Financial Education in the Workplace: The Impact on Employers & Employees

Federal Reserve Bank of Kansas City

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THE NEED FOR FINANCIAL EDUCATION
Consumption Smoothing

- **Youth:** borrowing
- **Peak earning years:** saving
- **Retirement:** dissaving
- Consumption
- Income
- Time
U.S. Personal Savings Rate

Source: Bureau of Economic Analysis / Haver Analytics
Retirement Savings Outlook is Grim

• 53 percent of families hold retirement accounts, and the median value of holdings in retirement accounts is only $38,100. For the lowest income families (bottom 20 percent of income distribution), only 10.8 percent hold retirement accounts, and the median value of holdings in $6,300. (2010 SCF)

• 45 percent of workers elect to cash-out 401(k)'s upon leaving their jobs (Hewitt Associates)
Estimated Social Security Benefits (2013)

Source: AARP Social Security Benefits Calculator
Credit and Debt

• Debt as a percent of income increased from 14.8 percent to 16.4 percent between 2007 and 2010 (Federal Reserve, SCF)

• The percentage of families holding debt in 2010 was 74.9, which was down from 77.0 in 2007 (Federal Reserve, SCF)

• The value of outstanding debt changed little from 2007 ($70.6 million) to 2010 ($70.7 million) (Federal Reserve, SCF)

• In the 3rd quarter, credit card delinquencies were 2.5% (6.6% in 2009:1) and charge-offs were 3.2% (11.0% in 2010:2) (Federal Reserve)

• Bankruptcies, after declining significantly between 2006 and 2008 (due to rules changes) have picked up since (but down significantly in 2013) (uscourts.gov)

• Foreclosure have declined significantly but remain historically very high
Average Debt per U.S. Consumer

Four-quarter moving average

Total Consumer Debt (excludes first mortgage)

Revolving Debt

Source: Federal Reserve Bank of New York Consumer Credit Panel / Equifax
Past Due and Foreclosure Rates (U.S.)

Past Due Percent of Outstanding Mortgages

Foreclosures

Source: Lender Processing Services, Inc.
Conceptual Framework/Hypotheses

- lack of knowledge $\rightarrow$ bad decisions
- personal finance education $\rightarrow$ better knowledge
- more knowledge $\rightarrow$ better financial outcomes
- better financial outcome $\rightarrow$ better workers

- Providing financial education at the workplace is good for the bottom line
How Personal Financial Problems Translate into Workplace Problems

• Potential Costs (examples)
  – Absenteeism/Tardiness/Turnover
  – Garnishment
  – Increased Use of Employee Assistance Programs
  – Failure to Meet 401(K) Nondiscrimination Tests
  – Fiduciary Liabilities (ERISA)
  – Theft/Embezzlement
  – Accidents
  – Workplace Violence
  – Stress leads to lower productivity
Cohort Study

STUDY EVIDENCE
<table>
<thead>
<tr>
<th>Do you follow a monthly budget?</th>
<th>TEST SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Yes</td>
<td>28</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Do you generally pay off your credit card balances every month?</th>
<th>TEST SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Yes</td>
<td>38</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit card balances relative to credit limits</th>
<th>Low</th>
<th>Intermediate</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>17</td>
<td>26</td>
<td>49</td>
</tr>
<tr>
<td>0% - 10%</td>
<td>39</td>
<td>31</td>
<td>24</td>
</tr>
<tr>
<td>10% - 25%</td>
<td>8</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>25% - 50%</td>
<td>12</td>
<td>16</td>
<td>7</td>
</tr>
<tr>
<td>&gt; 50%</td>
<td>24</td>
<td>17</td>
<td>13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit card balances relative to income</th>
<th>Low</th>
<th>Intermediate</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10%</td>
<td>56</td>
<td>57</td>
<td>72</td>
</tr>
<tr>
<td>&lt; 25%</td>
<td>64</td>
<td>68</td>
<td>81</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emergency fund adequacy (at least three months of expenses saved outside of retirement accounts)</th>
<th>Low</th>
<th>Intermediate</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>37</td>
<td>37</td>
<td>16</td>
</tr>
<tr>
<td>Insufficient</td>
<td>58</td>
<td>59</td>
<td>71</td>
</tr>
<tr>
<td>Sufficient</td>
<td>5</td>
<td>4</td>
<td>12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retirement savings relative to age and income (see formula in text)</th>
<th>Low</th>
<th>Intermediate</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>69</td>
<td>52</td>
<td>33</td>
</tr>
<tr>
<td>Moderate</td>
<td>13</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>High</td>
<td>18</td>
<td>31</td>
<td>48</td>
</tr>
</tbody>
</table>

All values expressed in percentage of total in test score cohort
Financial Knowledge and Sophistication

Test Score:
- Low
- Intermediate
- High

Bar chart showing financial knowledge and sophistication in various asset classes:
Details of Cohort Study

• Increase in use of budgets*
• Substantial reduction in number paying bills late
• Share paying off cards every month increased by 50%
• Most credit card balances declined, compared to 11.2% increase nationally over same period
• Significant reduction in 401(k) loans at retail site
• Some large debt pay-offs
Details of Cohort Study

• Modest increase in numbers holding mutual funds and certificates of deposit (lower holding stocks)
• Many reported that they “had more money than they thought”
• Increases for most in savings outside of retirement
• Retirement planning
  – Most reported more retirement planning
  – Share of income saved for retirement increased 13%
  – Money balances in 401(k)s increased by 70%
  – In one company, 401(k) enrollment increased from 65% to 100%
  – Increased contributions for many who had previously enrolled in a 401(k)
Details of Cohort Study

• Many reported less stress in their lives
  – after getting financial house in order
  – improved relationship with spouse because of reduced money concerns
  – Large increase in satisfaction with financial situation

• Some reduction in garnishments

• Enrollment in health care FSA increased from 45% to 70%

• Fewer payday advances and 401(k) loans
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