

Every American Financially Empowered

A Guide to Increasing Financial Capability
among Students, Workers, and
Residents in Communities

May 2012



Using this Resource Guide

The goal of this resource guide is to inspire leaders at all levels to leverage partnerships to create their own financial capability initiatives as a means toward building financial well-being for every American.

The **President's Advisory Council on Financial Capability** was created January 29, 2010, by Executive Order to advise the President and the Secretary of the Treasury on ways to empower Americans to better understand and address financial matters in order to improve their financial well-being.

Based on a review of the research on financial literacy, the Council decided to concentrate its final recommendations on three primary places financial education should be delivered in order to reach Americans throughout their lives: **school, workplace, and community**. This framework was used to organize this document.

"A Guide for City and Community Leaders to Create Financially Capable Communities" was written and released by the U.S. President's Advisory Council on Financial Capability in April 2012. This document supplements that work with resource guides for schools, institutions of higher education, and employers.

While research shows financial literacy is highly correlated with financial planning and that better planning leads to higher levels of wealth accumulation,¹ there are no universal standards to evaluate the quality and effectiveness of financial education programs and resources, particularly across diverse populations. As we initiate efforts to promote financial capability, **we urge every leader to help build the body of knowledge of what works** by testing and evaluating promising strategies.

This document is not intended to be exhaustive and does not create any requirements for schools, school districts, businesses, or communities, or other entities or individuals. While it provides many examples of financial capability initiatives around the country, this document is intended for reference only and is not intended to endorse or promote specific initiatives.

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No issue is currently more important to this country than restoring economic security for all families in the wake of the greatest economic crisis since the Great Depression. From saving for retirement and higher education to better understanding credit card, student loan, and mortgage debt, personal financial decisions have important ramifications for families and children, as well as implications for our nation's economy. Financial capability means making informed and effective decisions about the use and management of money. This requires empowering every individual with the knowledge, skills, and access to tools to manage their finances effectively for long-term well-being.²

Low levels of financial capability are evident across the U.S. A 2009 Financial Industry Regulatory Authority (FINRA) survey of Americans revealed that about half report trouble keeping up with monthly expenses, have no money saved for emergencies and do not save for retirement.³ Less than half, 41% of those surveyed, have no savings for their children's education.⁴ Approximately 1 in 8 Americans are considered "unbanked" and do not access a bank or credit unit.⁵ Research shows that low levels of financial literacy are associated with high levels of indebtedness, lower wealth accumulation, and less retirement savings. One example that signals a potential issue with indebtedness across the country is the ratio of debt to personal disposable income (household leverage), which increased from 55% in 1960 to 65% by the mid-1980s and escalated to 133% in 2007.⁶

Financial capability is especially low in certain populations. Young people, low-income households, Latinos and African-Americans show particular vulnerabilities in financial capability.⁷ Approximately 1 in 3 Latinos and African-Americans are unbanked⁸ and nearly a quarter approach retirement with less than \$1,000 in total net worth, excluding pensions and Social Security.⁹ Compared with U.S. national averages, young adults (ages 18-29) are more frequent users of non-bank borrowing (including payday loans and pawn shops), more likely to pay the minimum payment only on their credit cards, and more likely to be unbanked.¹⁰

Low financial literacy serves as a barrier to the middle-class. Research has shown a correlation between low financial literacy and financial choices that can block a low-income household's pathway to the middle class, including taking out high-cost mortgages, only paying the minimum credit card balance, and being delinquent on debt.¹¹ One study found that low-income households more frequently did not understand the terms of their mortgages, especially if the mortgages carried an adjustable rate.¹² Another study found that one-third of credit card charges and fees paid by consumers with low financial literacy were directly attributable to misunderstanding credit card contracts, with some costs totaling hundreds of dollars per year.¹³ In addition, a lack of financial literacy also makes low-income households particularly vulnerable to predatory lending practices. For these households, the cost of low levels of financial literacy is high.



A Guide to Increasing Financial Capability among Employees in the Workplace



Key Steps: Employers

American employers are a trusted source of financial education for their employees. Providing financial education opportunities at the workplace, where there is a direct connection with earnings and benefits, can be a powerful way to inform financial decision-making. While the research on the methods to promote financial capability is evolving, more than a decade of research suggests that financial education efforts in the workplace are important to reducing financial stress, increasing workplace productivity, and promoting long-term financial well-being.

