Financial Counseling: Analysis of an Underrated Fringe Benefit

John M. Strefeler

Jeanne M. Hilton

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By John M. Strefeler and Jeanne M. Hilton

Fringe benefits are an important component of employee compensation, as evidenced by the increase in these benefits during the last half of the twentieth century. According to the U.S. Chamber of Commerce, fringe benefits accounted for only 3% of payroll in 1929, but grew to 26% in 1971 and composed 34% of payroll in 1984 (Lissy, May 1986, p. 70). The growth of fringe benefits has been manifested not only in the absolute size of these benefits, but also in their increased variety. Noncash compensation such as child care facilities, drug and alcohol counseling, and physical fitness programs have become increasingly available to the American workforce. Sophistication and flexibility are frequently introduced in the form of cafeteria plans, whereby employees are permitted to "roll their own" by choosing the benefits they wish from an available menu.

Financial planning is one of the most desired executive perks and is one which is increasingly being offered (Breitbard, 1984, p. 66). At the same time, personal financial counseling for the rank-and-file employee appears to be a forgotten and severely underutilized benefit.

The purposes of this article are: to distinguish between personal financial planning and personal financial counseling, to establish the need for personal financial counseling as a part of the employee benefit package, to indicate the relationship of personal financial counseling to productivity (e.g., benefits to the employer), and to suggest guidelines for developing a financial counseling program.

Financial Counseling Versus Financial Planning

While financial planning and financial counseling are frequently regarded as synonymous terms, it is important that the functions of the counselor be distinguished from those of the planner. Financial planners and counselors provide different professional services and address different types of client problems and objectives (Mason and Poduska, 1986, pp. 142-147).

The common link between personal financial planners and personal financial counselors is that competency in each field involves helping clients to successfully gain control of their financial affairs. While financial planners are oriented toward upper-income clients who require sophisticated and specialized economic planning, financial counselors focus upon short-term problem solving with clients primarily in the middle-or lower-income classes (although upper-income families are not immune to these problems). Thus, the services of a financial counselor are more basic and general than those of a financial planner and are as much focused on social, managerial, and educational processes as on economics. Such services would be more directed toward the rank-and-file employee.

The General Case for Personal Financial Counseling

The trend toward employee wellness packages includes counseling programs in substance abuse, training programs for parents, and physical fitness programs (Lissy, March 1986, pp. 70-74). Economic security through personal financial fitness is one aspect of such employee wellness, with the explosive growth of personal financial planning services providing striking evidence of its importance. Ironically, however, financial counseling is a service which is difficult to deliver through the marketplace. Those who need it the most can least afford to pay for the service.

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The business community has developed a growing awareness of the impact of family problems on worker productivity; increasingly it is responding to the personal and family needs of its work force by promoting employee fitness programs. Such efforts to deal with the causes of stress are consistent with the recommendation of Senatra, whose study endorsed eliminating the cause over coping with the effects in the area of job stress (1988, p. 15). Counseling programs in drug and alcohol abuse have become more common as a means of promoting efficiency. Parent training programs and physical fitness programs are also emerging. It seems only natural that financial fitness programs be added to social and physical fitness programs as a part of the comprehensive employee wellness package.

The economic environment in which employees must operate adds support to the need to include fiscal health as a part of overall wellness programs. Changes in the contemporary American economy indicate that increasingly complex financial decisions must be made by the average individual. For example, studies show that private fringe benefits are increasing at a faster pace than public benefits and that current benefits (such as health care) have decreased while future benefits (such as retirement) have increased (Chen, 1981, pp. 5,6). These trends provide evidence that responsibility for personal well-being is shifting back to the individual.

Cost-sharing by employees with regard to fringe benefits is another example of a trend calling for personal budgeting skills. This may take the form of a splitting of the original cost of a fringe benefit, such as the premium for life insurance protection. It may also be exhibited in benefit adjustments, as when the deductible is increased on a health insurance policy. In either situation, the cost-sharing represents an impact on the cash available for other purposes and thus is an additional factor which must be taken into account in family financial management.

Cost/Benefit Analysis

Of all fringe benefits, personal financial counseling is one of the most flexible in the sense that it can benefit all employees, regardless of their circumstances. It has the advantage of providing benefits to employees at a lower cost to the employer than employees would have to pay to obtain them on their own.

