

Workplace Financial Education's Effects on Retirement Planning¹

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Modern financial planning is dominated by one topic: retirement planning. However, in spite of extensive study and wide attention, retirement savings rates remain perplexingly low and remarkably resistant to policy intervention. Workers are taking on increasing responsibility for retirement planning and saving as access to defined-benefit pension plans continues to decline. Yet more than one in four workers has less than \$1,000 in retirement savings, according to the Employment Benefit Research Institute, and a recent study found that only 43% of private-sector workers aged 25–64 take part in retirement savings programs. Participation rates remain low in spite of mechanisms intended to boost them, such as opt-out (versus opt-in) requirements, employer contribution matching for 401(k) accounts, and tax advantages for contributions to qualified plans.

Clearly, these efforts are not working well, and they may come with downsides. Savings plans that require employees to opt out or default to a defined savings rate do not account for individual savings preferences—some might prefer to save less, and others might save more in the absence of the default. Tax breaks and other government-designed incentives can be costly, and they deliver benefits unevenly. As a result, middle- and lower-income savers in particular may not respond to them. Overall, many retirement savings incentives likely cost more than is warranted for the benefit they deliver.

One approach that does seem to work is employer-based education. Retirement planning is a complex endeavor, requiring savers to form realistic expectations about lifetime income, years of work, investment returns over time, and consumption levels in retirement—and then to construct long-term savings plans based on those expectations. In the process, they must also consider the tradeoffs

Key Findings

Employees offered access to an online financial education program in the workplace increased both financial knowledge and positive financial behaviors, including retirement saving.

- Self-reported knowledge increased between 5% and 25% in the various topics covered by the program.
- Participants also reported increased IRA participation and an increase in the likelihood of having a budget.
- Account data showed participants increased retirement account contributions by an average of 40%.

The online program required relatively little of employers or employees.

- Take-up of the program was very high, with 90% of those offered the program completing all 10 modules.
- The program required less than 5 hours for most employees to complete and cost just \$10/employee.

These results suggest that one-time, workplace-based education can have a significant effect on retirement saving, as well as other financial behaviors.

between consuming in the present and saving for the future and attempt to smooth spending and savings over time. People who lack important information they need to calibrate expectations and establish savings standards may simply ignore the issue, failing to save at all. Education provided by the employer—at the point where many employees must make decisions about participating in 401(k) and similar plans—can help motivate people to move

¹ The full report on this study appears in *Economic Inquiry*, available at onlinelibrary.wiley.com/doi/10.1111/ecin.12349/abstract

forward by giving them access to the information they need. It may also help overcome other biases that lead to inaction, such as inertia, perceived transaction costs (for instance, time lost in dealing with paperwork), procrastination, and inattention.

There is evidence to support the idea that workplace-based financial education can influence financial behavior, and especially retirement savings. A number of studies have shown positive correlations between financial literacy and positive financial behaviors such as retirement planning and saving. Other work has suggested a connection between new-hire financial information and frequent retirement planning seminars in the workplace and participation in retirement savings programs. However, although this work offers support for workplace-based education, it has not established a clear causal relationship. Other mechanisms may also be at work; for example, those who show up to workplace-based retirement seminars may have greater motivation to save, which may be the reason they save more, rather than the new information they were exposed to.

The Study

To examine the effect of workplace-based financial education on retirement savings, we conducted a randomized field study of employees at 45 credit unions, with those in the intervention group given access to a 10-unit online financial education course. We then compared participants' self-assessments of their financial knowledge between the intervention and a control group that did not have access to the course.

Program Description

Employees of participating credit unions were offered access to REAL Progress & Pathways to Prosperity (RP3), an online financial education program developed by Precision Information, LLC. The program included 10 modules covering a range of topics:

1. Basics of Finance
2. Basics of Investing
3. Basics of Financial Planning
4. Basics of Retirement
5. Saving Strategies
6. Mutual Funds
7. Saving for College
8. Understanding Investment Risks
9. Working with Financial Advisers
10. Getting Started

Most of the material focused on retirement savings, retirement planning, and understanding the tradeoffs involved in deciding when to start saving. Precision Information estimated that the full program should require 8.75 hours to complete (the median login time during the study was about 4.4 hours); employees were allowed to complete it during working hours, making it a very low-cost intervention for them.

Online education programs offer several advantages over more traditional, in-person formats such as seminars. They can be delivered to large numbers of participants at a low marginal cost; the flexibility of online delivery means more employees may be able to participate; and online formats provide privacy and a customizable experience, allowing employees to move quickly through material they already know, focus more extensively on new information, and engage with topics they may be too embarrassed or timid to bring up in a public venue.

Evaluation Process

Forty-five credit unions in Wisconsin, all members of the Wisconsin Credit Union League, agreed to participate; the average participating credit union had six branches and 48 full-time employees. This cohort was randomly divided into two groups; one group was given access to RP3 in September 2009 (the treatment group) and the remainder gained access in January 2010 (the control group). This design ensured that all participants eventually had access to the program, but allowed us to estimate causal effects. Although this study used an "intent to treat" model—participants were offered access to the program and could decide whether or not to use it—take-up was quite high: 90% of those offered the education completed all of the modules.

Both groups completed a 48-question survey in September 2009, before the education program was made available to the treatment group, and again in January 2010, before the control group received access to the program; 1,001 employees completed both surveys, 700 in the treatment group and 301 in the control group. Most of the employees in the sample were female (81%) and married (72%) and owned their homes (81%); 19% were non-white. The group had a mean household income of about \$50,000/year. The largest age group was 18–35 years old; nearly two-thirds were younger than 45 (Table 1).

