion of a number of unfamiliar but important asset classes such as international equities, Treasury Inflation Protected Bonds, and small-cap funds. They also tend to learn that their company's 401(k) plan may only allow investments in traditional asset classes such as domestic large-cap equities and bonds, which have historically involved lower risk. In order to diversify their portfolios, they may be forced to move to a fund family that gives them access to more asset classes

In a related fashion, the "new" world of investments, with many asset categories, may be beyond the ability of most employees to manage. Therefore, they welcome the opportunity to turn over management of their assets to professionals who can help them determine an optimal asset allocation.

Merriman Berkamn Next charges its clients 1 percent of assets under management, with a minimum charge of $167 a month for clients with assets of less than $200,000. This is in addition to the fees associated with its funds, which average 40 basis points, for a total charge of about 1.4 percent. This compares with an average expense ratio for equities of 74 basis points (.74 percent) for all 401(k) plans in 2006, according to the Investment Company Institute. For many employees who are nearing retirement, this cost differential appears to be a small price to pay for better diversification and someone to manage their assets.

While Paul Merriman's educational seminars would be of significant value to employees of any age, generally only those close to retirement choose to attend. When his firm has reached out to younger employees, the success has been very mixed. Those who do show up also tend to have enough money to retire comfortably. This is just another example of the failure of voluntary financial education, in that those who need it most seldom participate.

Ultimately, the movement toward default management of 401(k) plans allowed by the 2006 Pension Protection Act may cut into Merriman Berkamn Next's business, since fewer employees will need to pay for professional management, aside from the cost bundled into the expense ratio of life-cycle funds. In the meantime, asset gatherers can still do well by providing financial education to those who have sizeable assets to manage and are approaching retirement age.

The downside is that not all asset gatherers are equally honorable. Given its history of providing financial education to its employees and the trust it has built up over time, Weyerhaeuser is strongly motivated to carefully screen interested third-party providers of financial education to protect its employees and retirees.

The Costs of Financial Education

The cost of providing financial education in the workplace depends on the scope of the program, how it is delivered, and who delivers it. If delivered by internal personnel, the out-of-pocket costs may be minimal. The same applies to delivery by interested third-party providers who do not charge the company for their services. Many paid services are capitated, which means that the company pays per employee per year. The least expensive of these services include financial counseling by telephone or through the Internet offered as part of a bundled employee assistance plan, which may cost as little as 40 cents per employee annually. At the other extreme, Ernst & Young offers a comprehensive plan that includes seminars on almost any subject and unlimited phone counseling by a fee-only certified financial planner at a cost of $75 to $455 per employee annually.

Another top-of-the-line service is offered by Ayco, a subsidiary of Goldman Sachs which provides financial education for IBM, among others. According to its ADV2 (Uniform Application for Investment Advisor Registration) filed in February 2008, it provides counseling to large groups of corporate employees by means of its "Money in Motion®" basic financial education and planning program. Fees for this plan range from $195 to $1,500 per participant. (The cost to IBM for its announced $50 million financial education program for its 127,000 U.S. employees for two years will amount to $197 per employee per year.)

FULL-SERVICE FINANCIAL EDUCATION FROM A DISINTERESTED THIRD PARTY

William (Bill) Arnone is a partner in the human capital practice of Ernst & Young, specializing in employee financial education and counseling He heads a group of disinterested financial planners who deliver workplace financial education of all types for a per capita fee charged to the employer. The members of his group, all of whom are full-time employees of Ernst & Young and are either certified financial planners, lawyers, or MBAs, have all passed the Series 65 exam, which qualifies candidates as investment adviser representatives.

Financial education is offered through workshops conducted by specially trained, experienced planners and/or in the form of one-on-one counseling sessions, generally conducted by telephone. The company will deliver almost any type of financial education requested by clients, from issues involving mortgages to those involving domestic partners.

Why would a few large corporations be willing to pay several hundred dollars a year per employee for this sort of financial education? Mr. Arnone thinks that the primary motivation is to avoid ERISA-related litigation. The Employment Retirement Income Security Act requires companies to help their employees make informed decisions in choosing among the various assets offered by defined contribution plans, and the high level of financial education offered by Mr. Arnone's group does exactly that. The provision of investment advice by a third party, unaffiliated with either the company or its retirement plan provider gives the company a second level of protection, and the disinterested nature of the investment advisor, who sells no financial products whatsoever, presumably confers a third level of protection.

Most workshops are given in a fixed format, which insures uniformity of presentation and minimizes preparation time for the presenters. Retirement planning seminars attract the most participants, along with "financial wakeup call" sessions for members of Generation X, that is, employees who were born in the 20 years at the tail end of the baby boom. Seminars dealing with debt and estate planning draw the fewest participants. Mr. Arnone, like many other practitioners, thinks that employees are unwilling to attend debt seminars because of the stigma attached.

