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MAKING THE CASE: THE PAYOFF OF FINANCIAL EDUCATION IN THE PUBLIC SECTOR

Written by The Economist Intelligence Unit

INFLUENCING EMPLOYEE LOYALTY

Employees say their commitment to a company is related to how much the company cares about them.

62% MILLENIALS

50% GEN X

36% BABY BOOMERS

When it comes to the competition for talent, public sector employers have an opportunity. The public pension, once the biggest benefit incentive in the sector's arsenal, has lost drawing power amid an ever-growing pension crisis. And after a prolonged period of budget tightening, today's benefit packages require more engagement than their predecessors in order to generate comfortable income in retirement.

Thus it is now, perhaps more than ever, the obligation of public sector employers to help workers utilize their benefits offerings. Financial education is an essential tool to reinforce that necessity. Helping workers understand their benefits and make progress toward their financial goals is also shown to boost employee retention and satisfaction.

The consulting firm PwC's 2017 Employee Financial Wellness Survey, showed how workplace ties are strengthened by a sense that financial goals are being supported, especially in the case of younger workers.[1] Among Millennials in the survey, 62% said loyalty to their employer was influenced by how much the company cares about their financial well-being, compared with 50% of Gen X and 36% of Baby Boomers. A majority of Millennials (72%) and Gen X (71%) said they would be attracted to another company that cares more about their financial well-being.

"If you have good benefits, you should continually reinforce how the benefits work and the value of them," says Ted Beck, president and CEO of the National Endowment for Financial Education. "That becomes a huge retention tool." Mr. Beck argues that public employers have a particularly good opportunity to take advantage in this way because of their often-superior benefits packages. Mr. Beck worked in the public sector himself, as an associate dean at the University of Wisconsin Madison School of Business, prior to joining NEFE.

He explains that particularly after employees have been in a position for a number of years, their attention begins to shift from base pay to benefits. "When they start to use their benefits, or compare their benefits to their friends, which is really common, then they start to say, 'Oh, this is a much better job than just the salary'."

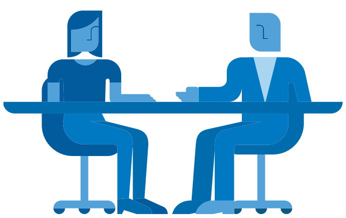
Filling the Gap

Effective financial education will be needed if public employers are going to take advantage of the job satisfaction, retention and productivity gains that come when employees have a sense of financial well-being. In PwC's research, a minority (40%) of workers said their employers provided services to help them with their personal finances.

When Mr. Beck was at the University of Wisconsin, he noticed an unfortunate pattern among employees nearing retirement: Within six months or so of their planned retirement date they would attend an information session about their pension payouts. "The university has a strong program, but the almost universal reaction was, they would come back and tell me as their manager that, 'Guess what? I don't think I can retire'."

An education with impact

"That human touch, a real person that you know and you trust, may make a difference"



Louisa Quittman, Director in the Office of Consumer Policy at the U.S. Treasury Department

Mr. Beck says public employers should, at a minimum, do two main things: first, they should ensure that employees know which benefits they are entitled to and how they work; and then, they should help employees to realistically estimate retirement payouts under various scenarios. The results of the U.S. public employee survey conducted for a research program by The Economist Intelligence Unit sponsored by Prudential, reinforces the idea that workers need this kind of support.[2]

Only one in three (34%) respondents could correctly answer four standard financial quiz questions meant to test basic understanding of inflation, interest rates and market risk. This suggests that many respondents would be ill-prepared to accurately estimate their income in their retirement.

The weakest employee offering is a bookend or barbell approach that introduces the benefits package when people are hired and then explains the mechanics of their pension and savings plan payouts when they are close to retirement—or think they are. It is better to make interactions more frequent and varied. Group sessions—whether led by someone from within the organization or a specialist from outside—can be effective, and it's also important to allow employees to raise their concerns one-on-one, as some people prefer not to talk about financial issues in a group. If an employer is able to make the investment, personalized coaching has also been shown to be very effective.

Employers can also step in and make a real difference. Louisa Quittman, a director in the Office of Consumer Policy at the U.S. Treasury Department, says evidence suggests workers are more likely to respond to financial education information that comes from a supervisor or some other employee within an organization with whom the person has a relationship rather than from an impersonal office. "That human touch, a real person that you know and you trust, may make a difference," she says. She adds that trust in an employer on financial wellness topics may vary depending on tenure, seniority, whether the job is hourly or salaried, and other situational factors.

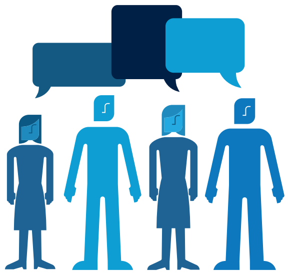
Fixing Financial Stressors

Conversely, the PwC research also found that when financial well-being is missing, workplace productivity and job satisfaction suffer. Almost a third of employees surveyed reported that issues with personal finances have been a distraction at work—and among that group, 46% said they were distracted from work three hours a week or more.

“A lot of Americans face challenging financial choices across their lifespans,” Ms. Quittman says. “And the workplace is a very natural place to be talking to folks about those choices.”

Indeed, research supports the premise that employer-provided financial education can help foster smarter financial decisions by employees, creating the potential in turn to decrease workplace stress and increase productivity. A study led by economist Robert L. Clark, a professor at North Carolina State University, showed that workers who had completed a financial education program were more likely to reevaluate their savings and spending habits.[3] Participants who left with a deeper understanding of personal retirement income needs subsequently set a higher savings rate to meet their retirement goals.

Research favors a financial education program that both explains retirement benefits upfront and promotes behaviors that can improve financial well-being throughout a public employee’s career. The return for the employer comes from employees who are more successful in their retirement planning, more confident in the financial well-being, less stressed and less distracted.



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Sources

[1] 2017 Employee Financial Wellness Survey, PricewaterhouseCoopers LLP, April 2017 http://www.pwc.com/us/en/private-company-services/publications/financial-well-being-retirement-survey.html

[2] The Economist Intelligence Unit survey of 1,877 U.S. public service employees, sponsored by Prudential, was conducted in March 2017.

[3] Clark, Robert L., Professor, North Carolina State University. “Financial Education and Retirement Savings”. Presented at Federal Reserve System Conference, March 2003. https://www.federalreserve.gov/communityaffairs/national/CA_Conf_SusCommDev/pdf/clarkrobert.pdf

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