Effective financial education programs can improve employee finances. One study of a workplace education initiative in Omaha and Kansas City found that this program increased the use of budgets, reduced late payment of bills and reported delinquency, lowered credit card balances and increased the frequency of carrying no credit card balance at the end of the payment cycle. Additionally, this program significantly reduced the number of loans from 401(k) programs, produced a marked increase in retirement saving accounts and 401(k) take-up.¹⁴ The participating companies in the initiative were diverse, including a large financial company, a health care establishment, a restaurant, and a retail enterprise.

Improved employee finances can improve employers' bottom line. Researchers have demonstrated a link between financial stress and days of work missed; in addition, financially stressed workers tend to spend more time at work handling personal finances.¹⁵ One study found that 15 percent of American workers experience financial stress to such a degree that it impacts their productivity.¹⁶ Another study found that financial stress is significantly linked to personal and work satisfaction.¹⁷ Workers with low levels of financial stress tend to miss work less and are more productive while at work.

Offer a retirement plan to improve employee financial security. Offering a retirement plan can be one of the most challenging, yet rewarding, decisions an employer can make. The employees participating in the plan, their beneficiaries, and the employer benefit when a retirement plan is in place. Administering a plan and managing its assets, however, require certain actions and involve specific responsibilities. To meet their responsibilities as plan sponsors, employers need to understand some basic rules, specifically the Employee Retirement Income Security Act (ERISA). ERISA sets standards of conduct for those who manage an employee benefit plan and its assets (called fiduciaries). For more information, see the U.S. Department of Labor's publication entitled [Meeting Your Fiduciary Responsibilities](#).

As employers play a critical role in helping people improve their financial capability, the goal of this guide is to inspire businesses and corporations to serve as a trusted delivery point for financial education and related benefits. The resources provided are intended to serve as examples, not exhaustive lists or endorsements, of those currently available.

While we do not have all the answers, significant research has illuminated effective strategies and mechanisms to improve employee financial decision-making. We therefore offer a roadmap to help employers create financial capability initiatives with specific guidance in four key areas:

- Payroll & Benefits
- Education & Training
- Marketing & Communication
- Measuring Impact & Reporting Results

STEP 1: Assess Your Company's Efforts to Promote Financial Capability

Use the Employer Checklist (page 12) to begin assessing company efforts to empower employees to make positive financial decisions.

STEP 2: Articulate Specific Measureable Goals and Identify Related Metrics

- What are your goals related to a 401(k) or equivalent plan (e.g., to increase participation, raise contributions rates, support sound investing and achievement of retirement income security)?
- What are your most important goals related to the overall financial well-being of employees (e.g. credit card debt, investments, financial stress level, etc.)?
- As an employer, how do chosen financial wellness goals relate to an overall strategy for worker productivity, attracting and retaining talent?
- What specific metrics relate to your overarching financial capability goals?

The following is a sample, non-comprehensive list of example goals and metrics:

- Every employee will participate in our retirement savings plan, contributing a minimum of 3% of pay by 20XX.
- By 20XX, employees that retire from our company will feel and be more financially secure.
- By 20XX, every parenting employee will have dedicated savings accounts for college for his or her children.
- Every employee who faces major life events, such as buying a home or expecting a child, will receive unbiased, affordable personalized one-on-one financial counseling or other effective financial planning support by 20XX.

STEP 3: Introduce Effective Mechanisms Related to Payroll & Benefits

Proven mechanisms can help drive behavioral change. Studies have documented that it is human nature to be overwhelmed by complex decision-making and put off long-term benefits for short-term gain.¹⁸ Financial decisions about retirement saving, investments, and insurance are no different. However, several strategies are proven to help drive behavior change.

❖ Learn from examples of exemplar employee benefit programs.

Resources to support these types of efforts can be found at:

- [Employee Benefit Research Institute](#) provides information about employee benefits programs and public policy.
- Learn about your options for providing a retirement savings plan at [choosingaretirementsolution.org](#) or [retirementmadesimpler.org](#)

❖ Introduce effective mechanisms to promote participation in retirement savings.¹⁹

- **Defined Benefit Pension Plans:** These plans automatically cover all eligible employees, and, by relying on professionally pooled investment management and by pooling longevity risk, efficiently and effectively deliver retirement security. Backed by government guarantees, the plans can provide secure retirement income for life.
- **Defined Contribution Savings Plans:** These plans can also deliver retirement security, especially if designed to promote participation, adequate contributions, sound investing, and efficient translation of savings into retirement income.
- **Auto-Enrollment and Company Matching:** Too many employees fail to participate or save enough in available 401(k) plans. Employers can help bring workers into the retirement saving universe by assisting employees to overcome administrative barriers to saving. Automatic enrollment in retirement savings accounts has a material impact on the participation rate on new hires, with one prominent study estimating that automatic enrollment increases new hire participation in 401(k) plans by 38.5 percentage points.²⁰

