THE IMPORTANCE OF FINANCIAL WELLNESS TO WORKERS AND EMPLOYERS

AN EXAMINATION OF EMPLOYER-SPONSORED FINANCIAL WELLNESS PROGRAMS

Working paper prepared on behalf of the National Fund for Workforce Solutions. March 2018.

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About the Author:

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This report, *The Importance of Financial Wellness Programs to Workers and Employers*, is a working paper of the National Fund for Workforce Solutions. Its final conclusions and findings are expected to evolve as the National Fund progresses through Phases Two and Three of its Financial Wellness Project and will reflect the evolving nature of the financial wellness field. The paper is intended to inform the National Fund's network of local collaboratives and employer partners about the factors affecting the financial stability of low- and moderate-income households and explores the emerging field of employer-sponsored financial wellness programs.

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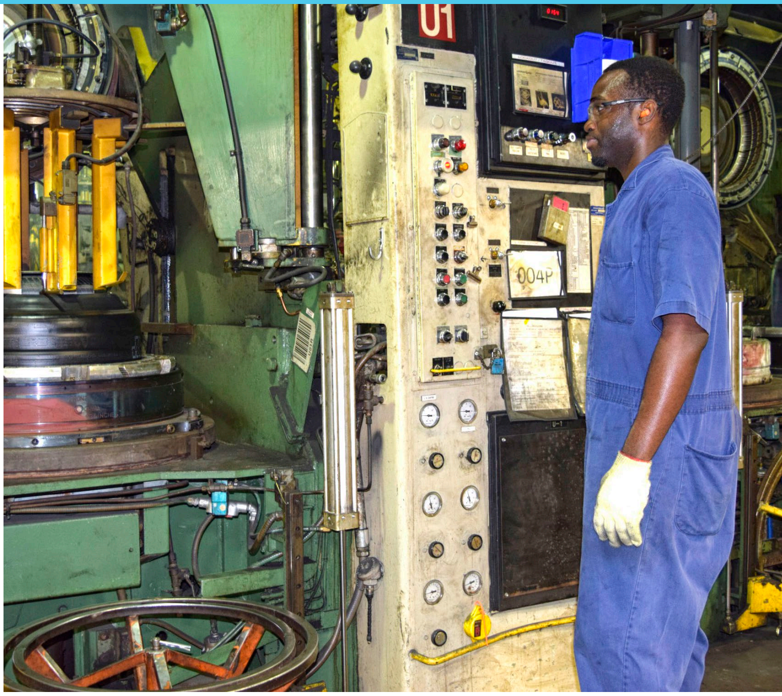
Prudential

The Importance of Financial Wellness to Workers and Employers

EXECUTIVE SUMMARY



Despite Economic Growth, Many Families Are Financially Vulnerable

The benefits of economic growth since the Great Recession of 2007-2009 have been modest and largely concentrated among higher-income workers and households. As a result, the recession accentuated already large disparities in household income and wealth. In 2013, average wealth held by the top 10 percent of families was $4 million whereas the 26th to 50th percentile held only $36,000. Families in the bottom 25 percent averaged $13,000 in debt.

Consequently, large segments of the US population remain financially vulnerable, especially families led by lower-wage workers. As detailed in Figure B, low- and moderate-income workers are occupied with several personal issues including managing debt and covering monthly expenses. For example, in a 2015 survey, more than a third of all households (36 percent) say they frequently or occasionally run out of money before the end of the month, and more than 4 in 10 households (43%) struggle to keep up with their bills and credit payments.

Workers' Financial Stress Negatively Affects Their Employers

Employees are bringing their financial concerns to work which is affecting their productivity, their attention and their mental and physical health. One survey of employers found that 9 out of 10 private corporations believe employee personal finance issues are impacting their overall job performance, with 38 percent reporting that financial issues are very or extremely impactful.

Other studies find a much deeper problem with 'presenteeism', with employees reporting spending between two and four hours *per day* on personal business at work; and that financial concerns are the dominant issue, even more than healthcare. The estimated cost of these distractions ranges from $200 per employee to $8,700 per employee.[ii] This frequent and pervasive issue is creating significant performance issues and affecting the ability of companies to effectively perform and compete.

Financial Wellness Programs are Coming to More Workplaces

Employers are beginning to realize that financial stress is affecting worker health and productivity. In response, some firms are taking steps to help their employees better manage their personal finances and boost their financial wellbeing, or financial wellness.

A leading definition of financial wellness is:

- Having control over day-to-day, month-to-month finances;
- Having the capability to absorb a financial shock;
- Being on track to meet financial goals; and
- Having the financial freedom to make choices that allow one to enjoy life.

To help boost employee financial wellness, a growing number of employers are offering structured programs with diverse services including financial education, online tools, in-person advice and financial products. These financial wellness benefits are designed to help employees move beyond retirement planning to adopt good financial practices.

THE NATIONAL FUND'S FINANCIAL WELLNESS PROJECT

This working paper is part of the Financial Wellness Project, a component of Better Skills, Better Jobs 2.0 of the National Fund for Workforce Solutions supported by the Prudential Foundation.

The purpose of the Financial Wellness Project is to promote the critical importance of financial health strategies as important components of job quality, especially among small and mid-sized companies.

EMPLOYER-SPONSORED FINANCIAL WELLNESS PROGRAMS MIGHT INCLUDE:

- Savings products/services to help employees meet short- or long-term goals;
- Financial counseling/coaching for employees, who meet with trained counselors to discuss financial issues;
- Debt management services to help employees manage or repay outstanding loans;
- Insurance products that protect employees from large financial shocks;
- Online financial management tools to help employees manage their finances through a website or mobile app;
- Short-term loans and accrued wage advances, lower-interest credit options or cash available through the workplace; and
- Financial education classes and seminars, including courses or workshops from a financial professional offered through the workplace.

Attention to Family Finances Can Bolster Financial Resiliency

Lower-income households that engage in positive financial and economic behaviors can be as financially resilient as upper-income families that do not. For example, research has found that households with incomes below $25,000 but with at least $2,000 in liquid assets were equally financially resilient as middle-income families with less than $2,000 in liquid savings. As a result, low-income households with moderate savings of $2,000–$4,999 are less likely to experience a hardship after an income disruption than higher-income peers. While emergency savings is only one element of financial wellness, it can provide a stronger sense of comfort and reduce the anxiety about unplanned costs or disruptions.

Employer-Sponsored Financial Wellness Programs Can Improve Firm Competitiveness

Effective financial wellness benefits can deliver significant economic returns to the employers who provide them to their employees. First, reducing the financial stress among employees can increase worker productivity and the firm's competitive position. Second, with labor markets tightening, financial wellness benefits can increase employee loyalty and reduce turnover. Third, effective financial wellness programming may be a relatively low-cost way to attract and retain workers as labor markets become more competitive.

Awareness of the potential benefits of promoting employee financial wellness at work is rising among larger companies. However, the needs of small and mid-sized firms, which employ 50 percent of America's workers, are being largely left out the equation.

Larger Firms are More Likely to Offer Financial Wellness Benefits

Consistent with other financial benefit programs, small and mid-sized firms are less likely to offer financial wellness benefits. The share of firms offering 401(k) plans also rises with firm size, from about 17 percent of small firms to over 70 percent of large firms. Costs may well be a factor preventing smaller firms from providing comprehensive financial wellness programs; however, research suggests that services may depend on the characteristics of a company's employees. Employers with employees who are older, receive higher wages and are more attached to the workforce are more likely to offer services.