Table 1. Age of Participants

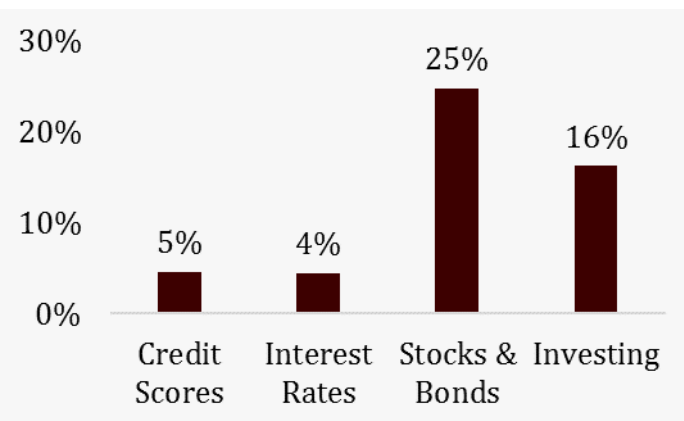
Age Range	Percent of Respondents
18–35	39%
36–45	24%
46–55	23%
56–64	12%

In addition, we obtained data on monthly retirement account activity from five credit unions in each group, resulting in information on about 220 employees making contributions or moving funds between investment options. Notably, all of the participating credit unions used the same benefits provider and generally offered the same investment plan and benefits options.

Results

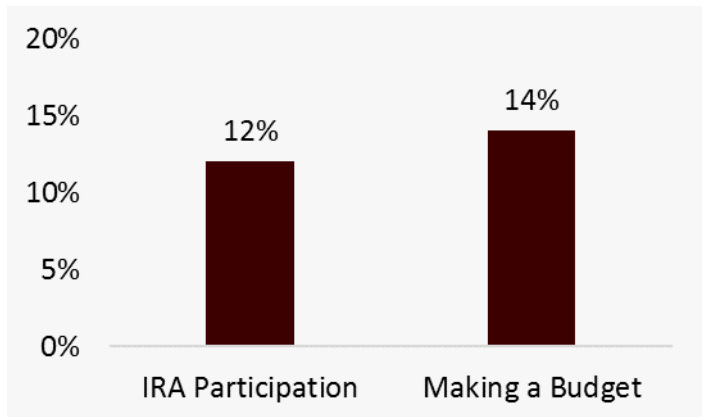
In the initial survey, both groups of employees responded similarly. Most participants (78%) reported fully utilizing employer-sponsored health and life insurance and other benefits, and 52% owned an IRA account. Just under 42% reported having a spending plan and only slightly more—48%—reported having enough savings to cover three months of expenses

The follow-up survey showed that the education program had affected both self-reported knowledge about credit scores, interest rates, stocks and bonds, and investing, and self-reported behavior. Self-reported knowledge assessments increased by between 5% and 25% for the various categories (Figure 1).

Figure 1. Percent Improvements in Financial Knowledge After Online Education

More importantly, the increased knowledge appears to have supported changes in financial behaviors.

IRA participation grew by 6%, and the rate of having a budget by 6% (Figure 2). The changes were greater for employees with less education than for those with a college degree. No changes were reported in other behaviors, such as saving for other purposes (a car or education expenses, for instance) or paying late fees, suggesting that employees were not substituting savings or redirecting money from immediate needs.

Figure 2. Percent Improvements in Financial Behaviors After Online Education

The retirement account data further supported these positive outcomes. Employees who had access to the education program increased monthly retirement contributions by a mean of 40%. Given the average contribution amount of roughly \$65/month, this suggests an increase of approximately \$26/month per person, or \$312/year. Of particular significance is the increase in the number of savers making sufficient deposits to meet the company's contribution-matching threshold. Taken together, these findings are consistent with a substantial shift in savings behavior as a result of education.

Implications

RP3 yielded significant gains for participants in financial knowledge and in positive financial behaviors, in return for a relatively modest intervention. The recorded \$26 increase in monthly savings maintained over 10 years with just a 3% real rate of return would result in an additional \$4,200 of retirement savings. Further, the benefits extended beyond the intended target of retirement planning, producing increases in broader financial management activities such as budgeting and saving for emergencies.

All of this benefit came at a relatively low cost. Precision Information offers RP3 at a fee of \$10/

employee. Assuming that employees spend 10 hours on the program at a wage of \$20/hour, the total cost to the company is just \$210/employee. Unlike ongoing seminars or financial counseling, this is just a one-time cost—employers are not committing to ongoing programs or add-ons. It's important to note that this calculation does not include opportunity costs associated with workers being unavailable for other tasks while completing the training; those would, of course, have to be taken into account in the context of the particular business and employee.

The success of the RP3 evaluation should perhaps give policymakers pause. Given the relatively low rate of success afforded by other, more expensive approaches—such as tax incentives—the value provided by online education approaches certainly merits consideration. Perhaps costs could be offset by subsidies or other benefits for firms that offer RP3 or similar programs.

Conclusion

This study examined the effect of a relatively simple, short online education program on retirement planning. RP3 provided significant improvements

not only in indicators of retirement saving and planning (IRA participation, employer-sponsored retirement account contributions), but also in more general financial behaviors (budgeting and saving). These findings are especially significant given the short duration, low cost, and high uptake of the program. They strongly suggest that online education programs, particularly offered in the context of employer-sponsored benefits, deserve more attention as a mechanism to increase retirement planning and saving.



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