Key questions to answer during this process are:

- Will you offer automatic enrollment to all employees or just new hires? What about part-time workers?
 - Will you offer a company match? If so, at what rate?
 - When will you allow employees to change their participation?
 - How will you ensure transparency in the process?
- **Default Contribution Rate:** Employees who are automatically enrolled in a workplace retirement savings plan typically maintain the default contribution rate, making the employer's decision about the default contribution rate all the more important. Studies have shown that the primary effect of selecting a higher default contribution rate is to increase contributions and that a high default contribution rate has little impact on participation.²¹

Key questions to answer during this process are:

- Understanding that the research suggests that a high default contribution rate has little impact on participation,²² what rate will the company set as the default during auto-enrollment?
- At what times will you allow employees to change the rate at which they contribute?
- Will you vary the default based on employee factors such as years to retirement?
- How will you ensure transparency in the process?

❖ Introduce effective mechanisms to grow retirement savings appropriately.²³

- **Automatic Escalation:** Automatic escalation of a retirement plan is beneficial because it increases employee contribution to the retirement plan by automatically increasing the proportion saved over time or from annual salary increases and/or promotions. Auto-escalation of savings can be expected to increase employee retirement saving contributions, especially for low-income workers. One study estimates that the automatic escalation feature

may increase overall 401(k) accumulations by 11-28% in the lowest income quartile and 5-12% for those in the highest income quartile.²⁴ This approach helps overcome the downsides related to the initial lower contribution rate.

- **Default Investment Fund:** Just as employees typically maintain the default contribution rate, employees often keep their contributions invested in the default portfolio investment fund. Employers can help workers grow their retirement contributions over time by selecting a default investment fund with appropriate risk for each employee.
- **Consider instituting low-cost target date funds (TDFs), which account for varying levels of employee risk.**²⁵

A TDF is an investment fund that automatically resets the asset mix (stocks, bonds, and cash equivalents) in its portfolio according to a predetermined path over a selected time frame. Participants may hold on to the investment as part of their retirement savings portfolio after they retire, but the investment's name typically includes a year at or near when people investing are expecting to retire. A TDF for an older worker about to retire (such as a "2015 Fund") would typically have a lower percentage of equities in its asset mix and more bonds or cash equivalents (considered a less risky portfolio), while a TDF for a younger worker (such as a "2060 Fund") will have a higher percentage of equities and less bonds or cash equivalents (considered a higher risk portfolio).

The Pension Protection Act of 2006 instituted safeguards for employers who select TDFs as default investments for employees. A growing number of recently hired participants in 401(k) retirement plans—particularly those in their 20's— are investing in target-date funds (TDFs), according to an analysis by the Employee Benefit Research Institute (EBRI). In 2006, 28.3% of recently hired (those with two or fewer years of tenure) 401(k) participants held TDFs, and as of 2010 it has risen to 47.6% according to EBRI.

The Employee Benefit Security Administration of the U.S. Department of Labor has guidance on default investments, [target date funds](#), and related disclosures for workers in 401(k) plans.

- **Consider offering annuities or other mechanisms that help workers translate savings balances into secure retirement income streams.** As life expectancies and retirement periods lengthen, Americans are increasingly confronting the risk of outliving their assets in retirement. Managing this risk is a challenge. While we know average life expectancies, it is impossible for individuals to know how long they will live. As a result, many retirees risk outliving their savings or unnecessarily limiting their spending in retirement because of the fear of outliving their savings. Women are especially exposed to this risk. Traditionally, a guaranteed and predictable stream of lifetime income, such as a defined benefit pension, has helped to attenuate this risk, for both men and women. Lifetime income could also be provided by an annuity purchased through a 401(k) or IRA.

❖ **Introduce effective mechanisms to link employees to federally-insured financial institutions.**

- **Paper Free Checking with Direct Deposit:** Employers that offer direct deposit with federally-insured financial institutions can help their employees build a relationship with a financial institution that is advantageous in regards to borrowing and decreasing the pressure or need to borrow against the company pensions. Being a customer of a federally insured financial

institution makes it possible to utilize their financial services, such as IRA or other saving instruments that can further help employees save for retirement. Direct deposit also often provides employees with benefits such as free checking accounts and lower minimum balances. It is also safer because it removes the risk of the check getting lost in the mail, while simultaneously reducing an employer's administrative costs.

