Improving Employees' Financial Wellness: Why It Matters And What Employers Can Do About It

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Executive Summary

Financial wellness has become a popular topic in the media. Many companies are looking for ways to help their financially stressed employees, not just because it's the right thing to do, but because it makes sense for business. Research has shown that financial stress and its impact on employees can result in significant costs to businesses. While most companies are realizing the need to do something, many decision makers aren't sure where to start or what criteria to use in choosing the financial wellness solution that best fits their needs.

The impact of employee financial stress on employers

Multiple national surveys have documented that the number of employees experiencing financial stress is increasing. This white paper presents an overview of the research literature related to financial stress, how it can affect employee productivity, and real world data regarding the estimated costs to businesses when financially stressed employees are left to struggle on their own. Absenteeism, presenteeism, turnover, and health-related costs can all contribute to reduced employee productivity, and these hidden costs can seriously impact business profitability. Some experts estimate that these combined costs can total as much as 15% to 20% of a company's total compensation paid to its employees. Reducing these events and their associated costs even by 5% to 10% can result in considerable cost avoidance and cost savings, improved productivity, and increased profitability.

What businesses can do about it

As many solution providers seek to jump on the financial wellness bandwagon, choices among web-based financial wellness solutions are proliferating. Not all of these offer authentic and effective solutions; some offer little more than a webinar along with a calculator or two. An authentic and effective solution provides more than just education to improve employees' financial literacy—it should also promote behavioral change for employees. Research has demonstrated that education alone is not enough to change behavior when it comes to personal finance. Resources to assist decision makers in selecting a financial wellness program are included.

Choosing and implementing an authentic, effective financial wellness solution that is the best fit for both employers and employees is a win-win: when employees have a greater sense of choice and control over their personal finances, they are happier, more productive, and more likely to stay. It's good for business.

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Introduction

Financial wellness, especially the lack of it, and its impact on employee productivity is a topic that has been researched by academic financial planning experts for more than 20 years.[1, 2] Only recently has the news that employees' financial stress is resulting in significant costs to employers been making headlines in HR and benefits management publications.[3, 4]

This white paper presents an overview of the research literature related to financial stress, how it can affect employee productivity, and the documented costs to businesses when financially stressed employees are left to struggle on their own. Absenteeism, presenteeism, turnover, and health-related costs can all contribute to reduced employee productivity, and these hidden costs can seriously impact business profitability. A guide that decision makers can use in selecting the most appropriate financial wellness solution to improve employees' level of financial wellness is also included.

The bottom line is that employees are more stressed about their finances than employers realize—and it's costing them millions. The good news is that employers can take action to help their people gain a greater sense of choice and control over their finances. Doing the right thing for employees can also boost a company's productivity and profitability.

The Problem

What is financial stress?

The concept of financial stress and how to measure it has been of interest to academics since the 1980s.[5] While early studies focused on easily determined objective measures such as income, assets, and liabilities, researchers soon realized that people with the same objective level of income could experience very different levels of stress, based on the individual perception of the adequacy of one's current financial situation relative to present needs and future goals. In 2003, Kim and Garman[6] defined financial stress as the subjective assessment of one's financial condition, including one's perceived ability to meet expenses, satisfaction with the financial condition and one's level of savings and investment, and worry about debt.

How stressed are employees about their finances?

Several recent surveys conducted by different organizations have consistently documented that American workers across all demographic groups are experiencing increased levels of financial stress. In spite of an overall economic recovery following the Great Recession of 2008, workers at all income levels are struggling. Estimates of the number of employees living paycheck to paycheck range from 52% up to 76%.[7, 8] More recently, Bankrate found that 63% of Americans are unable to handle a $500 unexpected car repair or $1,000 emergency room bill, a result that has been widely publicized.[9]

The Problem

According to the 2016 PricewaterhouseCooper (PwC) annual Employee Financial Wellness Survey, conducted using a representative sample of 1600 full-time employed US workers, over half of the employees surveyed—52%—reported experiencing financial stress. Forty-five percent reported that their financial stress had increased over the previous year. Millennials (age 21-34) were the largest group reporting stress over financial matters at 51%, compared to older workers.[8] More recently, the 2017 PwC survey found that 42% of all employees surveyed have difficulty meeting household expenses on time every month, with those in the Millennial (41%) and Gen X (50%) age groups reporting the highest percentages.[10]

Following decreased federal and state support for higher education combined with massive increases in college tuition over the past three decades, many workers of all ages now carry high levels of student loan debt. Nationally, student loan debt exceeded credit card debt in 2010, auto loans in 2011, and passed the $1 trillion mark in 2012.

