

# FINANCIAL EDUCATION IN THE WORKPLACE

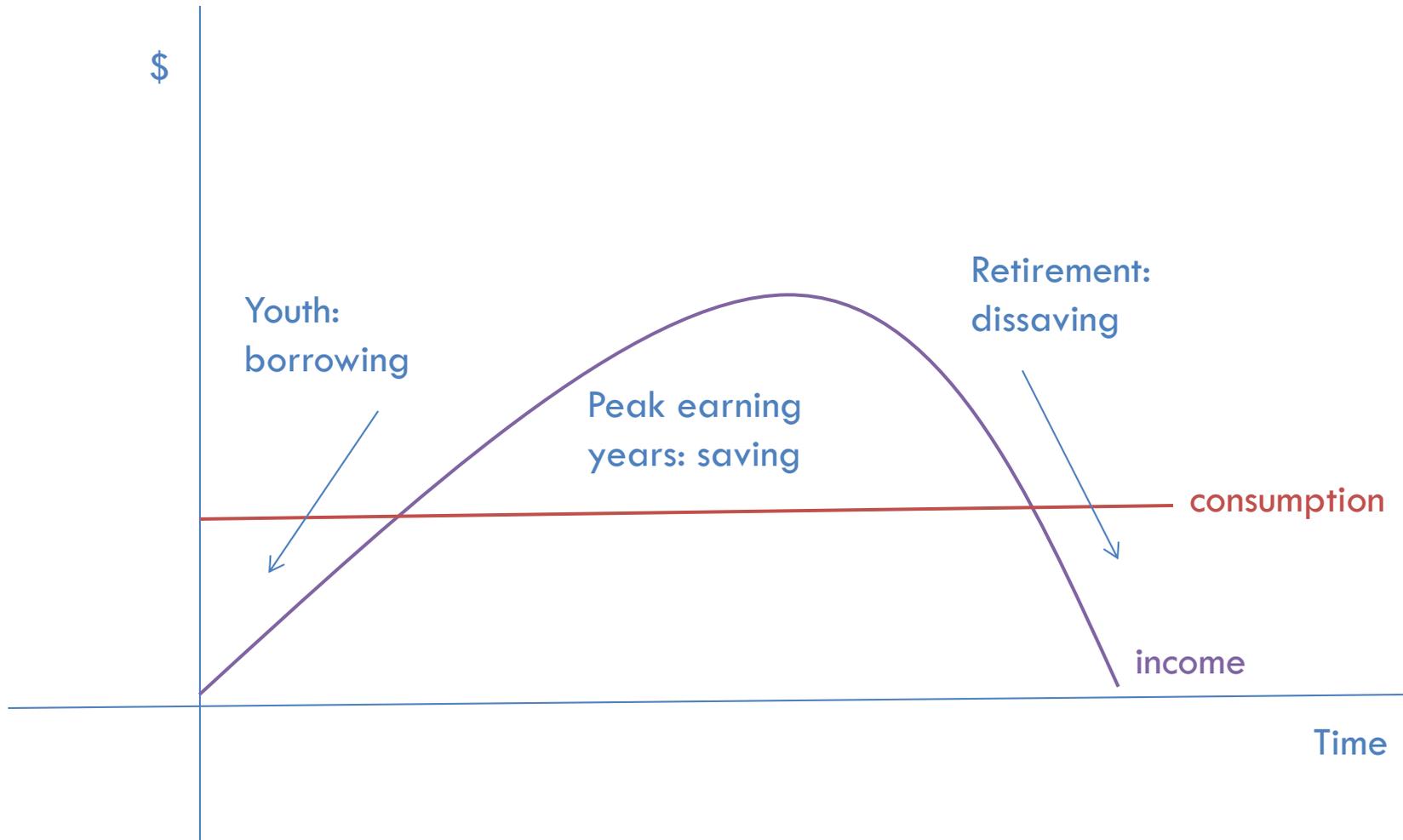
October 20, 2009

Federal Reserve Bank of Minneapolis  
