

## **Broken Promises: Helping Employees Cope with Income Losses and Benefit Reductions**

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### **Key Words**

Personal finance, employee benefits, workplace financial education, health insurance, pensions

### **Target Audience**

Financial educators who conduct media outreach efforts and/or personal finance seminars for employees

### **Objectives/Purpose**

To describe the content/format of a program for employees who have experienced income losses and/or benefit cutbacks

### **Content/Description**

A recurring theme in the news during the past few years is the erosion of structures that people used to depend on (e.g., pensions and health insurance) resulting in greater financial insecurity. In the wake of the Great Recession, increasing numbers of public employee benefit plans have been overhauled as state and local governments and school boards realize that previously-promised benefits are unsustainable and/or unaffordable. Defined benefit (DB) pensions with annual cost-of-living adjustments (COLAs) and generous “high-three” average salary benefit formulas are increasingly under attack and are predicted to continue to erode. Ditto for employee (and retiree, if available) health insurance coverage, which increasingly costs more for premiums, deductibles, and copayments.

Like private sector workers over the past few decades, public employees are increasingly learning in the decade of the 2010s that they can't count on wage agreements and benefits in their current labor contract, not to mention promises that were made years ago when they were originally hired. Expected job-related compensation is increasingly subject to change. For example, some state/local governments are phasing out DB pensions and replacing them with 401(k)-style defined contribution plans. Other public sector employers have suspended or repealed retirement benefit COLAs for current and/or future retirees. While recent media reports have covered angry protests directed toward public employees whose pension and health insurance benefit packages lasted longer than most in the private sector, the real issue is that workers in both public *and* private sector jobs have lost critical pillars of financial planning support that they thought they could count on.

In this era of broken promises, financial educators and practitioners will be increasingly be asked by students and clients who have lost previously promised benefits to provide assistance with re-planning careers and retirements with reduced employer support. If clients don't adjust to their new economic realities (e.g., lower incomes and/or reduced benefits), they run the risk of accumulating debt, setting aside inadequate savings, and outliving retirement assets. . Some of those who lost income and/or benefits may be actively grieving the loss of a living standard that has changed for the worse, perhaps permanently. Thus, understanding how the grief process applies to the receipt of “bad financial news” is useful. The model developed by Kubler-Ross includes five stages: Denial, Anger, Bargaining, Depression, and Acceptance.

This workshop will describe an educational program that presents specific strategies to achieve financial security when income and benefits are reduced; i.e., to mitigate the impact of broken promises. The program is being presented throughout 2012 to public sector workers who are experiencing benefit cost increases and subsequent net income reductions. Financial planning strategies to cope with “broken promises” include: work longer, “retire” while working, accelerate debt repayment, save the shortfall, consider career changes and/or freelancing, consider investing more aggressively, control investment expenses, spend less and shop savvy, investigate new benefit alternatives, and define “success” differently. The workshop also describes events and activities that people can and cannot control.

This program begins with an overview of recent economic trends and the “new normal” that is affecting virtually every U.S. household in at least one way (e.g., declining housing values, stagnant wages, high unemployment, and broken promises). The Kubler-Ross grief model is introduced as a “lens” for financial educators to understand the impact of “broken promises” (e.g., reductions in promised income and benefits) upon the emotional and financial well-being of adult learners. The remainder of the presentation describes a “menu” of strategies to cope with income losses and benefit reductions in this era of “broken promises.” Since most EFERMA members are university or Cooperative Extension faculty members and, hence, public employees, the content should prove useful for personal, as well as professional, application.

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