The benefits to the employer are derived from reducing employee stress. This is significant since severe stress may lead to problems such as physical illness (Smith, Stewart, and Everly, 1989, p. 26). "Financial counselors understand that financial problems are often both the cause and the effect of other problems are often both the cause and the effect of other problems in the household, such as depression, alcoholism, suicide, and divorce" (Mason and Poduska, 1986, p. 145). Stress engendered by financial difficulties can cause many repercussions which impact upon the level of one's work performance. These include poor concentration, fatigue, depression, accident-proneness, headaches, erratic behavior, alcoholism, drug addiction, stroke, and heart disease (Figler, 1980, p. 23). Any program which reduces employee stress levels, by contrast, makes more energy available for job productivity.

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We advocate financial counseling programs as a means of building employer goodwill and raising employee morale. It should be valued not only by the direct participants who benefit, but also by other employees who will benefit indirectly from financial assistance which is provided to their co-workers. Since problems such as employee theft, work related accidents, interpersonal conflict, and lowered productivity are often the result of low employee morale, everyone benefits when morale is improved.

Tangible results from a program of personal financial counseling may take many forms. These include increased productivity, reduced white collar crime, reduced turnover, and reduced absenteeism.

Increasing the general satisfaction of an employee by relieving financial stress should reduce turnover, which would mean retaining the benefits of the substantial training invested in that worker. Recruiting costs and unemployment insurance costs are expenses which could be minimized through retention of workers who would otherwise leave. The greatest benefit, however, might well be realized in the reduction of white collar crime. These crimes, principally embezzlement and employee theft, can be a significant cost of doing business.

Law enforcement professionals emphasize that crimes occur when there is both a motive and an opportunity. Prevention of white collar crime has historically focused on reduction of opportunity, with accountants attending to the implementation and operation of appropriate systems of internal control. Motivation, by contrast, is largely ignored except for the use of limited procedures, such as polygraph tests, which attempt to identify personal predisposition. Public concern for preservation of the individual's right to privacy discourages such approaches.

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Who are the white collar criminals? "People who feel that money, goods, and opportunities are denied them or placed beyond their reach by economic conditions more easily rationalize illegal acts which relieve their problems or resolve their conflicts" (Romney, Albrecht and Cherrington, 1980, p. 52). Therefore, motivation to commit white collar crime can be curbed by relieving the situational pressures which produce these conditions. Financial counselors may be able to identify causative issues such as excessive debt, unrealistic personal or family expectations, speculative financial investment, or destructive habits involving gambling, alcohol, or drugs. Counselors may then deal with those problems for which they have the professional skill and make professional referrals for problems beyond their areas of expertise.

The benefits that a particular enterprise will derive from a program of financial counseling will depend on numerous factors, including the composition and demographic characteristics of the employees. Indicators of need for a program would include the number of sick days compared to the national average, evidence of employee theft from the business, and other evidence of low employee morale. Identification of the benefits which may be derived may be more obvious if a needs assessment analysis and pilot program are instituted for employees.

Likewise, cost will vary from company to company based upon the degree of need and use by a particular set of employees. Cost will also vary over time within the same firm due to such factors as the state of the economy. The relative burden of the cost will differ among firms based upon size and labor intensity, with smaller firms having a greater impact because of he threshold of fixed costs involved to maintain a minimum program.

Guidelines for Developing a Financial Counseling Program

Several issues need to be addressed in implementing a financial counseling program. These issues include choices between individual and group counseling and internal versus external programs. Other concerns include choices between individual and group counseling and internal versus external programs. Other concerns include selling the program to employees, providing confidentiality and procuring feedback on the effectiveness of the program.

If the scope of an employee financial counseling program is to be limited to group counseling, then topic selection for the seminar sessions becomes critical. The seminars must, of course, focus upon areas of interest which are of concern to a broad-based cross section of employees. For example, a session on budgeting to live on a pension would probably not be appealing to a work force largely composed of members under age 35.

