

CHAPTER I. INTRODUCTION AND STATEMENT OF THE PROBLEM

Introduction

Personal finance in America is an important issue today. It also is recognized to be an area of important life skills. For many reasons, there is an increasing demand for information on personal finance, which some people attribute to the strong economy, the proliferation and complexity of investment products, and the rapid creation of wealth from stock markets. Another reason may be the result of baby boomers' search for ways to prepare for their retirement and pay for their children's college education as they move into middle age ("Shouting Financial Advice in Crowded Field", 1998).

Even though financial knowledge is very important in making financial decisions, recent research showed that young American adults lack the financial knowledge to make efficient choices. When given a personal finance literacy test, most young adults failed (Jump\$start, 1998). A survey by Bank Advertising News and The Gallup Organization showed that 34% of the 1,000 consumers surveyed did not know the interest rate of the credit card they most often used ("Savings and Learn", 1998). A 1994 Merrill Lynch Survey reported that fewer than one fifth of American adults passed the personal finance test on investments and basic financial concepts.

Financial illiteracy has been found to be related to financial problems, such as low saving rates, being targets of investment fraud, being delinquent on credit cards, and bankruptcy. A survey reported that states with high numbers of adults declaring personal bankruptcy also have high numbers of 12th graders who scored poorly when tested on personal finance subjects (Jump\$start, 1998).

Current levels of financial illiteracy suggest a national need for financial education. Financial education can enhance individual financial knowledge and skills. It can be preventive for financial challenges, remedial for financial stress, and protective in personal finances (Garman, 1997).

Many Americans face serious financial challenges despite a booming economy for the past eight years. The personal saving rate has dropped. Spending and borrowing have increased. A 1995 survey by the Census Bureau found that 49 million people had experienced financial difficulty meeting basic needs. These people did not pay utility bills, did not pay mortgage or rent, needed to see the doctor or dentist but did not go, had telephone or utility service shut off, were evicted for non-payment, did not get enough to eat, or did not meet essential expenses. Over eight million people in the two highest income quintiles reported that they experienced one of these financial difficulties (U.S. Census Bureau, 1999).

Workplace financial education has sharply increased in the last decade. Since the passage of the Employee Retirement Income Security Act (ERISA, 1974) and a number of regulations that placed greater responsibility for retirement planning on workers, employees have been pushed to participate more effectively in making decisions affecting their own future income security. Nearly half of working Americans now have financial education available through their place of employment (Garman, 1998a). Financial education provided by employers has traditionally focused on investing for retirement (Tiras, 1997).

Some claim that workplace financial education should be more than retirement education, arguing that it should include information, education and/or services provided

by an employer to help its employees make informed decisions about 1) retirement plans, 2) employee benefits, 3) credit and money management, and 4) consumer rights (Garman & Leech, 1997).

The recent increase of financial education in the workplace brought a need to study the effects of financial education on workers' personal finances. Bernheim & Garrett (1996) found that workers benefited from workplace financial education by changing their financial behaviors as a result of information received through such programs. The 1999 Retirement Confidence Survey showed that approximately 42% of the workers in the U.S. received retirement planning and/or savings materials from their employers during the past year, and that participating in financial education changed workers financial behaviors. Two-fifths of the people who received educational materials from the employers reported that it caused them to begin (19%) or resume (21%) saving for retirement, while similar proportions say that they changed the amount of 401(k) contribution (42%), or changed the allocation of their money in a retirement saving plans (41%). DeVaney, Gorham, Bechman, and Haldeman (1996) also found that people experienced a change in their feelings and attitudes toward finances after participating in personal finance workshops at the workplace. DeVaney et al. (1996) maintained that the use of a workshop workbook was associated with personal financial behavior changes such as the use of a spending plan, credit use, bill payment, and savings.

Workplace financial education increased the participants' confidence in their investment decisions, and changed participants' attitudes (Fletcher, Beebout, & Mendenhall, 1997). Differences in financial well-being and financial management practices have been found between workers who participated in workplace financial

education and those who did not (Kratzer, Brunson, Garman, Kim, & Joo, 1998). Workers who attended financial education had better health, less financial stress, and greater financial satisfaction. Financial education can enhance financial well-being by improving financial attitudes, enhancing financial knowledge, and changing financial behaviors.

Workers' personal finances are related to work outcomes. Problems in workers' lives affect their psychological states and behavior at work (Families and Work Institute, 1997). Financial concerns spill over into workers' responsibilities at the workplace. Brown (1993) suggested that 10% of all employees experience financial difficulties, which, in turn, affect their workplace productivity. Garman, Leech, and Grable (1996) estimated around 15% of the workers in the United States are experiencing personal financial stress that impacts their productivity. Joo (1998) found that a higher level of financial well-being was associated with higher performance ratings, less absenteeism, and less work time loss.