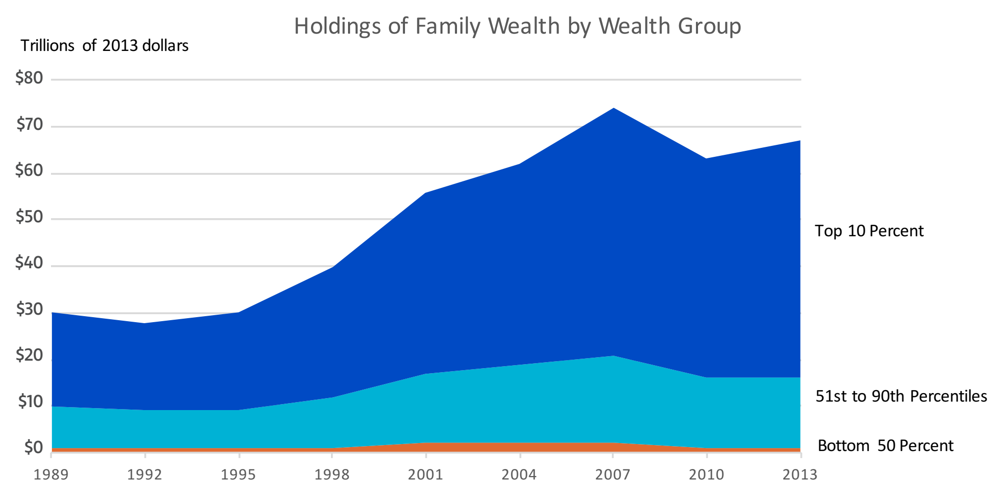
Next Steps in the National Fund's Effort to Bolster Financial Wellness

The National Fund intends to prepare its network of regional collaboratives to understand financial vulnerability among different types of workers within their community and communicate with employers about the importance of financial wellness. To facilitate this discussion, the full report of this summary, *The Importance of Financial Wellness to Workers and Employers*, provides detailed information about the economic trends fueling financial vulnerability, the costs of financial stress incurred by employers and activities employers are taking to bolster their employees' financial wellness.

In **Phase Two** of the Financial Wellness Project, the National Fund will work with its regional collaboratives to seek out small and mid-sized employers providing financial wellness programs to their workers. Through surveys and interviews, it will deepen its understanding of how to convince its partner employers to offer financial wellness services to their employees.

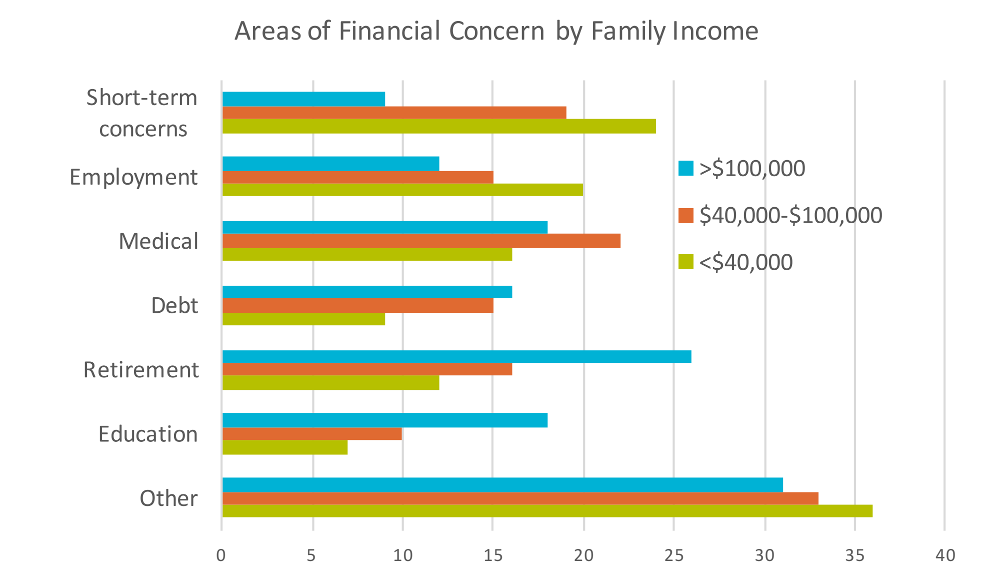
In **Phase Three,** its collaboratives will work with employers to develop financial wellness strategies and implement programs and services that reduce the financial vulnerability of their employees.

Figure A: Family wealth in US by percentile



Source: Congressional Budget Office using data form the Survey of Consumer Finance. Cited from Report on the Economic Well-Being of U.S. Households in 2016. US Federal Reserve. 2017.

Figure B: Financial concerns by income



Source: Survey of Household Economics and Decisionmaking. Federal Reserve. May 2017.

Financial Stress is Hurting Low- and Moderate-Wage Households

While the Great Recession ended more than nine years ago, slow economic growth and even slower wage growth is causing millions of families in America to live with financial uncertainty and the stress that goes with it. Families led by low- and moderate-wage workers are especially vulnerable to even modest financial shocks, which negatively affects their quality of life and their performance on the job.

In order to effectively understand the scope of this problem and its potential solutions, the National Fund offers two fundamental definitions:

What is Financial Wellness?

Financial wellness is defined by the US Consumer Finance Protection Board as:

- **Having control over day-to-day, month-to-month finances**
- **Having the capability to absorb a financial shock**
- **Being on track to meet financial goals, and**
- **Having the financial freedom to make choices that allow one to enjoy life.**

Who are Low- and Moderate-Wage Households

Low- and moderate-income (LMI) household are defined by federal law as those with annual income below 80 percent of an area's median income. So, it can range from $32,000 in Mississippi to $54,000 in Maryland. More than 35 percent of families in America are LMI families. Nearly all low- and moderate-income workers are over the age of 24, work full-time or work part-time and are looking for full-time employment.

Fewer than 40 percent of LMI households have a savings or money market account at a bank or credit union. And the median amount in this account was less than $700 - $1,000 for low-income households (lowest-income quintile) and $1,000 for moderate-income households (second-income quintile). Moreover, few LMI households had accounts other than checking that could be used for routine financial emergencies.

The Financial Wellbeing of Employees Affects Their Employers

Employers are beginning to realize that financial stress is affecting worker health and productivity. In response, some firms are taking steps to help their employees better manage their personal finances and boost their financial wellbeing, or financial wellness. Popular efforts include offering financial education, online tools, in-person advice and financial services. These financial wellness benefits are designed to help employees move beyond retirement planning to adopt good financial practices that include:

- Following a spending plan;
- Maintaining a low debt level;
- Having active savings and retirement plans; and
- Being protected against significant financial risks.

Financial Wellness Project of Better Skills, Better Jobs 2.0

This report is part of the National Fund for Workforce Solutions Financial Wellness Project, a component of the Better Skills, Better Jobs 2.0 initiative supported by the Prudential Foundation.

With the overall goal of improving the quality of the jobs held by low- and middle-wage workers, the Financial Wellness Project seeks to promote financial health strategies as important components of job quality and to encourage small and mid-sized employers to offer such benefits to their employees.

Through the Financial Wellness Initiative, the National Fund will:

- Help its local partners operating funder collaboratives understand financial wellness and its role in addressing the drivers of financial stress among low- and middle-skill workers;
- Promote the critical importance of financial health strategies as components of job quality;
- Provide examples of companies and enterprises that are effectively offering these services;
- Work with its local collaboratives to help employers develop solutions that can reduce financial stress among their employees and improve the financial stability of both workers and companies.

This report is **Phase One** of the initiative and seeks to inform the workforce field by examining the factors affecting the financial stability of LMI households and explores the emerging field of employer-sponsored financial wellness programs. During **Phase Two,** the National Fund will identify and interview small and mid-sized employers around the country on their financial wellness benefits with the goal of understanding the companies' experiences and motivations. In **Phase Three,** six regional collaboratives will be selected to receive grants and work with the National Fund to promote financial wellness among their employer partners.

Economic Context: Slow, Steady Growth

The US has seen nine years of economic growth since the Great Recession of 2007-2009. While this marks the third longest expansion in US history, the benefits have been modest and largely concentrated among the higher-income workers and households. As the expansion enters its ninth year, families across the demographic spectrum have begun to see improvements in their economic conditions. More households are rebuilding family balance sheets, but large segments of the population remain financially vulnerable.

Employment

According to the US Census Bureau, the number of people working full-time and year-round grew by 2.2 million in 2016. Yearly employment growth has averaged around two percent since the expansion began, sluggish by historic standards. Nonetheless, full-time employment has steadily improved, and part-time workers desiring full-time jobs are finding them. By the middle of 2017, civilian unemployment had reached it pre-recession level of 4.4 percent.

Wages

Despite the improving employment picture, wage growth has been stubbornly weak. Since the recession, median weekly earnings have grown by two percent, down from over three percent before the downturn. Still, improvements in full-time jobs and low inflation have allowed wage gains to begin to trickle down to lower-paid workers and low- and medium-income households.

