

# Financial Literacy = Productivity

## Financial Literacy = Productive Employees

### Background: History of the Financial Literacy Movement

Financial literacy and its effect on adults as employees and consumers have been studied by the academic and business communities for more than 20 years. The most reliable, objective studies have been academic and governmental because financial literacy is crucial to societal stability as well as to corporate profitability – something that has proven true in studies around the globe, in both hemispheres and on every continent.

Studies in 1979 found that 10% of working adults reported stress from personal financial difficulties; recent studies put that number at 25%.<sup>1</sup> (*Personal Finances and Worker Productivity*. So-hyun Joo and E. Thomas Garman, 1998, Virginia Tech University) Employees often list financial stress as the top source of all the types of stress they experience. Several studies found that employees dealing with personal financial stress caused a pattern of problems in the workplace. These include decreased ability to concentrate, increased absenteeism, frequent personal phone calls, and the risk of fraud and/or theft.

Institutions performing studies on consumer financial behavior and stress include, in addition to vendors of such information and instruction, academic researchers such as:

- AARP
- CFO Magazine
- So-hyun Joo and E. Thomas Garman of Virginia Technical University (*Personal Finances and Worker Productivity*, 1998)
- State and municipal organizations
- The Institute for Socio-Financial Studies
- The American Savings Educational Council
- The Jump\$tart Coalition for Personal Financial Literacy
- The National Endowment for Financial Education,
- The Department of the Treasury's Office of Financial Education
- The Financial Literacy and Education Commission
- The Consumer Interests organization
- The American Bankruptcy Institute

The common thread among the findings of these studies is the need for financial literacy education.

*Bottom line:* The findings from seminal 1998 Virginia Technical University doctoral thesis research have been referenced widely and finally re-proven in a 2005 study by the Institute for Socio-Financial Studies. Multiply your average hourly pay per employee by your employee headcount, and that by the conservative estimate that a worker with financial stress spends 62.5 hours a year of work-time distracted by thoughts and behaviors related to personal financial issues. Estimates for the annual per-employee cost of financial stress range from \$450 (Personal Finance Employee Education Foundation, Inc. 2007) to \$7,000 (Financial Literacy Partners, "Employee Financial Stress is Costing Your Company a Bundle – And How You Can Stop It Now!" 2005).

### Sources of Employee Financial Stress

The major sources of financial stress for employees have been identified as:

1. Household budget management (related to cost-of-living increases higher than salary/wage raises)
  - Health care (insurance) cost

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- Lack of savings – made worse by spouse’s unemployment (or fear of their own possible job loss)
- Debt management – including credit card debt and “upside down” mortgage or ballooning mortgage; college tuition loan debt for younger employees
- Retirement planning (lack of)

### Employer Costs of Employee Financial Stress

A seminal 1998 study by So-hyun Joo and E. Thomas Garman of Virginia Technical University is frequently referenced by later academic and non-profit institutional research and by financial education vendor white papers. This study, “[Personal Finances and Worker Productivity](#),” identified and attempted to quantify the effects of personal financial wellness on employee productivity. Financial stressors showed a statistically significant correlation with *absenteeism* and *work time use*. The time a financially stressed worker loses from productive work is calculated conservatively: “A conservative estimate is that a worker with financial problems spends 15 minutes per day dealing with personal financial matters, or 75 minutes per week, or 62.5 hours in a 50-week work years. The relationship between personal financial wellness, especially behavioral assessment and overall satisfaction with financial situation, and work time used for personal financial matters has some practical implications. ... [E]very 1-point increase in the behavioral assessment index corresponds with 0.0265 decrease in work time used for personal financial matters. Consequently every 1-point increase in behavioral assessment, on a 48-point scale, can reduce 111 minutes of work time used for personal financial matters annually (0.0265 x.75 minute/week x 50 week).”

The study provides an illustration of the employer cost of employees’ lack of financial literacy for a company with 1,000 employees, 15% of whose workers have poor financial literacy, and that a modest two-thirds of those workers can benefit from financial education if the annual cost of 62.5 hours of work is \$405.94 (approximately \$6.50/hr). “[T]he employer may realize a savings of \$40,594 ( $\$405.94 \times 1,000 \times 0.15 \times 2/3$ ).” Plug in your own average hourly cost per employee and number of employees to determine a conservative estimate of your corporate savings from your Financial Literacy program.