Researchers have suggested that workplace financial education could reduce turnover, attract employees, improve morale, increase employees' commitment to employers, reduce employee theft, and limit exposure to litigation (Wechsler, 1997; Garman, 1997; Maxwell, 1997; Pomeroy, 1997). Workplace financial education as an employee benefit was associated with workforce commitment ("America @ Work: An Overview...", 1998). A 1997 survey conducted by Plan Sponsor and Earnst and Young showed that employee financial education reduces turnover, attracts employees, improves morale, and limits exposure to litigation (Wechsler, 1997).

Despite the apparent importance of workplace financial education, there has been little research that examines relationships between workplace financial education, financial well-being, and work outcomes.

Statement of the Problem

The purpose of this research was to explore the effects of workplace financial education on workers' personal finances and work outcomes. A conceptual model that explains the effects of workplace financial education on personal finances and work outcomes was developed. Personal financial management (attitudes, knowledge and behaviors), financial well-being, personal finance-work conflict, and work outcomes were described. The effects of workplace financial education on financial management (attitudes and behaviors), financial well-being, and work outcomes (productivity, absenteeism, organizational commitment, pay satisfaction, loyalty, and intention to leave) was examined. An empirical test was conducted to determine relationships among financial management, financial well-being, personal finance-work conflict, and work outcomes with white-collar workers in an insurance company in mid-western states. .

Research Questions

There were six research questions in this study on the effects of workplace financial education on personal finances and work outcomes.

- (1) What are the worker's profiles of financial attitudes, financial knowledge, financial behaviors, financial well-being, personal finance-work conflict, productivity, absenteeism, work time use, organizational commitment, pay satisfaction, loyalty, and intention to leave?
- (2) Do the profiles of financial attitudes, financial knowledge, financial behaviors, and financial well-being differ by the individual characteristics?

- (3) Do the profiles of personal finance-work conflict, productivity, absenteeism, work time use, organizational commitment, and pay satisfaction differ by the individual characteristics?
- (4) What are the relationships among financial attitudes, financial knowledge, financial behaviors, financial well-being, and work outcomes (productivity, absenteeism, organizational commitment, and pay satisfaction)?
- (5) What are the effects of workplace financial education on financial attitudes, financial knowledge, financial behaviors, and financial well-being?
- (6) What are the individual profiles of workplace financial education including participation, value of workplace financial education, reasons for participation and non-participation, desire for financial check-up, and desired topics of workplace financial education?

Uses of the Study

The conceptual model of workplace financial education, personal finances, and work outcomes will provide a base for future research, theory development, and empirical research. The conceptual model will help to explain the effects of workplace financial education on personal finances and work outcomes. The conceptual model will illustrate how workplace financial education effects personal financial management and financial well-being. The model also will examine the relationship between worker's personal finances and work outcomes. Personal finance-work conflict will be used to link the financial well-being and workers' attitudes, knowledge, behaviors and productivity at work.

Testing between workplace financial education and financial well-being were guided by an empirical model based upon reality limitations, length of questionnaire, agreement by employer not to ask certain questions and the likelihood of completion by the respondents. The collected data provide a profile of financial well-being that are helpful in understanding of workers' financial situations. The information related to the work outcomes are useful to employees, employers, researchers, and policy makers. Any relationship found between financial well-being and work outcomes can and need to illustrate the values of workplace financial education to employees, human resources managers, employers, and policy makers. Financial attitudes, knowledge, and behaviors can be used to quantify the effects of financial education by financial educators and financial planners. Subjective and objective measures of financial well-being can be used to determine the current financial situation for future studies. Measures of personal finance-work conflict and work outcomes can help to identify the importance of personal finances on work life.

Delimitations of the Study

This study had several delimitations. It was delimited to the conceptualization of the effects of workplace financial education on personal financial management, financial well-being, and work outcomes. Workplace financial education influences financial well-being by changing workers' financial management. Also, workplace financial education affects work outcomes. Measurement of the effects of workplace financial education was delimited to identify the changes on personal financial management, financial well-being, and work outcomes.

In the empirical test, the effects of financial education on personal financial management was delimited to financial attitudes, knowledge, and behaviors. Financial well-being were measured by subjective and objective indicators. This study was delimited to the four objective indicators: 1) amount of emergency funds, 2) amount of monthly saving, 3) amount of 401(k) saving, and 4) amount of 401(k) loan payment. This study was delimited to the following subjective indicators of financial well-being: 1) overall financial well-being, 2) satisfaction with financial situation, and 3) perception of financial situation changes. Work outcomes in this study were delimited to productivity, absenteeism, work time used for personal finance matters, organizational commitment, pay satisfaction, loyalty, and intention to leave. The productivity measures were delimited to the self-reports of quality and quantity of the productivity and performance rating from boss last year. The absenteeism measures were also delimited to the self-reports of the frequency of absences, days totally unable to work last month, and days cut down on work last month.