The US Labor Department reported in July 2017 that median weekly earnings for LMI workers ages 25 and older rose 3.4 percent in the second quarter of 2017, slightly better than the median gain of 3.2 percent for workers at the 90th percentile. Moreover, those full-time workers who have remained employed through the recession and expansion have seen their real weekly wages grow by more than double the average rate for all full-time workers.[1] These trends suggest that wage growth may finally be gaining some steam, even for lower-wage workers.

Despite recent improvements, the weak recovery has intensified sharp disparities in earnings among different demographic groups. In particular, differences by educational attainment are quite stark. By 2016, real wages for those with college degrees exceeded pre-recession levels. However, earnings for those with less than a college degree remain below the 2007 peak (Table 1).

Table 1: ***Change in real average hourly wages by education: 2007-2016***

Educational Attainment	Change over 8 years
Advance degree	5.1%
College	4.2%
Some college	-3.2%
High school	-1.6%
Less than high school	-1.8%

Source: "Looking at the latest wage data by education level". Elise Gould. EPI. Sept. 1, 2016

Economic Trends: The Impact on Households

Household Incomes Rising for All Demographics

As the US economy strengthens, more households and individuals are seeing their economic conditions improve modestly. While not distributed evenly, most demographic groups experienced improvements in 2015 and 2016. The US Census report, *Income and Poverty in the United States in 2016*, found that real median household income (corrected for inflation) increased 3.2 percent between 2015 and 2016 to $59,039. This is the second consecutive annual increase in median household income and the strongest sustained growth this century. Incomes rose last year across all racial and age categories, inside cities and outside metropolitan areas, for native-born Americans and immigrant households.

In fact, Black and Hispanic households saw stronger income growth than White households in 2016. Real median income of Black and Hispanic-origin household rose 5.7 percent and 4.3 percent respectively, while White households saw a two percent rise. However, Black and Hispanic household income remained 61 percent and 73 percent, respectively, of that of White households (Figure 1).

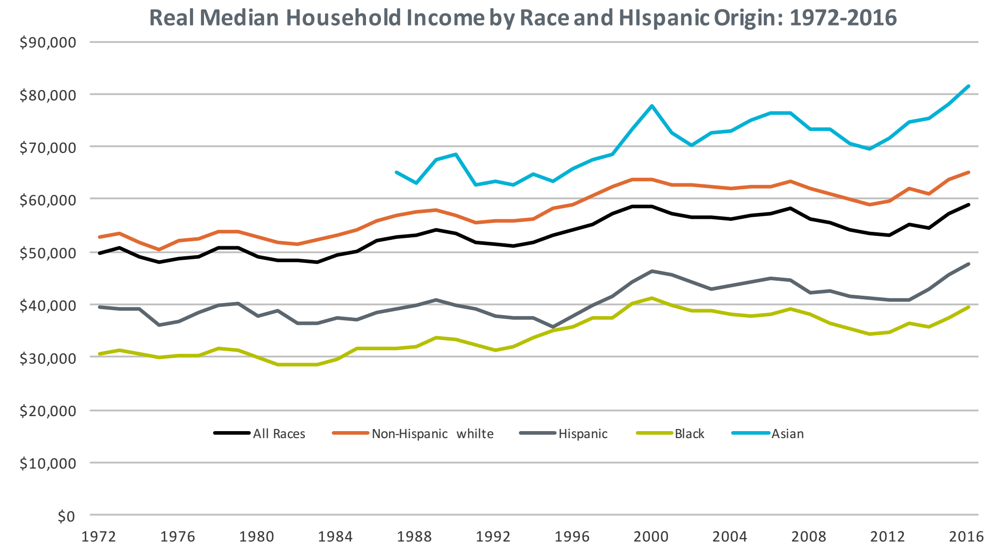
Income trends differed by education level as well. For all groups, real median household income remained below pre-recession levels in 2016 (Figure 2). However, since bottoming out in 2012 all education groups have begun to see improvements.

Wealth Continues to Concentrate Among the Wealthy

While income and earnings offer a snapshot of economic health, family wealth provides a more complete measure of family financial condition, as it considers the total assets and liabilities held by families. The run up to the recession saw further concentration of wealth among the top 10 percent of families (Figure 2). In 2007, the bottom 50 percent of all US families held just 2.7 percent of US wealth; those between 51 percent and 90 percent held 26 percent, while the top 10 percent held 72 percent of all US family wealth.[2]

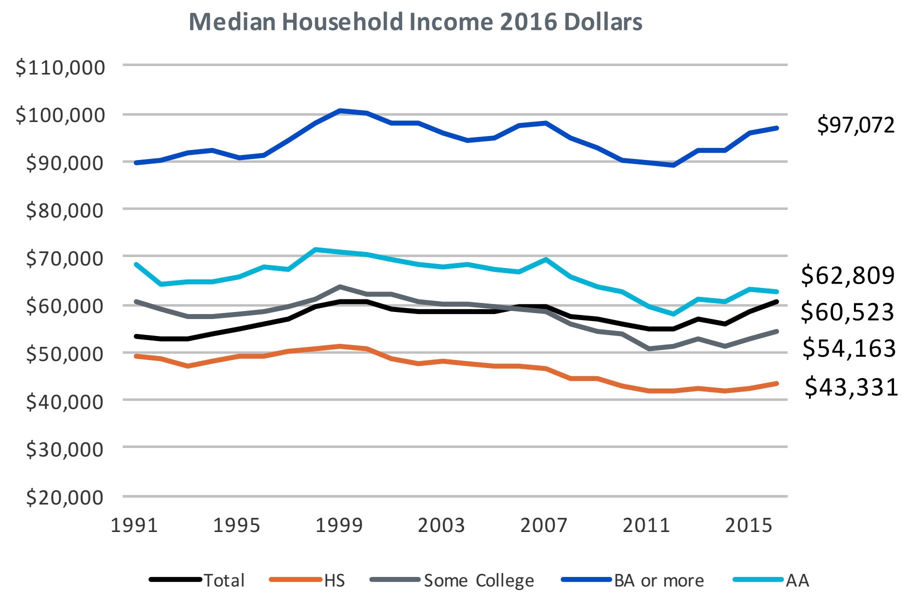
While the Great Recession had a dramatic negative impact on family wealth across all groups, gains since the downturn have further concentrated wealth in the US (Figure 3). The share of US wealth held by the 6.5 million families in the top 10 percent rose to 76 percent while that held by the bottom 50 percent fell to 1.5 percent.

Figure 1: Real Median Household Income by Race



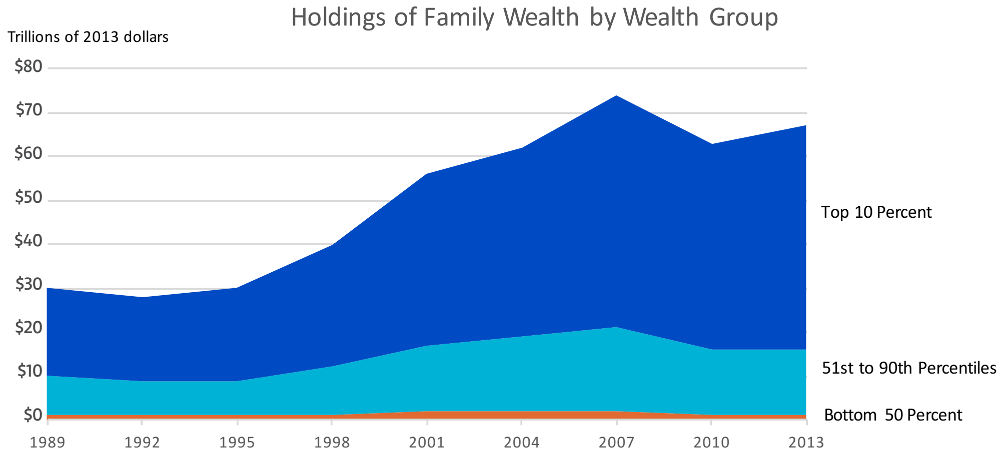
Source: US Census Bureau. Current Population Survey. Annual Social and Economic Supplement.
New methodology adopted in 2013.