According to financial aid expert Mark Kantrowitz: "Students who graduate with excessive debt are about 10% more likely to say that it caused delays in major life events, such as buying a home, getting married, or having children. They are also about 20% more likely to say that their debt influenced their employment plans, causing them to take a job outside their field, to work more than they desired, or to work more than one job."[11]

> "42% of all employees surveyed have difficulty meeting household expenses on time every month with those in the Millennial (41%) and Gen X (50%) age groups reporting the highest percentages."

Similarly, compared to those with manageable debt, they are more likely to be stressed about their finances (81% vs. 45%), have difficulty meeting household expenses each month (64% vs. 36%), and use credit cards to pay for monthly necessities they can't otherwise afford (57% vs. 28%). In addition, they are more likely to withdraw money from their retirement plans (51% vs. 23%) and to be distracted by their finances at work (55% vs. 23%).[10]

Consistent with these findings, the 2017 Mercer LLC survey "Inside Employees' Minds"™ asked 3,000 workers questions about the extent to which financial stress affected their work, and found that 62% of those who are already financially challenged list being able to pay monthly expenses as their biggest financial concern, even among people with an annual household income of $100,000 or more.[12] And 51% of those in the 2017 PwC survey regularly carry balances on their credit cards, an increase from 2016.[8, 10] Again, Millennials and Gen X report the biggest increase--70% of Millennials and 63% of Gen Xers consistently carry a credit card balance.[10]

76% of employees are living paycheck to paycheck.

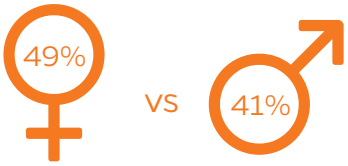
62% of employees say paying monthly expenses is their biggest financial concern.

51% of employees consistently carry balances on their credit cards.

The Problem

Compared to men (41%), more women (49%) report that financial matters cause them the most stress.[8] Women as a group also face greater financial challenges, especially in regards to saving for retirement, due to their longer average lifespan, taking time out of the workforce in response to caretaking responsibilities, working part-time without access to a workplace retirement plan, and wage inequality. According to a Money 2015 survey, one in three Americans have saved $0 for retirement. Women are 27% more likely to be in that group, and 63% more likely to have less than $10,000 saved for retirement.[12]

Financial matters causing stress amoung genders



Speaking of retirement, while more than two thirds (69%) of employees now recognize that they hold the primary responsibility for funding their retirement, almost half (47%) have saved less than $50,000 for retirement; 44% plan to retire later than they had originally thought they would. Almost a quarter (24%) have borrowed against their retirement plans and 43% anticipate needing to do so in the future.[8] In 2017, these numbers increased to 30% and 44%, respectively. [10]

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The retirement crisis facing American workers has been well-documented in the popular media.[14] Although some critics believe that the direness of the situation may be exaggerated,[15] even those workers who plan to 'course correct' through working longer, reducing expenses, or turning a hobby into an income source may find this more difficult than expected. For example, while 75% of respondents in a recent Bank of America survey said they planned to work at least part-time in retirement,[16] the reality is quite different. Older employees may face unexpected health issues that make it difficult to find work, become responsible for taking care of a spouse or other family member, or encounter age discrimination despite having kept their skills up to date. According to the 2016 annual report from the Employee Benefit Research Institute, only 27% of retirees are employed, even on a part-time basis.[17] Clearly, when it comes to retirement planning, roughly half of American employees now have a responsibility that many of them are not equipped to bear or that they feel confident about.

The Reality Gap

While 75% of people plan to work at least part-time in retirement...

Only 27% of retirees are employed, even on a part-time basis.