The treatment of this study was delimited to one time, 1 hour and 30 minutes workplace financial education seminars. The time period between pre-and post-assessment was delimited to three months. This study was delimited to a mail survey of workers in an insurance company in the United States.

Limitations of the Study

This study had several limitations. One limitation is lack of generalizability because the workers in this study were predominantly white and from three states in the United States. The representativeness for the whole white-collar workers is limited.

This study has a limitation in the accuracy of responses on the amount of monthly savings and debts. Respondents may not report the accurate number because they do not possess the correct knowledge or may not want to report it. Productivity and absenteeism data may be biased due to the self-report. Also, workers may not want to accurately report on sensitive questions such as personal finance-work conflict, organizational commitment, and job satisfaction. Additionally, changes in some items between the pre-and post-assessment has a limitation in comparisons.

The workplace financial education seminars were not provided by the researcher, therefore, there was no control over the contents and delivery of the seminars. In addition, the one time, 1 hour and 30 minutes workplace financial education workshop was limited in scope and depth. The limitation of workplace financial education may have influenced the effects on personal finances and work outcomes. In addition, only three months were given to measure any changes as a result of workplace financial education. This time period may have been too short for the changes in personal finances and work outcomes to be realized.

Since this study did not have a control group, another weakness was the lack of control for other variables that may have influenced the changes in personal finances, personal finance-work conflict, and work outcomes. Also, self-reports of the changes in personal finances could be inaccurate. Finally, education may change the way individuals think about personal finances, rather than the way they behave (Bernheim & Garrett, 1996).

Operational Definitions

The operational definitions for key terms and variables in this study are as follows:

Absenteeism

Absenteeism is the practice of missed work time by an employee. It can be measured by the frequency of absences, reasons for the absences, and work loss.

Financial Literacy

Financial literacy refers to knowing the facts and vocabulary necessary to manage one's personal finances successfully (Garman & Forgue, 2000).

Financial attitude

Financial attitude refers to the general attitude toward financial management.

Financial Behavior

Financial behavior refers to the process people use in managing their financial resources to achieve financial success in the areas of retirement plans, employee benefits, credit and money management, and consumer rights.

Financial Knowledge

Financial knowledge includes knowledge about general personal finances, retirement plans, employee benefits, credit and money management, and consumer rights.

Financial Well-being

Financial well-being is the outcome of the financial management process. It can be measured by subjective perception of the financial situation as well as quantifiable objective indicators. Indicators of objective financial well-being are the amount of emergency funds, amount of monthly retirement saving, monthly amount of 401(k) contribution, monthly amount of savings excluding 401(k) plan. Subjective financial well-

being includes overall financial well-being, satisfaction with personal finances, and perception of financial situation changes.

Job Satisfaction

Job satisfaction is defined as workers' overall perception of his or her degree of satisfaction with the job.

Organizational Commitment

Organizational commitment is the level of individual's identification and involvement in a particular organization (Porter, Steers, Mowday, & Boulian, 1974).

Pay Satisfaction

Pay satisfaction is satisfaction with three dimensions of payment, including pay level, pay structure, and pay raise.

Personal finance-work Conflict

Personal finance-work conflict is the extent to which financial concerns interfere with worker's workplace responsibilities. High levels of conflict are related to such things as decreased productivity, increased tardiness, increased absenteeism, increased turnover, poor morale, and reduced job satisfaction.

Productivity

Worker productivity refers to the overall effectiveness and performance of individuals. It includes the ratings of the quality and quantity of performance.

Turnover

Turnover is the separation from the job and closely related to absenteeism (Lewis, 1983).

Work Outcomes

Work outcomes are worker's attitudes, behavior, and performance at work. These include productivity, absenteeism, work time used for personal finance matters, organizational commitment, job satisfaction, loyalty, and intention to leave. Work outcomes are associated with the characteristics of the workers, the characteristics of the workplace and job, and financial well-being.

Workplace Financial Education

Workplace financial education refers to financial education seminars provided by the Capital Strategies, Inc. to help workers make informed decisions about retirement plans and investing.

Organization of the Remainder of Dissertation

This chapter consisted of introduction, statement of the problem, research questions, uses of the study, delimitations of the study, limitations of the study, and operational definitions.

The remainder of the report is organized in the following matter: Chapter II, entitled "Review of Related Literature"; Chapter III, entitled "Model Of Workplace Financial Education, Personal Finances And Work Outcomes"; Chapter IV, "Methodology"; Chapter V, entitled "Results"; Chapter VI, entitled "Discussion of Results"; and Chapter VII, entitled "Summary, Conclusions, and Recommendations."