Employee Money and Credit Problems
EAPs Must Become Involved

by E. Thomas Garman, Ph.D.

Many EAPs still seem to be operating within the traditional paradigm of helping employees and their family members with the core concerns of substance abuse and mental health issues. As a result, some EA professionals are finding that their scope of work is getting smaller.

A creative opportunity for EAPs to increase their revenues—one that has been rejected by many in the past—involves partnering with the credit counseling industry. The scope of this opportunity is reflected in the fact that an estimated 55 million workers in the United States are not saving sufficiently for retirement and at least 15 percent of employees are experiencing stressful financial problems (Garman, Leech, and Grable, 1996). If EAPs gained only 1 percent of financially troubled employees as clients, it would amount to more than 1 million people.

Failing Education

Ironically, the financial education problems of employees have grown even as more and more employers have taken steps to prevent them from occurring. Over the past 20 years, there has been a virtual tidal wave of employers establishing financial education programs for employees. This has largely been the result of Section 404(c) of the federal Employee Retirement Income Security Act (ERISA), which not only encourages employers to offer employees a defined contribution plan—often known as a 401(k) plan—but also requires that employees be educated. The emphasis of these education programs historically has been retirement, with the employer or an outside vendor hosting workshops for employees on topics such as the time value of money, cash management, college planning, insurance, investments, and estate planning.

The largest employers—those with more than 1,000 employees—boast that the participation rate in their 401(k) plans is 80 percent or even higher. Unfortunately, most small employers do not sponsor a defined contribution retirement account for employees, and among those that do, the participation rate is only about 30 percent. Fully half of today's workers have not yet started saving for retirement.

Even the high participation rate among large employers is a false god because most employees who are saving for retirement are not saving enough. While the mean 401(k) retirement portfolio (minus loans) is about $50,000, the median amount is about $14,000, meaning half of all workers with 401(k) accounts have less than $14,000 in their accounts. These low numbers are due not to the labor force being young (it isn't), but rather to the affordability of savings.

Many workers report that they cannot afford to save for retirement, and statistics from the 2000 Retirement Confidence Survey bear them out. More than 20 percent of employees with a 401(k) account have borrowed from their savings, and two-thirds of plan participants between the ages of 20 and 59 have taken lump-sum distributions when changing jobs.

In short, today's workplace financial education programs—particularly those that focus primarily on retirement—are failing. The great majority of employees, including those close to retirement age, are financially unprepared to quit their jobs. And they are stressed about it.

Negative Impact

Research indicates that the leading reason workers are not contributing to their 401(k) accounts is that they have money problems. A study by Strong Investments found that 35 percent of employees say they cannot afford to contribute because of debt, and another 11 percent say they simply cannot afford to contribute at all (Gunsualey, 2000). Worse, evidence is accumulating that poor employee financial wellness can hurt employer profitability.

Three studies conducted at Virginia Tech's National Institute for Personal Finance Employee Education found that employees with serious credit and money problems—approximately 15 to 25 percent of all workers—are a portrait of pain for their employers. Ninety percent of them are dissatisfied with their personal finances, 75 percent are insecure about retirement, and 50 percent hold a part-time job elsewhere. Together, they waste more than 25 working hours a month

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thinking about and dealing with their personal money matters.

Employers' balance sheets also are affected by financially troubled employees who do not retire "on time." These employees continue to work because they cannot afford to retire, but they cost their employers more than younger workers in higher salaries (and thus higher employer contributions to Social Security) and greater health care costs.

Employees with financial problems are like sharks swimming around the workplace, taking bites out of the bottom line. The U.S. Department of Defense, to name one example, wastes about $1 billion annually on employee money problems, about $500 per worker per year (Kristoff, 1998; Luther, Leech, and Garman, 1998). Examples of worker behaviors that cost their employers include the following:

- Absenteeism
- Tardiness
- Wage garnishments
- Pay advances
- 401(k) loans
- Work time spent dealing with money concerns
- Theft
- Substance abuse
- Health care expenditures

While a number of these factors have been researched, more studies are needed. The evidence so far suggests that worker "wealth" is as vital as worker health.

Changing Behavior

A growing number of employers are realizing that it is more expensive to ignore employees' money problems than to address them. The central question today is, "Can employers help employees overcome money problems and financial challenges by offering a workplace financial education program that changes behaviors?"

Several studies suggest that the answer is yes. Researchers found that blue-collar workers in a Southeastern chemical company who participated in a basic financial education program reported improvements in their personal financial wellness, financial situation, retirement savings, health, work performance ratings, and confidence in a financially secure retirement (Garman, Kim, Kratzer, Brunson, and Joo, 1999). A study of white-collar workers in the Midwest (Kim, 2000) found that when a 90-minute financial education seminar was combined with a 30-minute one-on-one financial advice session, the employees reported improvements in financial attitudes and behaviors as well as increases in health and job performance.

