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The effects of financial education in the workplace: evidence from a survey of households

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Abstract

We use a novel household survey to investigate the effects of employer-based financial education on personal saving. We explore cross-sectional relations between the availability of employer-based financial education and various measures of asset accumulation, and we interpret these patterns in light of various potentially confounding factors. Our findings favor the hypothesis that employer-based financial education stimulates saving, both in general and for retirement.

Keywords: Household survey; Employer-based financial education; Asset accumulation

1. Introduction

During the 1980s, a small but significant minority of employers instituted educational programs to provide employees with information about financial decisions and retirement planning. Spurred in part by the increasing popularity of employee-directed pension plans such as 401(k)s (see e.g. Employee Benefit Research Institute, 1995), the rate of adoption accelerated considerably in the 1990s. As of 1994, 88% of large employers offered some form of financial

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education, and more than two-thirds had added these programs after 1990.[1] More recent evidence indicates that financial education in the workplace continued to spread at a rapid pace throughout the late 1990s.[2] If poor financial decisions result with sufficient frequency from failures to appreciate financial vulnerabilities or from misunderstandings of intertemporal tradeoffs (see Bernheim, 1994, 1995a), then education of this form may influence a wide range of behaviors, including plan participation, voluntary contributions, portfolio mix, and the individual's overall rate of saving.

The potential effects of financial education are interesting and important from a policy perspective. There is a widespread perception that the rates of national and personal saving are too low, and the efficacy of Individual Retirement Accounts (IRAs) and other tax policies is controversial.[3] Moreover, some observers speculate that the post-War increase in saving by Japanese households may have been at least partially attributable to an extensive educational and promotional campaign.[4] The growth of employer-based financial education has therefore attracted attention within policy circles. Indeed, in 1995, the Department of Labor announced its intention to launch 'a national pension education program aimed at drawing the attention of American workers to the importance of taking personal responsibility for their retirement security' (Berg, 1995, p. 2).

In this paper, we use a novel cross-sectional survey of US households to investigate the efficacy of employer-based financial education. Our primary focus concerns the effects of these programs on saving, both in general and for the purposes of retirement.[5] Holding fixed a wide range of observable characteristics including pension status, we find that virtually all measures of retirement accumulation (both stocks and flows) are significantly higher on average and at the 25th and 50th percentiles when the respondent's employer offers financial education. We also find that rates of participation in 401(k) plans are significantly higher, both for the respondent and for his or her spouse, when financial education is available. For measures of total accumulation, the evidence is mixed. We find a significant relationship on average and at the 25th and 50th percentiles for the rate of saving (a flow variable), but essentially no relationship for total wealth (a stock variable). For the 75th percentile, none of the estimated coefficients are statistically significant.

We interpret these findings in light of several potential confounding considera-

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[1] 'Employees getting more: Investment education, planning help on the increase,' *Pensions & Investments*, January 23, 1995, p. 74.

[2] Overall, 86% of 401(k) plan sponsors indicated that they provided financial education to employees in 1999, compared with 59% in 1997 (Hewitt Associates, 2000).

[3] See Bernheim (1997, 1999) for reviews of the literature on taxation and saving.

[4] Naturally, there are other explanations for the Japanese experience. See Bernheim (1991) and Central Council for Savings Promotion (1981).

[5] Due to data limitations, we are unable to study the effects of employer-based financial education on portfolio allocation. Weisbenner (1999) provides some indirect evidence concerning this issue.