In general, companies find it difficult to get their employees to take advantage of this financial education, even though Mr. Arnone's offerings are considered to be of the highest quality and among the least biased. Mr. Arnone has found that workplace financial education needs a champion in the company if it is to be successful, a sentiment shared by many others involved in workplace financial education.

A CLIENT OF ERNST & YOUNG'S TOP-OF-THE-LINE FINANCIAL EDUCATION

Dara Duguay heads Citi's worldwide Office of Financial Education. When she joined the corporation in 2004, she convinced it to address a perceived need for employee financial education by hiring Ernst & Young. In a pilot program, employees who did not participate fully in the company's 401(k) plan were invited to seminars in credit management and "Investing 101," where the benefits of participating in the plan were explained. Duguay says that interest in this program was "extraordinary." Workers who attended the seminars were encouraged to call Ernst & Young's "planner line" to seek advice on any issue, not just to get information on the retirement plan. Many of Citi's "at risk" employees subsequently enrolled in the company's 401(k) plan, or increased their contributions if they were already enrolled.

By 2006, these programs were being offered in the company's 24 U.S. locations with the highest number of employees. Two days of seminars were offered in each location annually, with two to three sessions given at each location each day. The program was so successful that the budget was doubled to extend it to 54 locations in the United States, including five in New York City, making it convenient for Citi employees throughout the metropolitan area to attend sessions.

Employees were surveyed to determine the topics of greatest interest to them. These varied substantially by level of employee compensation, demonstrating again that one size does not fit all when it comes to financial education. Less compensated employees favored cash/debt management, Investing 101, and the "wake-up call" sessions intended for members of Generation X. More highly compensated employees preferred seminars dealing with estate planning and financing a college education. All financial education programs are open to all employees, but there is clear evidence of self-selection.

To help educate employees at remote offices as well as those who are unable to attend the in-person seminars delivered in their workplace, many of the seminars are available in streaming video format. Citi found that financial education pays off when it revamped it retirement plan. By having streaming video presentations in place before the revamping was announced, the change went smoothly, resulting in a cost saving for the company.

Employee reaction has been so positive that Citi has kept the program in place even during several rounds of cost cutting. The company has not made any formal attempt to measure the return on this investment. When asked whether it helped to reduce absenteeism, Ms. Duguay replied that that would be difficult to track.

Ernst & Young charges Citi $2,500 a day for seminars delivered on-site by its planners. The charge for follow-up counseling is fixed on a per capita basis.

In spite of the quality of Citi's financial education program, only about 5–6 percent of its U.S. employees participated last year. However, this was double the participation rate of the previous year, so interest seems to be growing.

Worker-Paid Financial Education

Thus far, our primary focus has been on financial education offered to employees without charge at the workplace and provided by internal staff, disinterested third-party providers who are paid by the company, or interested third-party providers who sell financial products or gather assets. A fourth possibility is to make available financial education that is paid for by participating employees.

There appear to be both advantages and disadvantages to offering financial education for a price. On the plus side, the education comes at no cost to the company and with no hidden tax liability for the worker. It also is likely to be more objective than that given for free by interested parties. Finally, as with psychotherapy, education that is paid for may have greater impact on behavior than advice offered for free.

The downside is that paid financial education is competing with comparable services offered almost everywhere for free by brokers and insurance and mutual fund providers. While there may be qualitative differences between financial education offered for a price and free financial advice, few individuals are in a position to discern those differences.

HEARTLAND INSTITUTE FOR FINANCIAL EDUCATION

Located in Denver, the nonprofit Hartland Institute for Financial Education provides two levels of financial education: to company employees and to the financial educators who provide the education to workers.

The flagship program of the institute is a course in lifetime financial planning. It is given in three after-work sessions, each lasting two and a half hours, and comes with a 110-page workbook. The tuition is $99 per employee. Class sizes are small, with no more than 15 participants, and employees can bring a spouse or a partner with them.

The program is generally marketed in association with a local college or university, although the Heartland Institute provides all the materials and does all the teaching. In exchange, the local educational institution gets a portion of the tuition. In addition to its flagship program, the institute offers one-hour courses in identity theft, goal setting, risk management, life insurance, long-term care, understanding Medicare, investment choices, tax strategies, estate planning, wills and trusts, and guardianship for children. It will customize a program for a sponsoring employer, integrating instruction on benefit offerings available to employees.