Figure 2: Real Median Household Income by Education



Source: US Census Bureau. Current Population Survey. Annual Social and Economic Supplement.
New methodology adopted in 2013.

Figure 3: Family wealth in US by percentile



Source: Congressional Budget Office using data form the Survey of Consumer Finance. Cited from Report on the Economic Well-Being of U.S. Households in 2016. US Federal Reserve. 2017.

In 2013, average wealth held by the top 10 percent of families was $4 million; for families in the 51st to 90th percentile average wealth was $316,000, while that for the 26th to 50th percentile it was $36,000. Families in the bottom 25 percent averaged $13,000 in debt.

The percentage of families with more debt than assets grew significantly during the recession as did their level of debt. By 2013, 12 percent of families had more debt than wealth, with average debt of $32,000, up from eight percent in 2007 and average debt of $20,000. The major cause of the shift was a decline in home equity and a jump in nonmortgage debt.[3] Table 2 describes characteristics of those with "negative wealth".

As with earnings, growth in family wealth was closely related to educational attainment of the householder. For families headed by someone with at least a bachelor's degree, median wealth in 2013 had only recovered to the 1989 level. For families headed by less educated people, the decline in wealth continued through 2013, after being stagnant for over a decade (Figure 4).

Table 2: Positive Wealth

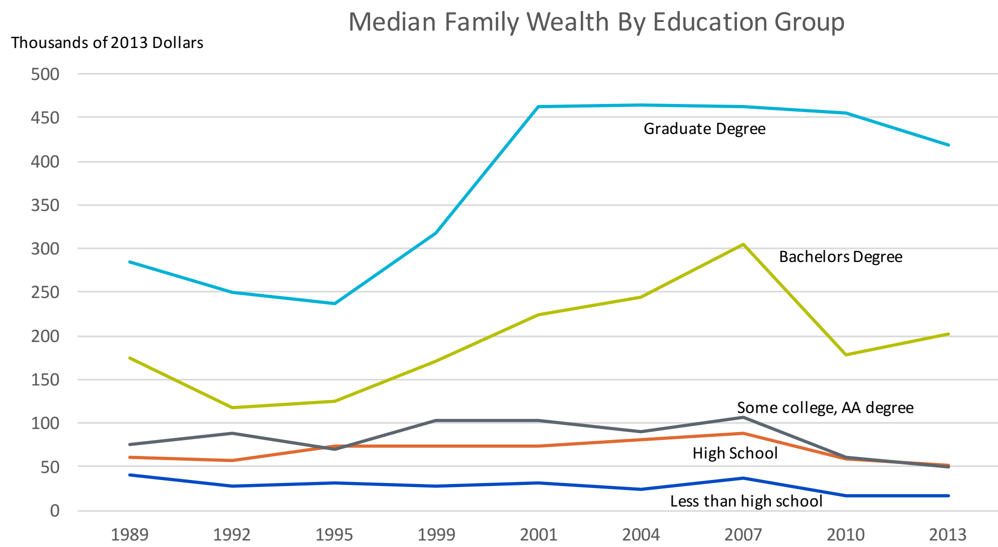
More debt than wealth

For this analysis, the measure of total assets is the sum of financial wealth, retirement wealth, home value and other assets. Debt includes home mortgages and home equity lines of credit, as well as non-housing personal debt in categories such as credit card, student loans and auto loans, among others. The sum of all these debts constitutes our measure of total debt. Negative wealth exists if total debt exceeds total assets.

	Negative Wealth	Positive wealth
Age	43 years	51 years
Less than college degree	43%	12%
Average annual income	$39,077	$86,309
Homeowners	19%	75%
Female Head of HH	69%	45%
Single	57%	33%
African American or Hispanic	33%	17%
Single parent	20%	8%

Source: Olivier Armantier, Luis Armona, Giacomo De Giorgi, and Wilbert van der Klaauw, "Which Households Have Negative Wealth?" Federal Reserve Bank of New York Liberty Street Economics (blog), August 1, 2016,
http://libertystreeteconomics.newyorkfed.org/2016/07/which-households-have-negative-wealth.html

Figure 4: Family wealth by educational attainment



Source: Congressional Budget Office using data form the Survey of Consumer Finance. Cited from Report on the Economic Well-Being of U.S. Households in 2016. US Federal Reserve. 2017.

Financial Wellbeing is Improving, but Remains Tenuous

On average, household income and overall financial wellbeing shows signs of improving as the economy strengthens. Yet, the financial wellbeing of large portions of people in the US remains tenuous by several measures.

The gradual gains in overall economic conditions appear to be driving modest improvements in how families feel about their financial wellbeing. The Federal Reserve annual survey of 2016 family wellbeing found that 70 percent of adults report living comfortably or doing OK financially, up from 62 percent in 2013. Conversely, 73 million adults, roughly one in three, are having difficulty or just getting by financially. Still, that is down from nearly 100 million people in 2013.[4]

Other polls suggest the improving trend continued into 2017. A Gallup poll found that Americans are less worried in 2017 about a broad range of financial issues than in 2016; from having enough savings for retirement to having enough income to pay monthly bills.[5] While improving over time, Gallup still found that 54 percent of Americans were “very” or “moderately” worried about not having enough retirement earnings or being able to finance a major medical cost.

Financial Wellbeing is Heavily Affected by Income

Recent attitudinal gains have not been felt evenly, however. When education, income or race is considered, sizable differences emerge. For example, the Federal Reserve found that family income corresponds with feelings of financial wellbeing. While eight percent of those with more than $100,000 are finding it hard to get by, 92 percent are doing OK or better (Table 3). Despite the disparities, the vast majority in each group feels they are doing the same or better than last year.

In addition, 82 percent of adults with at least a bachelor’s degree reported doing OK or living comfortably in 2016, compared to just 69 percent of those with some college or an associate’s degree and 60 percent of those with high school or less (Figure 5).

The Gallup poll also found that sizable percentages of lower and middle-income Americans have seen little or no easing of their financial concerns. 45 percent of middle-income earners (between $30,000 and $75,000) are worried about not being able to pay medical costs for normal healthcare.

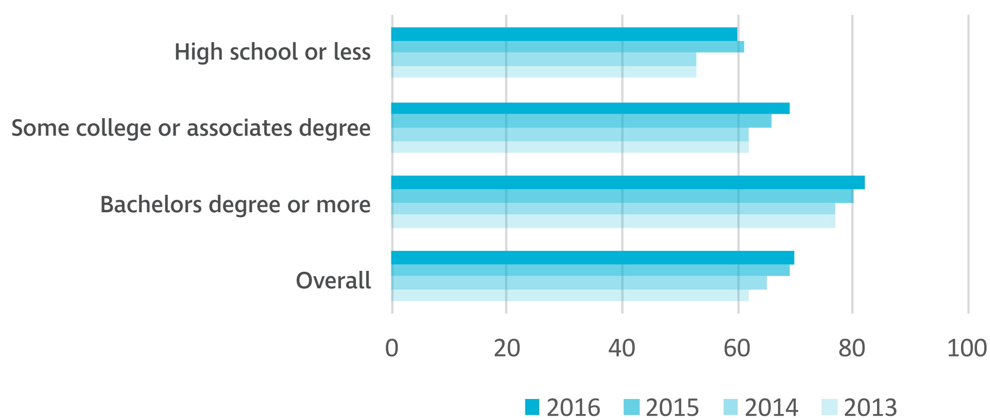
Table 3: Overall wellbeing by family income

Survey Responses by Income

Family Income	Finding it difficult or just getting by	Doing ok or living comfortably
Less than $40,000	49%	51%
$40,000–$100,000	24%	76%
Greater than $100,000	8%	92%

Source: Survey of Household Economics and Decisionmaking. Federal Reserve. May 2017.

Figure 5: Percent of adults who say they are doing OK or living comfortably



Source: SHED. Federal Reserve. May 2017.