So it's no wonder that workers are stressed about their finances. Financial literacy is necessary for people to make informed financial decisions and be able to act on those decisions. But after many years and multiple studies, researchers at George Washington University's Global Financial Literacy Center of Excellence concluded in a recent paper that financial illiteracy is widespread among the general population and particularly acute among specific demographic groups, such as women, the young and the old, and those with low educational attainment. Most individuals in the United States and in other countries cannot perform simple calculations and do not understand basic financial concepts such as interest compounding, the difference between nominal and real values, and risk diversification."[18]

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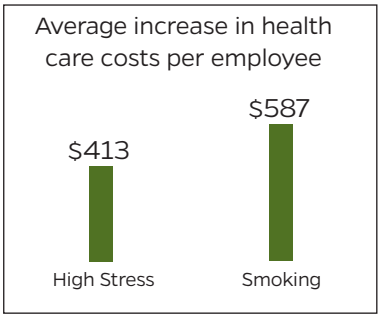
How does financial stress impact employees, and why should employers be concerned?

On an individual level, financial stress can take a personal toll of human suffering. For example, stress related to an individual's or family's financial situation may exacerbate a chronic medical condition like back pain. It can increase rates of smoking, alcohol use, overeating, or the risk of substance abuse as a means of coping with stress. It might even tempt a desperate employee to steal from an employer. Each of these situations can result in indirect and direct costs to employers.

Employees' personal financial stress can be a hidden drain on a company's profitability. A 2014 report by the Consumer Financial Protection Board[19] discusses research on the impact of financial stress at work. A study reported in *Health Affairs* found that average health care costs for highly stressed employees were increased by $413 compared to those with low stress. In contrast, smoking increased average health costs by $587—only 30% more. The CFPB concluded that employers may be paying a high cost for employee financial stress, but do not recognize it because a large portion of it shows up indirectly as a health care expense.



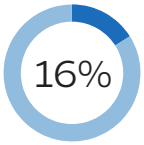
Academic researchers have studied the costs of absenteeism, presenteeism, and employee turnover specifically associated with employee financial stress, and have estimated these costs based on real world data. Absenteeism from work resulting from worrying about personal finances and employee turnover in particular represents a problem that has been well documented in the literature, and higher levels of financial stress are associated with higher levels of absenteeism, particularly among blue-collar workers.[2, 6, 20] A recent survey of over 5,000 US workers by the company Willis Towers Watson found that employees who are worried about their finances are absent on average for 3.5 days annually.[21]

Financially stressed employees are absent on average for 3.5 days annually.

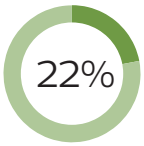
The Problem

One employer who has studied the cost of financial stress in depth is the United States Navy. In 1997, Luther, Leech, and Garman[22] found substantial direct and indirect costs due to servicemembers' financial worries that amounted to over $200 million annually, or $700 per person adjusted for inflation. For a company of 1,000 employees, that translates into a loss of $700,000 annually. In addition, service members' personal financial management difficulties caused the Navy to replace 2,919 personnel due to failure to re-enlist or loss of security clearance, costing $22,336 per person for a total of $65.2 million.

Financially troubled employees bring these concerns to work. The previously mentioned Mercer survey found that 16% of employees reported spending more than 20 working hours each month worrying about money. The average across those surveyed was 13 hours per month.[11] For an individual employee, that is equal to 7.8% of their annual work time spent being distracted as a result of their financial situation. Other estimates are even higher. Garman and colleagues peg financial presenteeism and absenteeism costs at 15-20% of total compensation paid to all employees in the businesses studied.[2] Similarly, a 2007 study by D'Abate and colleagues estimated the cost of presenteeism at $8,875 per employee.[23] The Mercer survey also found that 22 percent of employees report missing at least one day of work to handle financial problems, and a full 20 percent have had to resign from jobs due to financial stress.[12]



of employees reported spending more than 20 working hours each month worrying about money.