Community Development Forum

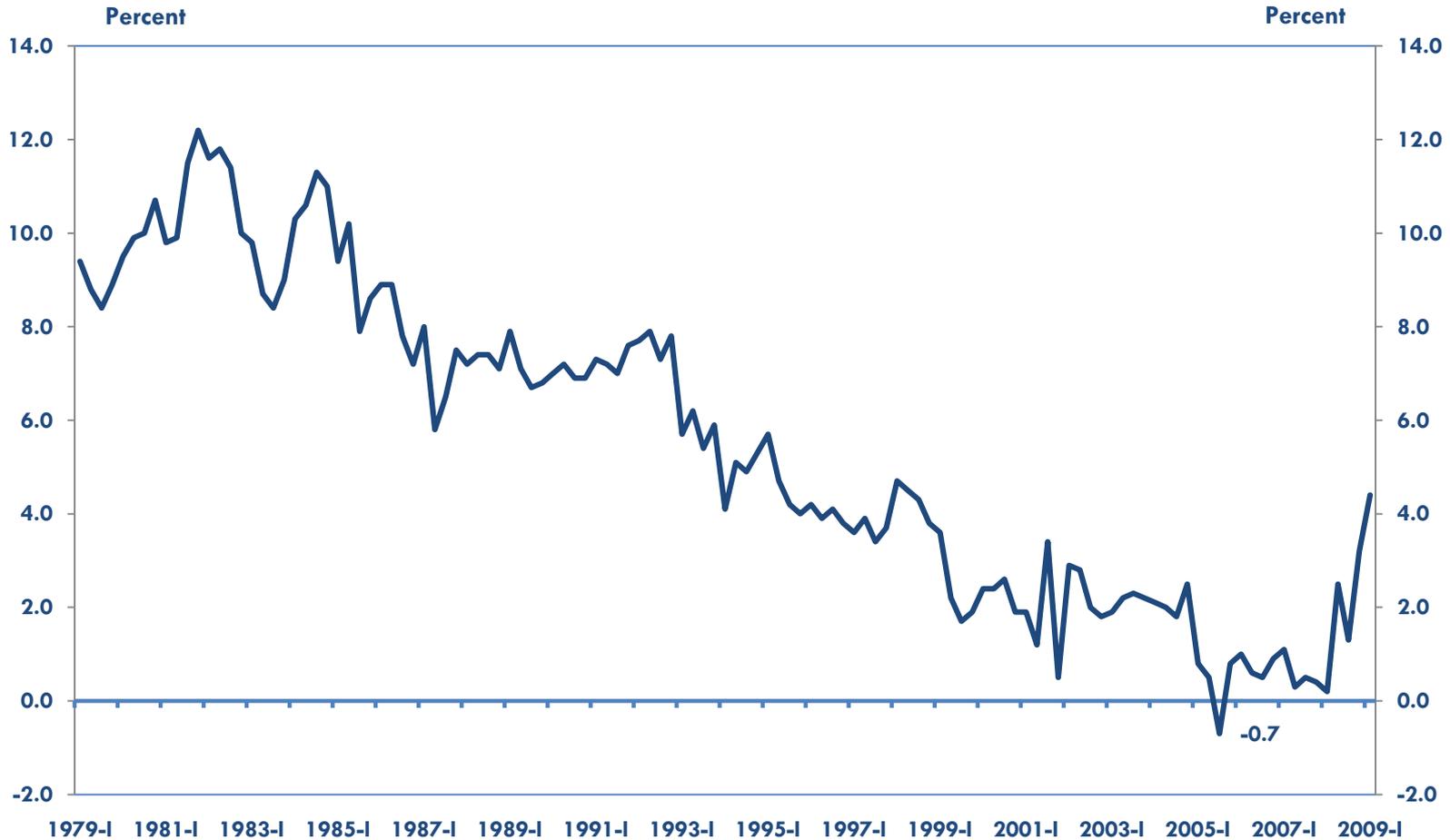
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# The Need for Financial Education