STEP 3: Initiate Financial Education & Training Efforts

Many individual financial decisions—for example, choice of health care benefits and retirement planning—are made with employer assistance. Accordingly, employers are in a unique position to understand how and why employees make financial decisions and to provide guidance.

❖ **Develop a financial health assessment that will enable employers and employees to design a customized benefit plan.**

Employees will be able to utilize an assessment to make them better prepared to deal with their personal finances going forward, which can help make them reduce financial stress in the long run.

❖ **Identify and engage strong external partners that share your stated goals of promoting financial capability.**

Consider:

- Non-profit and community organizations;
- Faith-based organizations;
- Local/state/federal government;
- Financial institutions; and
- Educational institutions that can support research and evaluation efforts.

\$tand By Me

An example of how business, government and nonprofits can work together, \$tand By Me is a partnership between the State of Delaware, United Way, and local employers to provide one-on-one financial coaching in participating Delaware workplaces. \$tand By Me financial empowerment centers are co-located within public agencies, non-profit organizations, and businesses who embrace shared goals of reaching and serving Delawareans who want to take charge of their financial future.

❖ **Provide financial information and training about the company's benefits and financial education topics like budgeting, saving, borrowing, and protecting one's identity and investments.**

Resources to support these types of efforts can be found at:

- [Society for Human Resources Management / American Institute of Certified Public Accountants – Workplace Leaders in Financial Education Award](#)
- [NYSE / Financial Literacy Center Workplace Financial Fitness Kit](#)
- [National Endowment for Financial Education Financial Workshops](#)
- [Savings Fitness: A Guide to Your Money and Financial Future](#) and [Taking the Mystery Out of Retirement Planning](#) from the U.S. Department of Labor

Examples of financial education topics include:

- Your Financial Fingerprint: Understanding Personal Financial Data
- Managing Cash Flow
- Planning for Taxes
- Making Retirement a Reality
- Maximizing Company Benefits
- Understanding Inflation
- Buying a Home
- Supporting Elderly Parents
- Making Major Purchases
- Choosing Investments Wisely²⁶

❖ Get creative.

While effectively delivered seminars and workshops can significantly improve financial decision-making,²⁷ research also indicates individuals respond to new, innovative strategies to deliver key financial lessons.

Staples

Staples has partnered with Doorways to Dreams Fund (D2D) to create—“Staples” Bite Club-- a financial education game that encourages employees to improve their retirement savings. Staples chose to use D2D’s *Bite Club*, a vampire game, in order to appeal to hourly retail employees as well as employees newly eligible for the 401(k) plan. This innovative approach engages employees using the cutting-edge game frame to improve personal financial capability, self-confidence and knowledge. In 2012, Staples won an Eddy Award from *Pensions and Investments* for its use of video games to make retirement saving, budgeting and planning fun.

❖ Customize your approach to meet the needs of your employees.

- **Customize benefits:** An increasing number of potential employees are giving significant weight to the employee benefits offered by an employer. Customized employee benefits can attract and retain talent. Employee retention is positively influenced by customized benefits packages, as employees will not want to lose their customized benefits. Customization also increases employee appreciation of company benefits.
- **Develop high quality and low cost benefit plans:** Use new [service provider fee transparency requirements](#) issued by the U.S. Department of Labor on pension plan service provider fees and investment expenses to help develop high quality and low cost pension and 401(k) plans for employees.
- **Tailor communication:** Evidence indicates that employee subgroups, such as the young, women, and near-retirement employees, benefit from communication or programs that are specifically designed for them.
- **Factor in major life events:** Evidence shows that as employees undergo major life transitions, such as the birth of a child, the death of family member, or higher education investment employees can show less productivity due to stress and adjustment. Specific information and counseling around life events can foster smoother transitions during an employee’s career.

- **Involve employees:** Employers and educators should formally and informally ask employees about the financial tools and benefits that interest them, and then design tailor-made programs for their employees.

STEP 4: Create a Robust Marketing & Communication Strategy

❖ **Craft specific and targeted messaging that is relevant to employees and integrates financial wellness into an overall employee wellness strategy.**

Research shows that the employers that have been most successful at increasing their firm's employee participation rate did so by crafting specific and targeted messaging that would be relevant to the audience and integrated financial wellness into an overall employee wellness strategy that may include physical and mental health. The financial needs of employees vary greatly depending on their life stage. As a result, it is imperative to use marketing strategies that will resonate with the target audience, increasing the probability of participation in a program.