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When employees do separate from a company, the cost of replacing them can be considerable, particularly for those at mid- and upper-management levels. Recruitment, interviewing, screening, hiring, onboarding, and training all have associated costs that will vary according to each company. Then there is the cost of lost productivity—Josh Bersin at Bersin of Deloitte estimates that a new employee may take from 1-2 years to reach the same level of productivity as an existing employee.[24] According to researchers at the Center for American Progress, a conservative estimate of the replacement costs associated with both hourly and salaried positions are:

- 16% of annual salary for high-turnover, low-paying jobs (earning under $30,000 a year). For example, the cost to replace a $10/hour retail employee would be $3,328.
- 20% of annual salary for mid-range positions (earning $30,000 to $50,000 a year). For example, the cost to replace a $40k manager would be $8,000.
- Up to 213% of annual salary for highly educated executive positions. For example, the cost to replace a $100k CEO is $213,000.[25]

Employees are also starting to recognize that they need help with managing their finances, and are looking to the workplace to provide that help. A 2016 TIAA survey using a representative sample of adults nationally found that 75% of respondents admitted to be more likely to consider a job that offered free financial advice as part of a benefits package.[26] Providing financial wellness can be another way for companies to attract and retain talented employees, particularly Millennials.[10]

> “75% of employees are more likely to consider a job offering free financial advice as part of a benefits package.”

Can’t employers just provide education to help employees become more financially literate?

The answer is no. Financial education alone has been demonstrated to be completely inadequate. In a 2015 paper, researchers Daniel Fernandes, John G. Lynch, and Richard G. Netemeyer examined the relationship of financial literacy and financial education to financial behaviors. Conducting a meta-analysis of 168 papers published from 1987 to 2013 and which covered 201 prior studies,[27] they found that interventions to improve financial literacy explain only 0.1% of the variance in financial behaviors studied—one tenth of 1%!

How much financial education changes behavior

The authors’ conclusions are clear: while financial education is necessary, it is not sufficient, and not at all effective as the sole tool for helping people change their behavior. People who receive financial education do not perform noticeably better when it comes to saving more, for example, or avoiding massive credit card debt. Even more depressing, the results of efforts aimed at those with low incomes are especially weak. Those who need help the most seem to benefit least. Simply providing information with no additional support is not enough to create knowledgeable consumers who can understand today’s wide array of financial products and services, make informed decisions, and act on those decisions in their own best interest.

The Solution

What is financial wellness? Is that different from financial well-being?

In recent years, the academic focus on financial stress has shifted towards the concepts of financial wellness and financial well-being, similar to the increasing emphasis in health care on health promotion and disease prevention. While the term 'financial wellness' has become popular, no clear conceptual definition of just what constitutes financial wellness or well-being has become commonly accepted. A useful definition, based on a comprehensive review of existing research literature, expert panels, and open-ended interviews with consumers, has been proposed by the Consumer Financial Protection Board.

According to the CFPB:

> Our research suggests financial well-being can be defined as a state of being wherein you:
>
> Have control over day-to-day, month-to-month finances;
> Have the capacity to absorb a financial shock;
> Are on track to meet your financial goals; and
> Have the financial freedom to make the choices that allow you to enjoy life.
>
> Because individuals value different things, traditional measures such as income or net worth, while important, do not necessarily or fully capture this last aspect of financial well-being.[28]

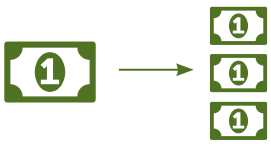
This definition encompasses both more objective measures, such as an income that exceeds expenses, and the more subjective perception of satisfaction with one's financial situation overall. Many experts refer to financial wellness as the way or means to achieving a state of financial well-being.

How does financial wellness help employers?

Effective financial wellness programs can help companies avoid direct costs related to absenteeism, presenteeism, and indirectly through reducing health-related costs associated with the negative health effects of stress. Attracting and retaining skilled and talented employees can also reduce the significant costs associated with turnover.

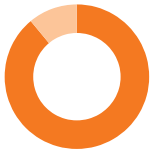
Because the concept of financial wellness is still relatively new and many companies are only beginning to implement programs, hard data documenting a definite return on investment is difficult to come by. Estimates vary, and no studies to date have been able to definitively answer the ROI question. But extrapolating from the literature on other forms of workplace wellness, current estimates of ROI for financial wellness programs range from $1 to $3 for every dollar invested.[19, 29]

Current estimates of ROI for financial wellness programs:
$1 to $3 for every dollar spent



The Solution

Companies are not waiting, however—Aon Hewitt reports that nearly all employers (89%) surveyed in 2016 indicated they are very or moderately likely to add tools, services, or communications to expand their financial well-being focus. And 55% of employers already offer help in at least one category of financial well-being while 38% have at least three categories covered. By the end of the year, these percentages are expected to grow to 77% and 52%, respectively.[30]



89% of employers are likely to expand their financial well-being focus.