# Consumption Smoothing



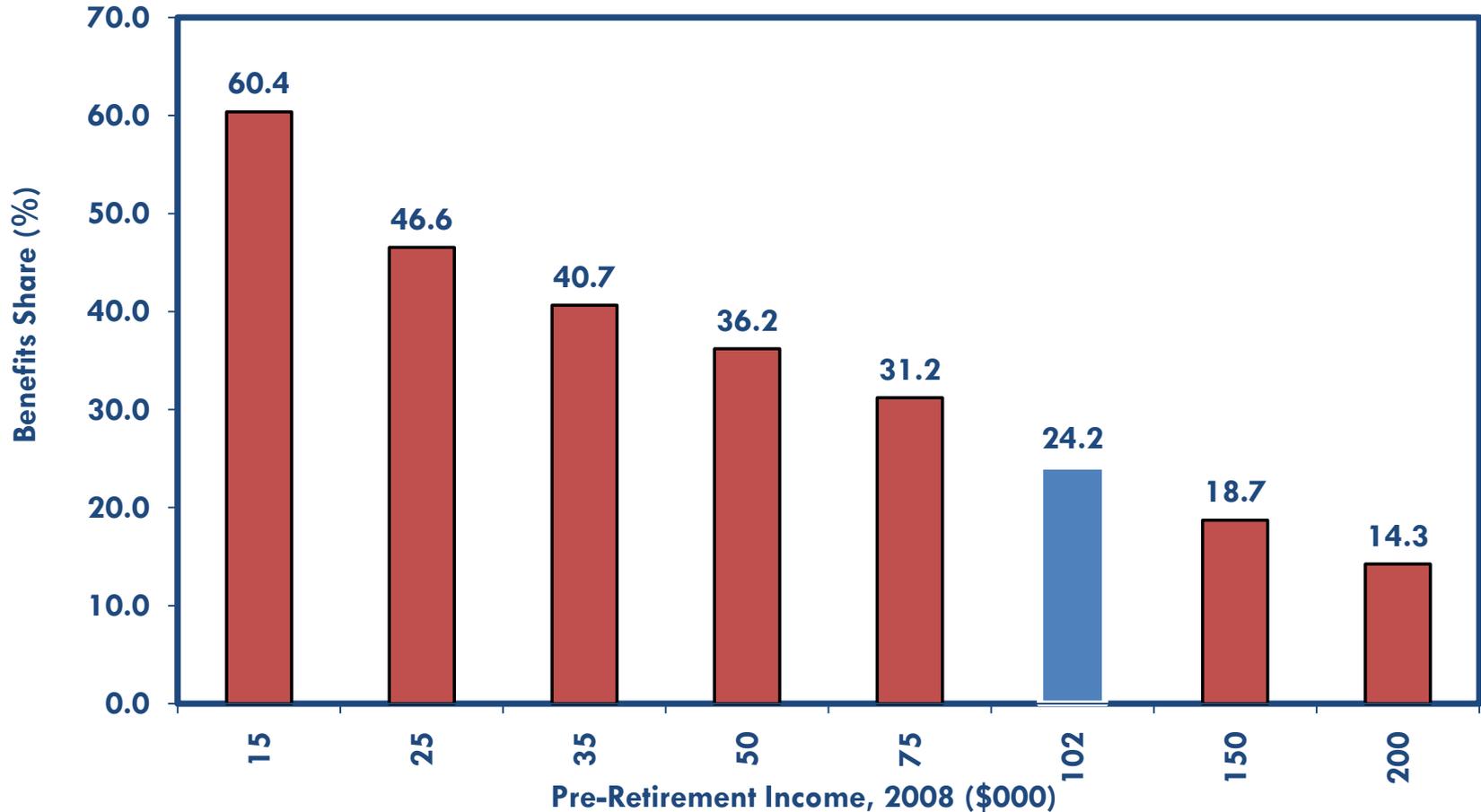
# U.S. Personal Savings Rate



# Retirement Savings Outlook is Grim

- Median value of holdings in retirement accounts is \$45,000 (2007 SCF)
- 45 percent of workers elect to cash-out 401(k)'s upon leaving

# Estimated Social Security Benefits



# Credit and Debt

- Median outstanding debt for families holding debt increased by 27 percent from 2004 to 2007
- Credit card delinquencies (60 days = 4.44%) and charge-offs (9.66%, up 77 bps in June) have hit record highs this year
- Bankruptcies, after declining significantly between 2006 and 2008 (due to rules changes) have picked up 29 percent hence
- Foreclosure rates are at all time highs

# Conceptual Framework/Hypotheses

- Many times people make bad financial decisions because they do not know enough to make good financial decisions
- Personal financial education enhances personal financial knowledge
- Better personal financial knowledge leads to better personal financial outcomes
- Better personal financial outcomes lead to 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

# Study Evidence

Financial Knowledge and Behavior

Do you follow a monthly budget?

**TEST SCORE**

	Low	Intermediate	High
Yes	28	28	36

Do you generally pay off your credit card balances every month?

