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Financial Education in the Face of Recession

In the May, 2008 issue of HR Magazine, Nancy Woodward relates the story of a recent financial education program sponsored by a Delaware company for their employees. The educational program consisted of a six hour session held on a Saturday for employees and their family members. Because it snowed through the weekend, some participants stayed in on Sunday and did the homework prescribed by the instructor. Woodward relates how "one employee and her husband completed every worksheet and exercise their trainer had given them the day before, mapping out their future, including what they should be saving and how they were going to do it. The couple made revisions to their budget and even made a date with their estate planning attorney. It touched all aspects of their lives."

Woodward's article, subtitled: *In a turbulent economy, refresher education could motivate employees to save for retirement*, notes how, now, more than ever, employees are both feeling the pinch of the bad economy and looking for financial direction. "At times like these", says Woodward, "employees may grow increasingly uncertain about their retirement prospects, worried that they can't afford to save now for later, tempted to curtail current levels of contributions to 401(k) plans and possibly inclined to tap plans' assets to help make ends meet. And they can be particularly receptive to employer-sponsored education to help them deal with financial concerns." Employees are indeed worried. For example:

> According to a 2008 survey from the Transamerica Center for Retirement Studies, only 48% of survey respondents said they thought they are saving enough for retirement, down from 65% in 2007
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> In the 2007 Duke University/CFO Magazine Global Business Outlook Survey, nearly 20 percent of companies reported seeing increases in hardship withdrawals from 401(k) accounts.
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> In yet another Transamerica Center survey, the number of employees who took loans from their retirement plans was up substantially, up to 18 percent from 11 percent in 2007, and most of the loans were taken out to pay off debt.

This is where employee financial education can make a big difference. In fact, Jean Setzfand, director of financial security at AARP in Washington, D.C. says: "Just the act of filling out a financial plan for retirement can be useful." A 2007 AARP report, *Preparation for Retirement: The Haves and Have-Nots*, notes: among people who said they had taken time to calculate how much money they will need for retirement:

81 percent said that as a result they started saving more
77 percent paid off all or some debt
55 percent reduced their spending
53 percent enrolled in a retirement plan at work.

As important as retirement planning is, there's more to financial education than looking at life after age 65. Employees want help with their current spending and saving struggles. That has to do with budgeting. Employees also need guidance on a host of other financial issues in order to feel secure about their financial grasp on reality. Issues dealing with estate planning, taxes, setting financial goals, knowing their net worth, understanding social security, reviewing group insurance benefits. And, of course, having a better grasp of these issues affects how much employees put into their retirement accounts.

Keep in mind that employees burdened with debt or barely scraping by may not be ready to hear about savings because they don't feel they are in a position to take advantage of it. When the education turns to why employees are not participating or not increasing their contributions, about 40 percent indicate that they don't have the dollars. So it's necessary to educate employees on how they can find the money to put into their retirement savings accounts. Here, for example, are a few lessons easily communicated in a financial education course that can make a big difference in how employees perceived their financial lives…

Teach employees to create a written spending plan and implement it with the next paycheck or the first of the month, whichever comes first.

Help employees find a better value for their dollar. For example, taking full advantage of group insurance benefits before buying similar products without employee discounts.

Get spending on a cash basis and make notes, or keep receipts, on all purchases to help raise awareness of where your money is going.

Make shopping lists before you go to the store. Take advantage of coupons and rebates.

"Retirement planning education won't motivate everyone," notes Woodward. Employers should keep in mind that normally only about 25 percent to 30 percent of participants will take advantage of the education. "Nonetheless, employers must reach out to those who will take advantage of what's offered, providing tools and information they can use to make sensible financial planning decisions now and to avoid taking actions that may hurt them in the long run. At least, employers can set the tone by emphasizing that the long-term strategies of retirement planning should not be compromised by short-term tactics that could diminish the effectiveness of their 401(k) accounts.