How much money could implementing a financial wellness program save a company?

Let's take a hypothetical example, based on existing data from the previously cited studies. Imagine a technology company with 1,000 employees. Eight hundred are salaried, with an average compensation of $84,000 annually, and 200 are hourly employees at an average wage of $23.50/hour. Turnover for the industry is 3% annually, according to the Bureau of Labor and Statistics.[31] Total compensation for all employees across the company is $76,600,000. We'll assume everyone works an average of 2,000 hours annually, and that hourly employees separate from the company at twice the rate of more highly compensated salaried employees.

Absenteeism cost:
$188/day x 3.5 days x 200 employees= $131,600 + $336/day x 3.5 days x 800 employees = $940,800, for a total of **$1,072,400**.

Presenteeism cost:
$23.50/hr x 13 hrs/month x 12 months x 200 employees = $733,200 + $42/hr x 13hrs/month x 12 months x 800 employees = $5,241,600, for a total of **$5,974,800**.

Turnover cost:
For hourly employees: $9,400 (20% of annual $47,000 salary) x 2% of workforce = $37,600
For salaried employees: $168,000 (200% of annual 84,000 salary) x 1% of workforce = $1,344,000. Total turnover cost is **$1,381,600.**

Grand total = $8,428,800.
This is a conservative estimate; remember Garman placed the combined costs of financial stress at 15% to 20% of total compensation, which in this case would equal **$11,490,000 to $15,320,000**. The same formulas can be used to estimate the costs associated with financial stress at any company.

The Solution

While these numbers are only an estimate, and costs will vary depending on the individual business, they can give a sense of the magnitude of the hidden cost of financial stress and what it could be costing companies' bottom line. Reducing these numbers by even 5% to 10% could result in substantial cost-saving or cost-avoidance. It's hardly surprising, then that so many companies are seeking to implement financial wellness solutions in an effort to reduce this drain on business productivity and profitability.

How to choose a financial wellness solution

Financial wellness solutions are becoming increasingly popular with businesses looking to attract and retain top talent, increase employee productivity, reduce absenteeism and presenteeism, and decrease health care costs. Most look to external providers for financial wellness solutions rather than take on the daunting task of developing one in-house. With the increasing popularity of the concept, many financial services companies currently claim to offer a financial wellness solution. But some offer little more than an online retirement calculator or the occasional lunch and learn.

While financial wellness as a field of study is still relatively new, some research has already been conducted. And much can be learned about what works and what doesn't from previous research on changing behavior through workplace health and wellness efforts. Here are some considerations to think about before choosing and implementing an authentic, effective financial wellness solution.

What are the components of the program, and how holistic will it be?

Your company's benefits package offers more than a retirement plan, and an authentic financial wellness solution should be just as comprehensive—covering all of your employees financial needs, not just mutual funds for a 401k. A good solution will also provide guidance on the value of your current benefits, promoting their advantages and ultimately, improving employee participation.

It's also important to distinguish web-only platforms/solutions that merely provide written or video education with a couple of calculators, from those that also offer truly personalized advising from a live financial planner. The ability for employees to have access to advisors or coaches via personal contact by phone, video call or chat, email, or in person, is critical to increasing employee participation and changing financial behaviors.

Employees should have access to advisors through:

- Phone
- Video Call
- Chat
- Email

The Solution

Research attempting to quantify the 'value add' of financial planning prospectively followed a matched sample of people who met with a financial advisor and those who did not. Respondents who met with a financial advisor were more likely to subsequently establish long-term goals; calculate their retirement needs; establish retirement accounts and emergency funds; display appropriate investment responses to a recession; and have greater retirement confidence.[32]

And it's important that employees get ethical, unbiased advice to help them make the best decision for their individual situation. A solution that offers access to Certified Financial Planners™ does just that. A CFP® acts as a fiduciary, giving objective financial advice with complete transparency.

"Respondents who met with a financial advisor were more likely to subsequently establish long-term goals; calculate their retirement needs; establish retirement accounts and emergency funds; display appropriate investment responses to a recession; and have greater retirement confidence."

Will the program be voluntary? If so, will incentives be given for participation?