	Low	Intermediate	High
Yes	38	40	58

Credit card balances relative to credit limits

	Low	Intermediate	High
0%	17	26	49
0% - 10%	39	31	24
10% - 25%	8	11	8
25% - 50%	12	16	7
> 50%	24	17	13
< 10%	56	57	72
< 25%	64	68	81

Credit card balances relative to income

	Low	Intermediate	High
< 10%	84	79	92
10% - 25%	7	14	6
25% - 50%	6	4	2
> 50%	3	3	0
< 25%	91	93	98

Emergency fund adequacy (at least three months of expenses saved outside of retirement accounts)

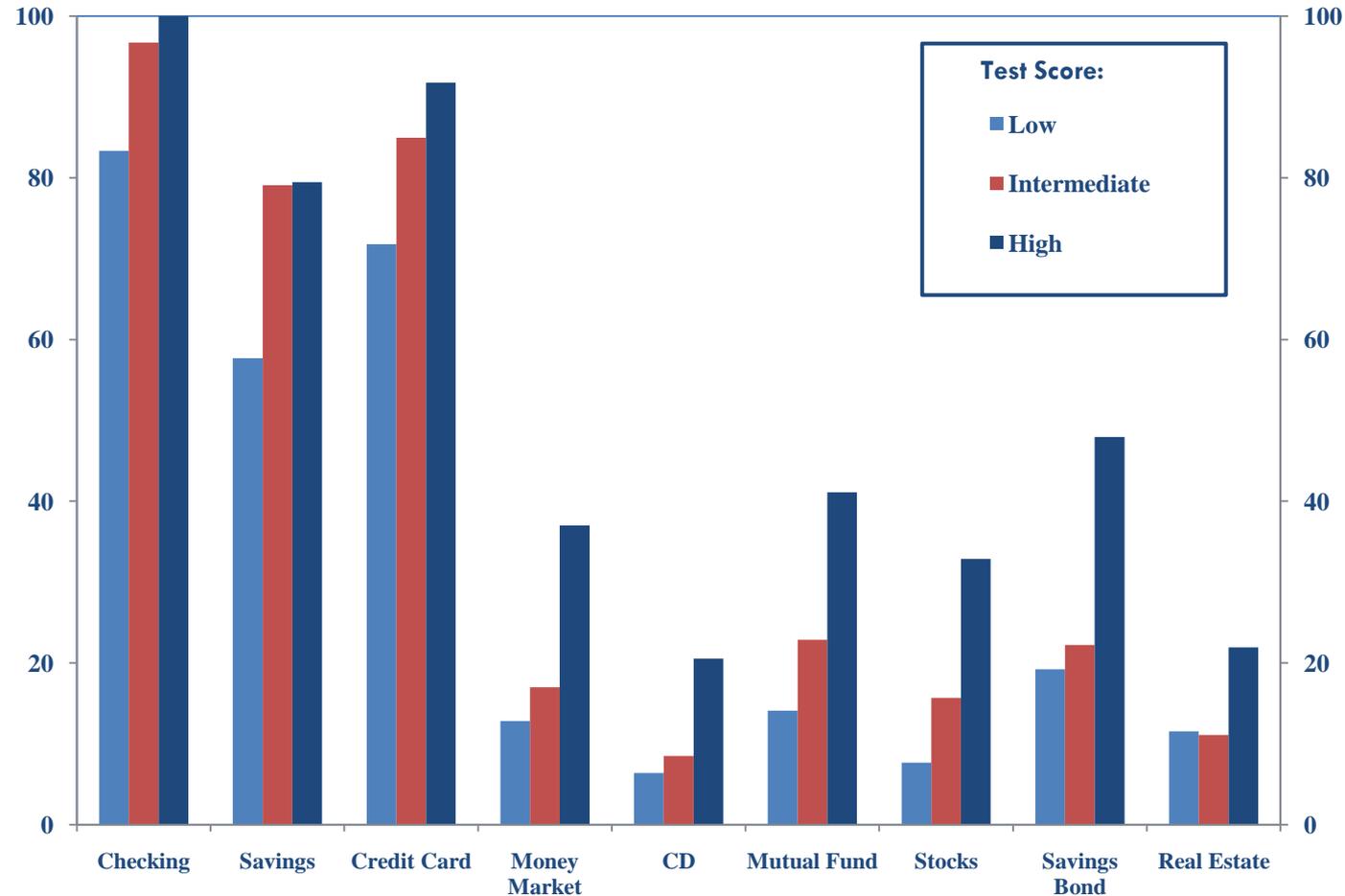
	Low	Intermediate	High
None	37	37	16
Insufficient	58	59	71
Sufficient	5	4	12

Retirement savings relative to age and income (see formula in text)

	Low	Intermediate	High
Low	69	52	33
Moderate	13	17	19
High	18	31	48

All values expressed in percentage of total in test score cohort

# Financial Knowledge and Sophistication



# Study Evidence

## Cohort Study

# 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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