❖ **Encourage executives and managers to communicate a coordinated message about financial well-being.**

It is imperative to get buy-in from senior leadership to establish a financial education program. Irma Marias, an FDIC Community Affairs Specialist, says, "A workshop can help draw attention to the availability of financial education workshops and show their importance."²⁸

STEP 5: Measure Impact and Report Results

❖ **Identify financial impact data to collect.**²⁹

Utilizing your measurable goals (established in Step 2) to determine what data is relevant to the employer's key stakeholders.

Examples are:

- Federal Insurance Contribution Act (FICA) expenses
- Flexible spending account (FSA) participation
- Worker productivity
- Financial security of retirement-eligible employees
- Survey data regarding credit card debt and monthly payment behaviors

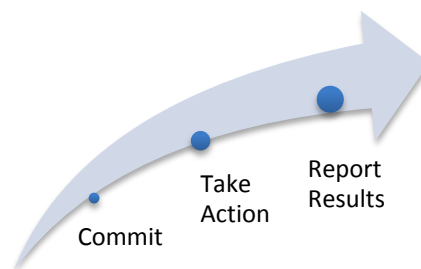
❖ **Gather the financial impact data and conduct an impact analysis.**

Most data can be obtained from the compensation and benefits department. When data is difficult to collect, make reasonable estimates and be prepared to explain your reasoning and assumptions.

Employer Checklist

Payroll & Benefits

- ❑ **Offer improved retirement saving incentives**, such as a company match on 401(k) contributions.
- ❑ **Lower barriers to retirement saving** by adopting auto-enrollment, with pro-saving features such as auto-escalation of contributions, and auto-investment in default target-date funds.
- ❑ **Help employees access financial services** by referring them to appropriately vetted institutions.
- ❑ **Offer workers a direct deposit feature** to help qualify employees for other benefits such as a free checking account or a lower minimum balance.
- ❑ **Negotiate preferred pricing** for third party goods and services, such as phone services, hotels, and rental cars.



Education & Training

- ❑ **Design and offer a financial health assessment** that allows employees to assess their financial condition.
- ❑ **Offer courses and seminars in the basics of financial management**, focused on such topics as budgeting, saving, debt management, insurance, investing, and retirement planning.
- ❑ **Develop customized financial tools and investment education** for employees to individualize their retirement plans.
- ❑ **Inform and educate employees about potential tax-related benefits**, such as the Child and Dependent Care tax credit.

Marketing & Communications

- ❑ **Create an internal communication strategy** that actively encourages employees to take advantage of company-sponsored financial capability tools.
- ❑ **Engage employees' families** to ensure lasting change in financial habits.
- ❑ **Facilitate peer-to-peer sharing** of financial management tips.
- ❑ **Deliver targeted financial information on employee milestones**, such as birthdays, employment anniversaries, or changes in family status.
- ❑ **Encourage executives and managers to communicate with employees** about the value of financial capability tools.

Report Results

- ❑ **Set specific, measurable goals** for employee financial capability and frequently track employees' progress, providing assessments at least annually.
- ❑ **Dedicate staff and budget** resources to tracking results.

Appendix of Resources: Employers

- **Employee Benefit Research Institute**, Resources to support the development of sound employee benefits programs and public policy: www.ebri.org
- **Internal Revenue Service Retirement: IRS.gov/retirement**
Online resources on choosing and maintaining retirement plans, including pension, profit-sharing, and 401(k) plans, 403(b) annuities, and IRAs, for plan sponsors, practitioners, and individuals.
- **National Endowment for Financial Education**, Resources on how to plan and deliver financial workshops financialworkshopkits.org
- **National Endowment for Financial Education**, Beginner's guide to financial readiness: smartaboutmoney.org
- **NYSE / Financial Literacy Center Workplace Financial Fitness Kit**, Online resources for employers and employees: nyse.nyx.com/financial-fitness-kit
- **Retirement resources** for employees: myretirementpaycheck.org
- **Society for Human Resources Management /American Institute of Certified Public Accountants Workplace Leaders in Financial Education Award**, recognizing companies and institutions for exemplary financial literacy efforts: <http://www.wlife.org>
- **\$tand by Me - Delaware**, A partnership between the State of Delaware, United Way, and local employers providing 1:1 financial coaching in participating Delaware workplaces: standbymede.org
- **U.S. Department of Labor "Savings Matters,"** Online resources to help employees, regardless of age or career, understand retirement savings options and to help employers, whether a large company or small business, with questions about options as well as employer responsibilities: <http://www.savingmatters.dol.gov/>
- **U.S. Department of Labor and SEC Guidance on Target Date Funds:** <http://www.dol.gov/ebsa/pdf/TDFinvestorbulletin.pdf>.

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