Findings from a one-year pre- and post-study of credit counseling clients from 25 states were similar but even stronger (Bagwell, 2000). Employees who were active clients for one year in a credit counseling service reported increased financial wellness, improved performance ratings, less work time used for personal financial concerns, and better health.

Finally, financial well-being directly predicts employees' job performance ratings, pay satisfaction, absenteeism, and conflicts between work and money matters (Kim, 2000). Financially well employees report very high levels of organizational commitment and pay satisfaction. In fact, an employer's potential first-year return on each dollar spent on financial education may be more than $400 for each employee who improves his or her financial wellness (Joo and Garman, 1998).

Mastering the Fundamentals

Through the years, employee assistance professionals typically have not worked with nonprofit credit counselors, often because they have no formal training or certification in personal finance. The good news is that basic personal financial education is not rocket science. One does not have to be a Certified Financial Planner to understand and help resolve the financial challenges of most workers.

With some study, the fundamentals can be mastered in an accreditation program. Popular counselor certification programs are offered through arrangements with two credit counseling industry associations: (1) the Association of Independent Consumer Credit Counseling Agencies (AICCCA, at www.aiccca.com), and (2) the National Foundation for Credit Counseling www.nfcc.org). Many counselors also are certified by the Accredited Financial Counselor (AFC) certification program offered by the Association for Financial Counseling and Planning Education (www.afcpe.org), a professional association representing a variety of people with expertise in personal and family finances.

Credit Counseling

The credit counseling industry has changed dramatically over the last several years. Because of rising costs and thinning revenue margins, many nonprofit, mom-and-pop credit counseling companies will soon be forced to close their doors or merge with larger organizations.

Moreover, consistently rising levels of consumer debt suggest that the industry has been largely ineffective. Consumer debt in the United States reached an all-time high of approximately $1.4 trillion in 1999, and 1.3 million Americans filed for bankruptcy. Over the last 10 years, personal bankruptcies have risen 69 percent.

In response to these developments and criticisms that the credit counseling industry is providing "band aid" solutions to serious consumer debt problems, the process of delivering credit counseling is changing dramatically. The time-honored method of delivering credit counseling face-to-face is being replaced with telephone counseling. In addition, the Internet and fax machine are speeding the transfer of information and education both to and from the client.

Yesterday's intermittent presentations to employees about money and credit management also are on the wane. Instead of preachy, motivational lessons delivered on an ad hoc basis to small groups of employees, today's educational programs are high-tech and high-touch and intended to reach millions of people. State-of-the-art, interactive CBT software programs can be delivered via the Internet, Intranet, and/or on CDs. These programs are designed to not only educate people about credit, but actually change personal behaviors.

Yet another change is being made in the delivery system for reaching consumers with serious debt problems. The first decade of the new millennium will bring numerous strategic alliances between large employers and leading credit counseling organizations. Soon, millions of workers who are overextended financially will have access through their place of employment to educational programs that will help them achieve financial independence.

Potential Partnerships

Through partnerships with credit counseling organizations, EAPs can provide assistance to some clients experiencing stress from serious money and credit problems. To successfully develop a new revenue stream from such employees, EA professionals, employers, and health care providers must think creatively about partnerships with credit counseling agencies. To make these partnerships work, EA professionals must be able to—

- Identify clients who evidence credit and money problems;
- Measure how many employees are experiencing financial trouble to the extent it hurts job productivity;
- Broaden their scope of practice to include behavioral risk management of money problems and financial challenges;
- Calculate the employer's return on investment for financial education programs;
- Identify the key partners with whom they should collaborate to integrate employee services;
- Take a leadership role in creating partnerships to deal with employee financial problems; and
- Encourage employees to utilize the services of both credit counselors and EAPs.

Edie Milligan, president of a financial counseling firm in Columbus, Ohio, and a longtime advocate of EA professionals helping employees deal with chronic financial problems, summed up the challenge quite clearly in an article in the November/December 1997 *EAPA Exchange*. "EA professionals must expose this plague with the same fervor that exposed alcoholism as a disease with a cure," she wrote. "Helping employers realize that this new 'drug' [credit and money problems] is being thrust upon workers, causing them to endanger their health, their families, and their jobs, will allow resources to be directed to this problem."

EAPs need to convince employers that they need to be part of the solution to this challenge. A good first step for EA professionals interested in broadening their understanding of personal finances and employee money problems is to visit the people in the organization responsible for retirement education. Study the materials provided to employees on retirement planning and money and debt management. EAPs should first assess this information from a personal perspective, then think about how other employees might view the materials.

This process should quickly lead the interested EA professional to talk with others about additional resources employees might need to overcome their money problems. Additional revenues will accrue to EA professionals who help employees with serious money problems and unmet challenges.

How much of an annual investment is needed to provide basic financial education to each employee? Five dollars? Ten dollars? Fifty dollars? Whatever the cost, EAPs that seek partnerships with credit counseling professionals will provide resources that not only help more employees—and their employers as well—but also enhance their own revenues.

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