Financial educators employed by the institute must have its certified financial educator (CFE) designation. To qualify for the CFE designation, which is recognized by the state of Nebraska, employees must have the required state registrations and licenses for vendors of financial products, and a minimum of three years' experience selling such products. They must pass a test of 160 questions based on a textbook by E. Thomas Garman, which, according to Director of Education Marcie Gappinger, is not as difficult as the examination to become a certified financial planner. Instructors are paid $25 per participant for the $99 flagship program, or just under 25 percent of the tuition. If the class is at capacity, this amounts to $375 for the three sessions. In addition to the classroom sessions, tuition includes a 50-minute follow-up counseling session at the workplace or at the office of the instructor. Generally, between 50 percent and 60 percent of participants take advantage of the counseling session.

It appears that instructors receive the bulk of their compensation from product sales. There is a strict no-solicitation rule in the classroom, and instructors may not even hand out their business cards. However, since the instructors are licensed salespersons of financial products, "some students may approach them for products," says Ms. Gappinger.

Some companies pick up part of the cost of their employees' tuition. Initially, 75 percent of companies did so, but this no longer the case; companies now occasionally cover $20 or $25 of the $99 fee for the flagship program. According to Ms. Gappinger, "Companies are stretched to be able to afford to pay for financial education since affordable 'wellness care' is the goal of companies. They will provide time and facilities, but seldom hard dollars. Therefore, human resources people are thrilled to be offered benefits that don't cost them anything." She also thinks that "people who pay for education themselves use it better." The programs are also useful in reducing any potential ERISA fiduciary liability that remains even after the implementation of the Pension Protection Act of 2006. The imprimatur of the sponsoring college or university is an added protection for employers in this respect.

Like other providers of financial education, the Hartland Institute has found that attendance depends on the degree of enthusiasm shown by a company's HR staff. It now holds an information session for employees, often at lunchtime, before scheduling a class to gauge interest. The information session, taught by the same instructor who will teach the course, has proved to be the best way to attract paying students. Seventy percent of those attending information sessions sign up. To get employees to an information session, companies send out e-mails and often offer a free (pizza) lunch as an incentive to attend.

Employers find that while they may struggle to get 5 percent of their employees to participate when the course is first offered, the percentage grows over time; in companies that have been with the program for at least five years, it may reach 80 percent. While the Heartland model, which relies primarily on product sales to compensate instructors, may not be a desirable solution for all companies, the institute appears to have been successful in marketing financial education to employees who are not highly compensated, and their techniques may be useful to employers elsewhere seeking to educate this underserved segment of their workforce.

Policy Recommendations

There are many good reasons why financial education should be delivered to employees at the workplace. In theory, most employers appear to agree with the social need to educate workers, but in the current economic environment, they are unwilling to expend the necessary resources. This is mainly because 1) increased competition has squeezed profit margins, 2) other important benefits, particularly health care, have become more expensive, taking a greater share of the benefits pool, 3) employees do not seem to value financial education as highly as they do other corporate benefits, and 4) providing objective, effective financial education is expensive and hard for employers to justify on a cost-benefit basis. In short, they do not feel that the benefits of such education to the company are worth the costs.

Moreover, lower-income employees, who are most in need of financial education, are least likely to take advantage of their employer's offerings. This is the crux of the problem with workplace financial education at present, since studies show that it is these lower-paid workers who are likely to gain the most from such education. It is possible, but not easy, to get employees at all pay levels to partake in financial education. Required attendance may be necessary. And because peer group word-of-mouth is an effective means of increasing participation, employers may also have to be willing to provide incentives. Certainly strong employer commitment is a key component of any successful program.

Since there are so few other means of providing basic financial education to American adults, we need to take another, pragmatic look at workplace delivery. This will require us to accept the fact that few employers believe that effective, objective financial education can be justified in terms of cost. What, then, can be done to promote workplace financial education? We might well consider:

- Helping companies pay for financial education programs. Given the social benefits of financial literacy, it may be necessary to help companies offset some of their costs. This might take the form of tax relief to employees (and a reduction in employer FICA payments) by including broad financial education as a qualified benefit, or tax relief to companies in the form of a credit for providing and documenting the efficacy of such education.
- Initiating pilot programs, perhaps funded by philanthropic organizations, utilizing the best practices highlighted in this report. These programs should lever the social interest shown by owners or managers of small and medium-sized enterprises and should focus primarily on the lower-compensated employees who are least likely to seek such education but have the most to gain from it. Designers of such programs should keep in mind that financial education is most effective when individuals have the opportunity to act immediately on what they have learned. Pilot programs should be carefully evaluated and their design and results made broadly available.
- Leveraging the educational opportunities provided by interested third parties willing to fully disclose their interests by certifying those who are competent, ethical, and willing to deliver financial education to all employees on a nondiscriminatory basis.

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