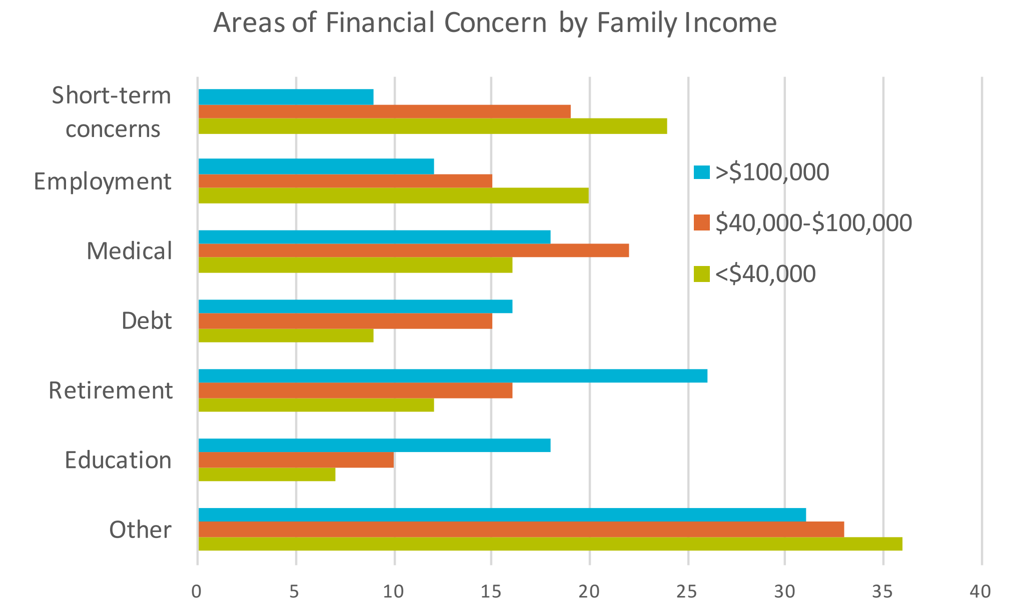
Attitudinal studies show that the financial matters that create concern for families differ by income level, with lower-income adults focused on short-term issues and higher-income adults focused more on longer-term issues (Figure 6). The Federal Reserve's Survey of Household Economics and Decisionmaking (SHED) found that lower-income families worry more about rent, food, gas and bills, while upper-income families worried more about education and retirement.

Improving economic conditions have reduced the number of households unable to pay monthly bills. An annual survey by Financal Industry Regulatory Authority (FINRA) found that the share of respondents reporting no difficulty covering monthly bills and expenses has grown to 48 percent in 2015, up from just 36 percent in 2009. Still, half of respondents reported difficulty covering monthly expenses in 2015.[6]

Emergency savings and access to credit are crucial mechanisms for responding to financial shocks. However, according to the Pew Charitable Trusts, 55 percent of American households can replace less than one month of their income through savings that could be converted to cash.[7]

Another analysis of family financial resilience to shocks found similar results.[8] In both 2014 and 2015, only about 60 percent of households had sufficient liquid savings to cover a $2,000 expense—the cost of the typical household's most expensive shock—and about half of households had at least $4,000. While income, educational attainment and age are significant contributors to financial wellbeing, large numbers of families across demographic groups and characteristics were found to be unable to cover a $2,000 emergency (Table 4).

***Figure 6:* Financial concerns by income**



Source: Survey of Household Economics and Decisionmaking. Federal Reserve. May 2017.

As the economy improves, a sizable portion of adults are engaging in behaviors that put their financial wellness at risk. For example, 30 percent of all employees surveyed by PWC in 2017 have already withdrawn money held in retirement plans to pay for expenses other than retirement. This indicates that other savings and income are inadequate to meet immediate financial demands. Fully 44 percent expect they will need to use money held in retirement plans for expenses other than retirement. The majority of these expect to use the funds to pay for unexpected expenses or medical bills.[9]

Key Insights: Financial Vulnerability is High Despite Economic Recovery

Slow, steady economic growth is reducing the number of families in financial distress and improving overall economic wellness of American households. However, a significant share of families remains financially vulnerable. Moreover, deep disparities in income and wealth between demographic groups that existed before the Great Recession have been aggravated by the deep downturn and slow recovery.

This is especially true for low- and middle-skill employees. Workers with less than a college degree have much lower wages, annual incomes and accumulated wealth than their college-educated peers. While income is a key driver of financial health, financial behavior also matters. Low-income families with a financial cushion are more resilient than middle-income families without a similar savings buffer.

Another recession is inevitable and is increasingly likely in the next few years. This current period of economic growth is a valuable moment to help LMI families maximize their financial capabilities and resilience.

As the economic expansion continues into its ninth year, employers are facing tightening labor markets. Unemployment has reached pre-recession lows and the overall workforce is growing at an historically slow pace. Despite eight years of expansion, only about 60 percent of working age people are in the labor market today, just above the 57.5 percent rate before the recession.

As a consequence of these labor market dynamics, employers of all sizes are increasingly pressed to attract and retain entry-level workers and to boost the productivity of the workers they have. Research on retaining entry-level workers has found that beyond wages, there are a number of strategies companies can adopt to reduce turnover and increase employee engagement.10 Financial wellness programs are emerging as a valuable way to help reduce financial pressures at work and increase employee attachment to their employer.

Financial Instability Affects a Large Portion of Workers

Employees are bringing their financial concerns to work. As discussed in the previous section, a significant share of American families are financially vulnerable, particularly those headed by lower-wage workers. Their financial concerns are affecting worker productivity, attention and physical health.

A variety of studies find a fairly consistent estimate of about one-third of employees who admit that personal finances are a distraction at work and the top concerns of working people have changed little over the years. Moreover, there are troubling signs that workers' financial conditions are, in fact, weakening. In a 2016 survey of companies with retirement plans, 54 percent believed their employees were facing more financial challenges than five years ago.[11]

Other surveys show little improvement in financial concerns over the last five years. For example, having enough emergency savings is, by far, the concern most frequently cited by workers surveyed annually by PWC, followed by inability to retire and not meeting monthly expenses (Table 4).[12] The share of employees citing concerns about meeting monthly expenses actually rose between 2012 and 2017.

Other signs of weakening financial confidence of workers have appeared in 2017. Employee confidence that they will have enough savings to retire has begun to slump after improving for three years (Figure 7).

Financially Vulnerable Employees Negatively Affects Employers

Personal financial concerns are negatively affecting employees' on-the-job performance. Research by the International Foundation of Employee Benefit Plans in 2016 found that nearly 9 out of 10 private corporations among their members believe employee personal finance issues are impacting their overall job performance; 38 percent believe they are very or extremely impactful.[13] The five most cited factors that are affecting employee performance with regard to financial concerns were stress, inability to focus on work, absenteeism, morale and physical health.

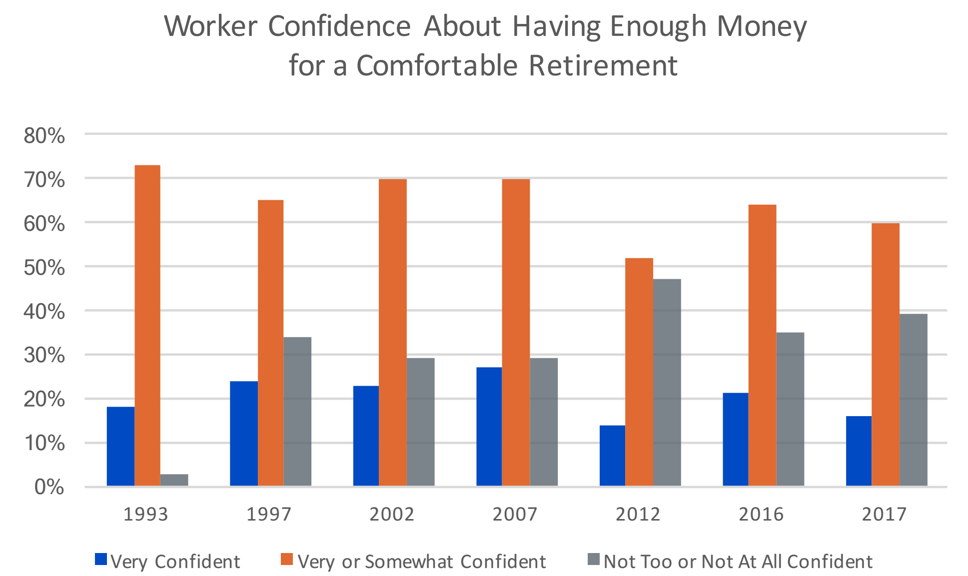
Other research shows that financial concerns are creating the phenomenon of "presenteeism" – "being at work but performing sub-optimally due to illness, stress, financial distress or engagement in personal business."[14] The PWC 2017 Employee Survey found that nearly half of workers who are distracted by financial concerns spend three hours or more each week thinking about or dealing with personal financial concern (Table 5).[15]

Table 4:* *Top financial concerns of employees*[*]

	2012	2017
Not having enough emergency savings for unexpected expenses	54%	50%
Not being able to retire when I want to	37%	29%
Not being able to meet monthly expenses	25%	29%
Being laid off from work	22%	19%
Not being able to keep up with my debts	14%	17%
Other	4%	10%
Losing my home	7%	7%
Not being able to pay for college	6%	5%

*Employees could choose up to two answers to this question.
Source: Employee Financial Wellness Survey. PWC. April 2017.