It is also important that seminar leaders take care not to preach or intimidate. They need to avoid giving a technical presentation of intricate rules and regulations since the participants are not expected to achieve technical expertise. Rather, there should be a premium on practical advice that is understandable and can be quickly implemented. The seminar leader will need to target upon the "how to" aspects of the subject in order to promote confidence and a sense of independence on the part of the participants. Otherwise, stress and confusion may result.

Even if a seminar format is employed, it is still a good idea to provide individual follow-up sessions. These permit participants to clear up misconceptions and points of confusion, as well as allow employees to ask questions which are tailored to their own circumstances. This step may be very important in helping them to implement the concepts of the seminars. Coordination with the personnel office could facilitate paperwork matters, such as changing W-4 exemptions claimed for withholding or altering credit union allocations. If necessary, the individualized sessions could be limited (e.g., 2 or 3 hours per employee) or extended individualized sessions could be offered to the employee with a co-payment financial arrangement.

Personal financial counseling may be offered either internally (on-site by personnel in employee status) or externally (through an arrangement with an independent contractor). A possible compromise may be to have an independent contractor come to the business site.

One of several advantages of an internal financial counseling program is that the program can be tailored to the needs of the employees and the desires of the company. A second advantage is the ease of access to the services for the employees. An external program, by contrast, may

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discourage participation because of the inconvenience of traveling to a location remote from the business.

A third advantage is that an internal program provides tangible evidence of the commitment of the company to the program. Again, this factor may induce greater participation by the employees. A caution about an external program, however noble the motive, is that unless the program is carefully promoted, there may be a low participation rate due

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to lack of perceived employer commitment.

Careful consideration might be given to having an internal program with contracted independent counselors. Some employees may feel more secure about the confidentiality of their counseling sessions if the counselor is not a salaried employee of the company.

Selling the Program

Once the company has identified the benefits which it wishes to provide and has designed the structure of the program, proper communication becomes critical. This means, for example, that program publicity should not offend the individual's sense of personal dignity by characterizing participants as people who are unable to cope with problems.

Also, the operation of the plan needs to be explained in a fashion which encourages participation. Initial notification should perhaps be in the form of a detailed letter to each employee including an example of the steps in the financial counseling process. This letter would be followed by group meetings to answer questions and to provide additional detailed orientation. Finally, seminars and individual meetings would be scheduled to conduct the actual counseling.

One problem which you need to be sensitive to when implementing a financial counseling program is that employees may be hesitant to share financial information in an employer-sponsored program. It is imperative to assure confidentiality. While the program is provided through company sponsorship and any billing for services would be sent to the company, the details regarding services rendered should not be specified to the employer. By contrast, the employee should receive memorandum notification which delineates both the work performed and the cost to the firm.

Evaluating the Program

It may be speculated that personal financial counseling is an underutilized fringe benefit because the benefits are difficult to document. Where formal analysis of the effect of financial counseling on productivity is not possible, it may still be useful to obtain feedback from participating employees. Immediate feedback can be solicited at the end of a seminar or counseling session by having the participant(s) complete an evaluation form. Several months later, a followup questionnaire could be used to inquire as to the continued results of program activities.

Concluding Thoughts

Businesses need to consider the potential of personal financial counseling as a cost-effective fringe benefit. As with other fringe benefits, organizational goals and specific needs determine the existence and nature of any company-sponsored personal financial counseling program.

Personal financial counseling, like personal financial planning, is a fringe benefit which enhances other fringe benefits, especially in the context of a cafeteria plan. For participating employees, the actual or perceived value of the cash and noncash compensation may substantially outweigh the additional employer expense. For the employer, providing financial counseling as a part of the benefit package may improve employee morale and pay satisfaction, thereby leading to enhanced productivity and a decline in personnel turnover.

John M. Strefeler, *CMA, Ph.D., is associate professor in the department of Accounting and Computer Information Systems at the University of Nevada-Reno. He is a member of the AAA, the American Taxation Association, and the National Tax Association - Tax Institute of America.*

Jeanne M. Hilton, *Ph.D., is assistant professor of Family Economics and Management in the Department of Human Development and Family Studies at the University of Nevada-Reno. One of her areas of research specialization is family financial management. She holds a Ph.D. degree in Family Resource Management from Oregon State University.*

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