A common concern about introducing a new employee benefit is always whether it will be used. A range of incentives are often used to attract employee participation with wellness benefits. However, incentives can sometimes backfire and need to be carefully designed. In some cases, an incentive may signal that a desired behavior is difficult or unpleasant, or seem coercive, and can actually decrease employees' intrinsic motivation to change. Small incentives can often serve to increase attendance or completion of a program, but then once the incentive disappears, so does the behavior.[33]

Research from the health promotion literature, however, shows that offering financial incentives can sometimes work to create sustained behavioral change.[34, 35] In the largest study to date, a 2015 meta-analysis of 1,400 participants across 7 studies of wellness programs found that participants who were offered a larger ($400 or more) financial incentive were almost 4 times as likely to actually change their behavior (smoking cessation) and sustain the change over time, especially for lower-income participants.[36] The positive emotional as well as financial effects of successful behavior change can also help keep employees motivated to continue good financial habits.

Make sure communication with employees goes both ways.

Occupational health research has shown that workplace wellness initiatives for improving health are more successful when employees are able to share their thoughts on what they find useful.[37] Gathering feedback and input from employees about their perceptions surrounding financial wellness, their needs, interests, and barriers is important information for introducing or refining the program and also giving a sense of ownership to employees. Generally, the most useful and compelling information will come from employees themselves.

And on the other side, to ensure that communications reach employees, employers are advised to: tailor communications to employee demographics; employ multiple channels of communication, especially social media; and make communications simple and meaningful for the target audience. It's also important to establish a feedback loop to be able to tell if and how well communications are being received.

The Solution

Be sure employees know that their participation is private, secure, and available when they need it.

Most of us consider financial information to be highly personal and private, and everyone is conscious of the importance of keeping financial data secure. A good financial wellness solution will provide company-level data while keeping the financial needs and personal information of employees anonymous. It can also promote participation when the solution is available via desktop or mobile device, so that employees can manage their finances when it's most convenient for them--anytime, anywhere.

Plan to partner with your financial wellness provider to visibly engage with employees.

Schedule regular meetings, communicate as needed, and be prepared to share de-identified demographic information about your employees as a group. This can help the financial wellness provider to work with you to meet employees where they are, and target information and education to employees when they most need it, are interested in hearing it, and can benefit from it.

And when managers can attend events and endorse the idea of financial wellness through other informal means, their presence and support can be influential in modeling desired behavior. Such individuals act as 'champions' to encourage positive culture change and participation, and managerial support and participation have been identified in other studies as notable characteristics of successful, well-attended programs.[38] Encouraging employees to share their own 'success stories' through company newsletters and word of mouth is also a powerful form of social proof, especially when it comes from peers and coworkers.

Make sure evaluation of any proposed program is part of the initial plan.

You can't determine whether the program is succeeding if you haven't decided how to assess it ahead of time. An effective financial wellness solution should assess actual results and positive financial behavior changes that provide employees with positive reinforcement while providing data to you.

But remember that outcomes may not be as readily apparent or quite as easy to quantify as health care and retirement benefits. So it's even more important to be clear about how you plan to evaluate the program before implementing it. Realize that you will want to include both quantitative measures, such as average retirement contribution rates, 401k loan rates or wage garnishments, complemented by more qualitative data such as individual success stories—these can be considered mini case studies that can help inform ongoing adjustments to improve the program. It's also important to evaluate a program periodically during its implementation, so that improvements can be made early on to help the program be successful.

Conclusion

There's no question that the level of employee financial stress is on the rise. At the same time, the increasing focus on financial wellness in the workplace is a natural evolution of programs employers have developed over past decades to support the physical and mental health of their employees. Currently, according to Aon Hewitt, 85% of employers are focusing on adding financial wellness as a benefit 'because it's the right thing to do.'[30] In addition to doing the right thing, effective financial wellness programs can help companies significantly reduce costs, attract and retain top talent, and boost employee productivity. Investing in financial wellness as a company benefit can produce tangible rewards for both employees and employers. The key is to choose an effective program that offers more than webinars and calculators, and focuses on helping employees adopt healthy financial behaviors. Your authentic financial wellness solution should be the best fit for you, your company, and especially for your employees. It's good for business.

For more information, please contact:

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