Figure 7: Worker confidence of having enough retirement savings



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Other studies find a much deeper problem with 'presenteeism', with employees reporting spending between two and four hours *per day* on personal business at work, and that financial concerns are the dominant issue, even more than healthcare. The estimated cost of these distractions ranges from $200 per employee to $8,700 per employee.[16]

Financial stress also negatively affects employee health. For example, long-term, high stress can weaken immune systems and exhaust the body. People with chronic stress get more frequent and more severe viral infections and are more likely to catch a cold. According to the American Psychological Association, the top sources of stress for adults in America are money worries (71 percent) and work (65 percent).[17]

Table 5: Impact of financial stress on employee productivity and health

Employees who report being stressed or not stressed about finances

	Employees Stressed About Finances	Employees Not Stressed
Finances have been a distraction at work	54%	50%
Spend three hours or more at work each week thinking about or dealing with personal finance issues	37%	29%
Spend five hours or more at work each week thinking about or dealing with personal finance issue	25%	29%
Productivity at work has been impacted by financial worries	22%	19%
Missing work occasionally	14%	17%

Source: PWC Employee Survey 2017

Attention to Family Finances Can Bolster Financial Resiliency

As might be expected, family income is a key driver of financial wellness. A families' ability to respond to a $2,000 financial shock differed by various demographic characteristics of the householder. In particular, educational attainment and annual income are closely correlated with ability to come up with $2,000 to cover unexpected expenses (Table 6).

However, behavior is also a strong determinant. The resilience study cited above showed that the amount of savings was more important than annual income when it comes to recovering from economic shocks. Households with incomes below $25,000 but with at least $2,000 in liquid assets were equally financially resilient as middle-income families with less than $2,000 in liquid savings.[18]

Lower-income families that are able to engage in positive financial and economic behaviors can be as financially resilient as upper-income families that do not. At the same time, income shortfalls make it more difficult to take the steps needed to build financial resilience.

In fact, low-income families with savings are more financially resilient than middle-income families without savings. Low-income families with savings of $2,000–$4,999 are less likely to experience a hardship after an income disruption than middle-income families with no savings.[19] Similarly, families that save regularly are 10 times more likely to be in healthy financial condition, regardless of income.[20]

Table 6: Characteristics of the heads of households of families that could not cover a $2,000 emergency

Probably/certainly could not come up with $2,000		
Gender	Male	28%
	Female	39%
Age	18-34	43%
	35-54	35%
	55+	25%
Income	<$25K	63%
	$25-75K	33%
	$75K+	11%
Ethnicity	White	30%
	African-American	48%
	Hispanic	39%
	Asian	24%
	Other	44%
Education	HS or less	45%
	Some college	36%
	College or more	18%
	Total	**34%**

Source: Financial Capability in the US 2016. FINRA 2017.

Employers Can Help Employees Become More Financially Stable

Increasing awareness of how personal finances are affecting workers has led to a growing interest among employers in the concept of financial wellness. Borrowed from the health benefits field, financial wellness refers to an individual's overall financial condition. Employers have long provided retirement planning advices. However, the concept of financial wellness includes adopting habits and behaviors that improve the employee's overall financial condition throughout their lifetime.

There is no commonly accepted definition of financial wellness. It can range from being protected against significant financial risks, to planning and managing one's money to provide for their current and future financial needs, to an active state of financial health that includes a low debt level, having active savings and/or retirement plan(s) and following a spending plan.[21]

The definitions of financial wellness, financial health or financial wellbeing offered by service providers and experts vary in detail but are closely related. They are perhaps best captured by the definition of financial wellness adopted by the Consumer Finance Protection Board as:[22]

- Having control over day-to-day, month-to-month finances
- Having the capability to absorb a financial shock
- Are on track to meet financial goals, and
- Having the financial freedom to make choices that allow one to enjoy life

This definition also closely aligns with how many employees view the concept. In a 2017 survey, 1,600 adults employed full-time defined financial wellness as freedom from financial stress and debt, having the financial freedom to make choices to enjoy life and being able to deal with unexpected financial emergencies.[23]

However it is defined, employers increasingly view their workers' financial wellness as an important human resource issue. According to a 2015 survey of 250 employers that already offer 401(k) plans, 83 percent say they feel at least somewhat responsible for the financial wellness of their employees. The same survey found that the percentage of employers who either have, or plan to have, financial wellness services in place is rising.[24]

Employers have been offering their workers financial education around retirement planning for decades. The shift from traditional pensions (defined benefit plans) to defined contribution plans (primarily 401(k) plans) has put more responsibility in the hands of the employee to plan for and invest in adequate retirement savings. In addition, employers provide guidance regarding health, life and disability insurance benefits. However, in the face of rising financial pressures at work, a growing number of firms are looking for ways to help their workers better manage their overall financial picture.

Key Insights: Family Financial Wellness is a Workplace Issue

Financial vulnerability among a significant share of employees, especially LMI employees, is taking a toll on the workplace. Financial stress is affecting worker attention, productivity and even their physical health.

Income levels clearly affect the likelihood a household will be financially healthy. However, good financial habits can contribute to resilience to financial shocks and reduced financial stress, even among LMI households.

Employers are increasingly recognizing the value of workplace financial wellness services. A large number of firms believe they have some responsibility for the financial wellness of their workers beyond helping them plan for retirement, but rather to encourage good financial practices throughout their lives.

In response to employers' interest in their employees' financial problems, a financial wellness industry has emerged to help employers support their workers' financial wellness. Like financial wellness, there is no single definition of what constitutes a financial wellness program. For most practitioners, financial wellness programs are aimed helping people develop a broad array of knowledge, skills and practices that support all aspects of personal finance. Financial wellness programs are intended to help individuals pull together all of the activities that affect their financial conditions, including spending, saving, managing debt and risk and building resiliency to financial shocks.

Types of Financial Wellness Service Providers

There are hundreds of organizations offering employer-sponsored financial counseling and advice to workers. Providers of workplace-based financial wellness programs generally charge businesses a fee to provide their employees with a combination of one-on-one financial counseling, educational information and financial tools. In some cases, financial wellness programs are related to other financial products like mutual funds, investment management, bank accounts and insurance. In others, they are completely independent of retirement and insurance plan providers.

While much variation exists, the market for employer-based financial wellness services can be divided between those serving large corporations with broad services, those serving mid-sized and smaller firms and financial technology companies.

Broad Services for Large Companies

The financial wellness sector largely emerged from firms providing employer-sponsored retirement plans, insurance, investment advice and auditing services. Consequently, the largest employer market is largely served by established providers like Mercer, AYCO (a subsidiary of Goldman Sachs), Prudential, Fidelity, PWC and Financial Finesse, among many others. These services are aimed primarily at Fortune 1000 firms and their white-collar employees. They usually include a package of one-on-one financial counseling, online tools and regular monitoring of various personal financial metrics. In many cases, financial wellness programming is additional to the existing retirement, investment advice and insurance services already available to employees of large corporations.

Broad Services for Small and Medium Sized Companies

Newer entrants to the field, who tend to serve mid-sized companies, include LearnVest, Hellowallet, Dave Ramsey's Smartdollar and nonprofit providers like GreenPath Financial Wellness, Enrich and Neighborhood Trust Financial Partners. These companies combine financial counselors, seminars and online tools to deliver a broad array of financial education and training services. Many include online and smart-phone-based platforms to connect employees to tools and information to reinforce counseling guidance. They are typically independent of the employers' other financial service providers.

