



Our people are our business

Is there a business case for providing financial education for employees?

The simple answer is YES!

But simple answers are not always convincing. In this article, we look at some of the research that has been done in this area and outline a few reasons why we believe employers should provide financial education for their staff.

The last 20 to 30 years have seen some major changes in how people make financial decisions.

Things used to be much simpler. You were paid in cash, you spent what you had, you saved a bit. Sure, people still made poor decisions, but the risks were less severe.

Over the years, the world has become more complex – and financial decisions have become more challenging. To keep up with these changes, the pressure on people to make smart financial decisions has grown. Similarly, the consequences of making bad decisions are much more serious.

Some people have grown with these changes – maybe they come from a family who had "money smarts" and learned from their parents. Or perhaps they took the trouble to learn "money smart skills" for themselves. But what if they weren't so lucky?

Without basic financial decision-making skills, it's likely that people are:

- a) Living from pay to pay
- b) Living with permanent short-term debt of some sort
- c) Have no realistic hope of ever reaching a state of financial independence.

I recently heard a lovely metaphor for the financial situation facing many people. The picture was of someone "standing up in a canoe and trying to swing a baseball bat". You can guess what might happen!

These are the real questions:

1. Should an employer be concerned?
2. Should an employer do something about it?
3. Will an employer receive something in return?

There is real evidence that the answers to these three questions are: YES, YES and YES. Let's look at them one by one.

1. Should an employer be concerned about employees' financial smarts?

Plenty of research provides evidence of the impact of financial stress at work. Here are just some of the findings that have emerged from recent studies:

- In 2012, roughly one in five employees admitted that they had taken time off work in the past year to deal with a personal financial problem.¹
- Across workers of all generations, 24 per cent admit that personal financial problems have been a distraction.¹
- Similarly, 39 per cent spend at least three hours a week thinking about, or dealing with, personal financial problems at work.¹
- Less than a third of all employees are confident in their ability to make the right financial decisions for themselves and their families.²

- Less than 20 per cent of New Zealanders have ever had advice about KiwiSaver.³
- Over 50 per cent of all KiwiSaver funds are invested in cash, default and conservative funds.⁴

Interestingly, the 2014 Mercer KiwiSaver Sentiment Index Study found that 30 per cent of respondents would approach their employer or HR manager if they had a question about KiwiSaver.

"Employers should not underestimate the role they play in building the success of KiwiSaver and in improving the quality [and quantity] of New Zealanders' retirement incomes," the report reads.⁵



2. Should an employer provide financial education for staff?

Of course, an employer could say: "Not our problem – we pay our employees well enough, they can arrange financial education for themselves."

And, without a doubt, some employers will see it this way (I wouldn't like to work for one of them!).

But many organisations believe that "our business is our people". In which case, they absolutely should do something about this problem.

So, what can be done?

Firstly, employers can't do it all themselves. When an employee urgently requests money (such as a pay advance) how does the employer deal with that? The easy way is to adopt a financial capability programme – and

this should be arranged in partnership with a specialist organisation.

However, some employers have already tried this without much success. Why didn't it work? Well, like a lot of things, if you only do part of the job, you'll only get part of the results.

Just holding a seminar, or giving the odd employee advice, won't deliver lasting benefits.

A properly constructed, strategically designed programme is the best way to make sure that the employees get the outcomes they want – and that the employer gets the best return on investment.

3. Will the return on investment justify the cost?

There is clear evidence that financially secure employees are more productive employees. Plus, there are other benefits for the employer, such as:

- Reduction in employee stress
- Improved efficiency in recruitment and retention of employees
- Better appreciation of employee benefits (e.g. health insurance, life insurance and superannuation)

A leading study⁶ "conservatively estimates an ROI of up to 3:1 for a well-constructed financial education programme". In other words, an employer stands to gain \$3 for every \$1 spent on financial education.

Although this study is now quite dated, an online calculator⁷ using today's figures supports this estimate.

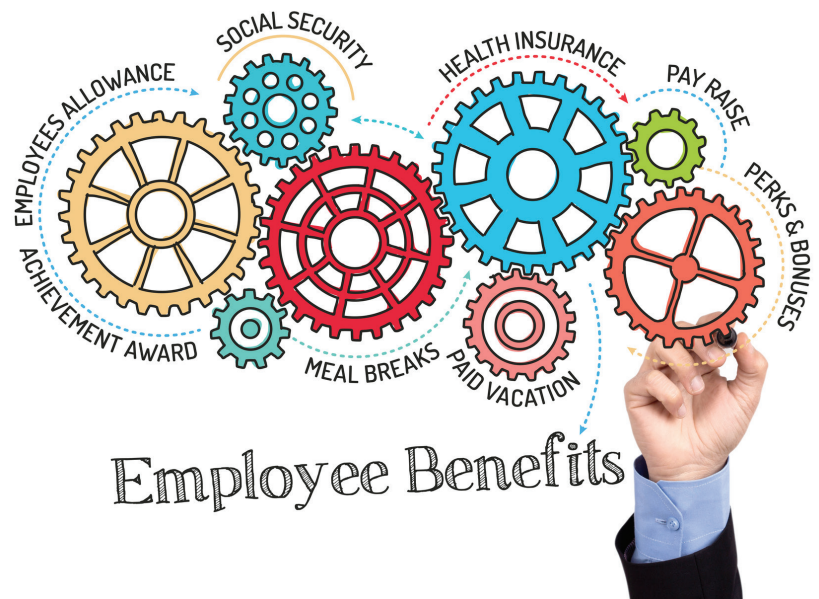


So, should employers offer financial education in the workplace?

For a modest cost, employers can considerably boost the financial wellbeing and workplace engagement of employees. A few of the benefits which employers can look forward to include:

- Managing employer liability risk
- Increased return on investment for employee benefits
- Improved productivity
- Reduced employee stress
- Improved workforce planning
- Increased ability to attract and retain top talent

The time has come for employers to support workplace financial education for the benefit of the employer, the employees and the company as a whole. This can only happen when employers provide comprehensive workplace financial education for all employees.⁸



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About the author

Tony Walker has over 20 years of experience in helping people solve financial problems. He believes that people have a right to financial literacy and has a wealth of knowledge right across the financial services area – he understands that not all problems fit into nice little boxes! He is happily married with two adult sons and is actively involved in his community.



1: "Financial Wellness at Work", Consumer Financial Protection Bureau, August 2014. p8.

2: Metropolitan Life Insurance Company (2010). Study of Employee Benefit Trends (8th annual).

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3: Mercer KiwiSaver Sentiment Index Study, Mercer, May 2014.

4: FMA 2015 Annual KiwiSaver Report. p21.

5: Mercer KiwiSaver Sentiment Index Study, Mercer, May 2014. p14.

6: "The Business Case for Financial Education", E. Thomas Garman, Personal Finances and Worker Productivity: Proceedings of the Personal Finance Employee Education Best Practices and Collaborations Conference, Volume 2, Number 1, June 1998. Roanoke, Virginia: Virginia Polytechnic Institute and State University.

7: <http://personalfinancefoundation.educatedinvestor.com/fss/ROIcalculator/calculator.html>

8: "Benefits of Workplace Comprehensive Financial Education", University of Minnesota Extension, 2016. www.extension.umn.edu/family/personal-finance/about/benefits/