Alliant Credit Union’s 2008 white paper on “American workers’ struggles to attain financial security” found that “Employees with financial concerns spend significant work time dealing with personal financial matters. ... [O]ver 50% describe themselves as living from paycheck to paycheck. Less than 20% considered themselves to be financially secure. More and more workers are financially strained by increasing credit card debt. Employees generally feel they lack knowledge about handling money.” The report cited the Joo/Garman research to bring home the employer cost of employee financial stress: “In other words, these economically-stressed employees spend 75 minutes per week (or 62.5 hours in a 50-week work year) on an employer’s dime, worrying about their own bottom line, rather than doing productive work to enhance their company’s bottom line.”

In 2005, *Delta Pi Epsilon Journal*’s article “[Employers’ Perspectives of Employees’ Personal Financial Literacy](#)” (v47 n1, p11-19, Winter 2005) reported that employers “stated that strong personal financial literacy skills allow an employee to focus on work activity and productivity, resulting in increased financial returns for the company.” However executives noted the following problems when employees experienced personal financial stress: “increased absenteeism, frequent personal phone calls, lack of ability to concentrate, bad publicity for the company when bankruptcy occurs, and the risk of fraud and/or theft.” The addition of the factors of negative publicity and fraud/theft should become part of your ROI calculation for your Financial Literacy program.

In New Jersey, comparing 2005 survey results to 2007 results, the [Emmanuel Community Development Corporation, Workplace Financial Literacy Program](#), provided current context for the growing problem of employer costs of employee financial stress. First, they cited the American Bankruptcy Institute and the Federal Reserve finding that “only one quarter of Americans feel well informed about managing household finances.” Then they noted further Virginia Tech research concluding that “One in four American workers is seriously distressed about

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their personal financial situation” and reiterating the conservative estimate of “employers \$450 per employee annually in lost productivity due to absenteeism, stress, and inattentiveness (Personal Finance Employee Education Foundation, Inc. 2007).”

The [Financial Literacy Foundation of Australia reported](#) on the benefits to employers as well as to employees when, in 2007, the foundation launched additional resources for financial literacy. “For employers, financial literacy education in the workplace can lead to improved motivation, improved recruitment and retention of staff, and a capacity to take a more flexible approach to managing retirement. The programs can also help to position a company as an ‘employer of choice’.” Your company’s internal estimates of the values of each of those advantages should also be calculated into the ROI of your Financial Literacy program.

One study of Malaysian workers’ financial stress found that low levels of financial literacy correlated with low productivity: “Most of the respondents had a lower level of financial literacy, [and the] majority of employees (64.5%) had a low level of productivity at workplace.”<sup>2</sup> Other resources reported the same stats on widespread employee financial stress, the costs of stressed employees’ behavior in the workplace, and attest to the global nature of the problem.

### Partnership for Success

With the global economy still in turmoil, your company’s primary focus must be on its business – sticking to its knitting, working “lean,” nimbly finding new opportunities in a changing market, and reducing risks. The risk of reduced productivity among the valued employees you retain probably isn’t part of your company’s core competencies, but fortunately you have an able and willing partner in the Alaris Financial Literacy curricula. Alaris Financial Literacy targets your employees’ most pressing needs for financial information, tools and skills, and you can brand the curricula with your corporate identity to remind your employees how much you value them.

### For Further Research

Sealund and Associates will continue scanning current research for studies offering further evidence of the costs of employee financial *ill*iteracy, which translates into bottom-line losses for companies that don’t address the problem with high-quality financial literacy education programs for their employees. We will continue to share this information with you in a continuing series of white papers and blogs.

### NOTES:

1. Personal Finances and Worker Productivity, posted 8/16/2002, So-hyun Joo and E. Thomas Garman, 1998, Virginia Tech University. <http://secondhanddebt.com/files/58.pdf>
2. Ibid.