Community-Based Resources

Another model of employer-sponsored financial wellness programming is emerging from the traditional social service field. Nonprofit organizations like The Source in Grand Rapids, Michigan and Worklife Partnership in Colorado are working with employers to provide an array of employee support programs including financial literacy, loans and counseling, among others.

Technology-Based Services

A related market includes services aimed at addressing specific financial concerns. They include payroll loan administrators, credit counselors, student loan services and bank- and credit union-based savings plans. Increasingly this financial services market is becoming inundated by financial technology, or fintech. Fintech includes a vast array of digital technology tools accessed by smartphone or computer applications, and designed to allow individuals to manage various aspects of their financial life. These include programs like PayActiv, which allows employees to gain access to and manage their earnings without waiting for payday, and Intuit Corporation's spending and saving management app Mint.

Prevalence of Workplace Financial Wellness Programs

In the absence of a common definition, it is difficult gauge the experience to date with employer-based financial wellness programs. Recent employer surveys offer a wide range of results (Table 7). For example, a national sample of 1,000 employers interviewed on behalf of Bank of America/Merrill Lynch found that 48 percent had a "financial wellness strategy" in place in 2015, up from 35 percent in 2013.[25]

Table 7: Surveys of employers and employees about financial wellness program availability

Share of employers who report providing financial wellness programs		
Program		**Survey**
Strategy in place	48%	Bank of America/Merrill Lynch
At least some elements	40%	Alliant Credit Union
At least some elements	38%	Charles Schwab
Comprehensive program	20%	ADP Benefits
Financial literacy education	23%	Int'l Foundation for Employee Benefits
Comprehensive program	11%	Alliant Credit Union
Share of employees who report having access to financial wellness programs at work		
Program		**Survey**
Services to assist with finances		PWC Employee Survey
Financial planning services		US DOL Employee Benefits Survey

Another 2015 survey of employers found that just 19 percent were actually offering a program "designed to address and support an employee's complete financial picture and improve their overall financial health."[26] Alliant Credit Union found that 40 percent of employers they surveyed in 2015 offer a "program designed to promote employees' financial well-being."[27] However, only 11 percent offered all components considered by the survey as a comprehensive financial wellness program, and listed in Table 8.

Results of employee surveys (Table 6) also provide a wide range of results. In a 2017 survey, PWC found that 40 percent of employees reported their employer "offers services to assist them with finances" and 68 percent reported using them.[28] In an indication of what these employees considered financial wellness programs, 44 percent used them to get spending under control, while 70 percent used them to manage retirement savings. However, the 2016 Employee Benefits Survey conducted by the US Department of Labor found that, overall, 17 percent of employees reported that "financial planning services" were available at work.

A careful reading of the available survey data suggests that while a growing number of firms are providing some financial wellness services beyond retirement planning, only about 10 percent of all firms and 20 to 30 percent of employers that sponsor 401(k) plans offer broad-based financial wellness services.

Despite the array of services that may be offered through financial wellness programs employers, retirement planning and healthcare benefits planning remain the most common offered by employers, as shown in Table 8.

Assessing Financial Wellness Programs

There are no definitive assessments of employee-sponsored financial wellness benefit programs. The service is too new, too ill-defined and not widely adopted enough to support a robust across-the-board review. However, surveys, interviews and case-by-case assessments provide a sense of how well financial wellness programs are helping employees and their employers.

Despite the absence of clear measures, surveys of employers who offer programs indicate generally positive attitudes. For example, in a survey by the International Foundation of Employee Benefits Plans (IFEBP), 67 percent of their members reported that their financial education programs were very or somewhat successful.[30]

Many business owners and human resource managers report that their programs are responding to many of the problems created by employee financial stress. Little information is available from employers on the financial return on their program investments. Instead, employers most frequently report improvements in employee productivity and morale (Table 9).

Types of Services in Financial Wellness Programs

The lack of a common definition has led to a wide array of offerings that employers consider financial wellness programs. A review of company offerings show that retirement and related investment planning are the dominant forms of financial wellness programming offered by most firms. Literacy about health and other employee benefits is also high on the list of financial assistance information. More specific research around financial education at work also demonstrate the prevalence of retirement saving and investment information.

A recent review of employer-sponsored financial wellness benefits found that companies offering services provided some or all of the following:[29]

- Financial counseling/coaching for employees, who meet (in-person, by telephone or online) with trained counselors to discuss financial issues;
- Financial education classes and seminars, including courses or workshops from a financial professional offered through the workplace;
- Online financial management tools to help employees manage and/or automate finances through a website or mobile app;
- Debt management services to help employees manage or repay outstanding loans;
- Savings products/services to help employees meet short- or long-term goals like education or retirement; and,
- Short-term loans and accrued wage advances, lower-interest credit options or cash available through the workplace.

Table 8: Components of financial wellness programs employers report offering

Program component	Employers offering
Retirement planning	65%
College	4.2%
Medical/health are cost planning programs	52%
Confidential employee self-assessments of their finances	44%
Tracking tools for goal attainment	41%
Investment planning programs	38%
Incentives/rewards for participation	34%
Privacy/security/fraud protection advice	27%
Saving for college programs	26%
Managing debt programs	23%
Day-to-day financial guidance/budgeting	22%

Source: Alliant survey of senior HR decision makers, January 2015

Table 9: Benefit to company bottom line

Share of employers reporting how financial wellness programs benefit their bottom line

- Increased employee engagement/morale 43%
- Improved productivity 40%
- Provided education for employees' goals 40%
- Helped alleviate employees' financial stress 36%
- Helped reduce employee absenteeism 23%

Source: Alliant survey of senior HR decision makers, January 2015

Financial Wellness Programs and Firm Size

Large Firms are More Likely to Offer Financial Wellness Programs

All of the studies that examine business practices by firm size find that larger firms are more likely to offer financial wellness services to their employees than smaller firms. For example, a 2015 survey conducted for Bank of America/Merrill Lynch found that large firms were more than twice as likely to offer services than small firms, as seen in Table 10. The Department of Labor 2016 Employee Benefits Survey found a similar trend, with 13 percent of employees from small firms reporting access to financial planning benefits compared with 25 percent of employees for large firms.

The trend with financial wellness services is consistent with other benefit offerings. The share of firms offering 401(k) plans also rises with firm size, from about 17 percent of small firms to over 70 percent of large firms.

Costs may well be a factor preventing smaller firms from providing comprehensive financial wellness programs. Interviews with service providers suggest that there are few programs that are cost-effective for small firms. One-on-one counseling, a common component of most financial wellness programs, is expensive. So, it is difficult for many small and mid-sized firms that operate on tight margins to find an affordable product that employees will use.[31]

Table 10:* *Financial wellness programs by business size

Share of firms offering financial planning/education to their employees

	Small	Midsize	Large
> Bank of America Survey*	23%	34%	48%
> US DOL Survey+	13%	18%	25%

*2015 Financial Wellness Survey. Firm size based on 401(k) assets: small <$5m; midsize >$5m<$100m; large >$100m

+Employee Benefits Survey 2016. Firm size based on employees: small <100; midsize >100<500; large >500

Small Firms Can Offer Effective Financial Wellness Programs

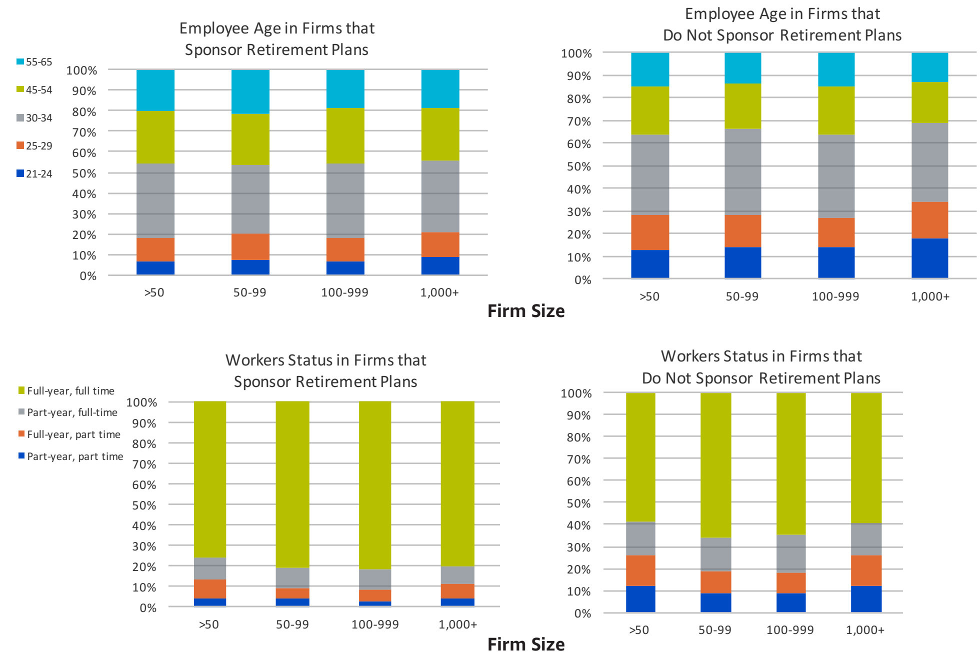
Upon closer examination, the reluctance of small firms to sponsor financial wellness programs may have less to do with firm size than with the characteristics of their employees. It may be that employers who offer financial wellness programs are responding to the interests of their labor market.

The 401(k) market may offer useful clues as to why firms might, and might not, sponsor financial wellness programs. While most large firm offer 401(k)'s, about 30 percent do not. Conversely, most small firms do not offer the retirement plans, but close to 1 in 5 do. A key driver in this decision appears to be the characteristics of the employees rather than their number.[32]

For example, small firms that do sponsor 401(k) plans have roughly the same utilization rates as large firms that offer plans. Their employees also have similar characteristics: they are older, receive higher wages and are more attached to the workforce, than those in both small and large firms that do not offer plans. Younger, lower-income, less attached workers are less inclined to reduce their take-home pay to save for retirement (Figure 8).

Data from the US Bureau of Labor Statistics indicates that small businesses tend to hire more people who are under 25, have high school degree or less and have low-income.[33] As discussed in Section 1 (see Figure 6), younger lower-income workers have different financial management priorities than do older higher-income workers. Specifically, younger low-income workers

Figure 8: Worker characteristics by firm size



Source: Who participates in 401k plans, Peter Bradley, Research Perspectives ICI. 2014

tend to be more focused on immediate financial needs, less interested in financial planning for the future and less likely to be savers than older workers with more education and higher incomes. Consequently, it may make economic sense for many small firms to not offer a program that their workers are disinclined to use.

This hypothesis is supported by data from the International Foundation of Employees Benefit Plans survey, a survey of companies that sponsor retirement plans. The IFEBP survey found that while the smallest firms were less likely to offer financial education, the differences with larger firms were not great. Nearly 1 in 5 firms with 99 or fewer employees offered financial education compared with 25 percent and 26 percent of firms with 100-999 and 1,000-4,999 employees respectively. Among the largest firms, 10,000 employees or more, 20 percent offered financial education (Table 11).

Table 11: Firms offering financial education by size

From Among Firms that Sponsor Retirement Plans	
> 99 or fewer	18%
> 100-999	25%
> 1,000-4,999	26%
> 5,000-9,999	8%
> 10,000 or more	23%

Source: Financial Education Survey 2016 Int'l Foundation of Employee Benefit Plans

Key Insights: Financial Wellness is a Rapidly Evolving Area of Employee Benefits

While awareness of the value of workplace financial wellness is growing among employers, only a small share of employers are adding financial wellness services to their employee benefit packages.

Financial wellness programs offered by employers represent a wide array of financial education, online tools, in-person advice and financial products beyond retirement planning. Employers report that the benefits are as important, or more important to boosting employee morale and loyalty as improving productivity.

The workplace financial wellness field is rapidly evolving with providers ranging from traditional benefits companies to community-based organizations to financial technology firms.

Larger firms are more likely than small businesses to offer comprehensive financial wellness services to their workers. This is consistent with trends around retirement plans, and may be related to costs and to the characteristics of workers in small and larger firms.

Despite eight years of economic growth, a large segment of American households remains in difficult financial shape. Stagnant wages and rising costs are making it difficult for many workers to stabilize their family balance sheets and build resilience to unexpected events. This is especially true for families led by low- and moderate-income workers.

Employers are increasingly aware that the stress and distraction caused by financial instability is affecting worker performance. A growing number of providers are responding to these realities with a range of financial services to allow employers to help workers build financial wellbeing.

This review of employer-sponsored financial wellness programs offers employers some initial findings as they consider adding financial wellness programs to their menu of employee benefits.

Employer-Sponsored Financial Wellness Programs are Still Developing

A review of available analyses suggests that comprehensive non-retirement financial wellness programming is relatively rare. About 10 percent of all employers, and between 20 and 30 percent of firms that sponsor 401(k) plans, provide financial wellness services beyond retirement planning and related investment management.

Financial wellness programming means many things to many people. Employers, employees and financial wellness service providers are not often on the same page. Consequently, there is no reliable count of how many firms offer financial wellness programs, how many employees use them and whether they are effective in helping employees stabilize and strengthen their financial wellbeing.

Observers note that there is a big disconnect around how employers, employees and service providers think about financial wellness services. Moreover, the high degree of variation in the types of financial issues the various programs seek to address make assessments difficult. In the absence of evaluations there are open questions about how scalable and effective different models are, and how well they translate into benefits to the employer.[34]

Utilization of Wellness Programs Varies by Worker

Employee utilization in firms that sponsor financial wellness programs appears to range between 10 percent and 30 percent. The employees most inclined to use them are higher-income, more educated and older. The employees under the greatest financial stress are least likely to participate in financial wellness programs aimed at medium- to long-term financial planning and saving.

The CSD study suggests that, perhaps through bad design and poor internal communications, low- and moderate-income (LMI) workers tend not to use seminar-based financial planning services, but some will use problem-specific supports. Individuals in financial crisis may use payroll loans, financial counselors and debt management services. However, the challenge is for LMI employees to adopt the behaviors that might help them avoid future financial crises.

Ideas42, an initiative to apply behavioral science to social problems, has found that traditional financial counseling may not be enough. Rather, programs need to help employees take direct actions—such as creating direct deposit savings accounts or direct deposit bill paying—to help build savings.[35]

Technological and Social Barriers May Reduce Program Utilization

However, technology may be one of the barriers to more LMI workers participating in financial wellness programs. For example, for many LMI workers, their smartphone is their only access to the Internet. Accordingly, many online financial wellness services tend toward a mobile-first philosophy. At the same time, people have been resistant to using mobile technology for financial transactions.[36]

Much of the business case for financial wellness programs is built around fear of financial difficulties. This approach may be creating a stigma around utilization of financial wellness programs. It basically markets the service as addressing or preventing employees' "bad" behavior. The financial wellness program is often provided through the company employee assistance programs (EAP) that most associate with crisis situations and mental health problems. Further, employees can be hesitant to let their employer know they are having financial difficulties.[37]

Community Partnerships and Self-Directed Technology May Reduce the Costs of Financial Wellness Programs

Partnering with civic organizations, philanthropy and experts in government and academia could be a fruitful avenue to an effective and relatively low-cost financial wellness program for LMI workers. The program developed by the Kansas City Federal Reserve and Omaha-based United Way of the Midlands is having success with a number of employers in Nebraska. Similarly, nonprofit providers are emerging from the traditional social service sector to provide financial coaching through to employer-sponsored programs.

Alternatively, models that use self-directed digital technology and repurposed content may be able to provide cost-effective services to lower-margin businesses with many LMI workers. Smartdollar, produced by Dave Ramsey Productions, relies on self-directed webinars to give basic financial planning advice and uses repurposed content from his radio show to provide issue-specific follow-up through a searchable database of audio/video content. Smartdollar is able to offer its services at a much lower cost than programs relying on one-on-one counselors.

A Tight Labor Market May Drive Employer and Employee Interest in Financial Wellness Programs

Economic forces will likely intensify interest in employee financial wellness programming among businesses. Worker productivity and health are being affected by financial stress, despite eight years of economic expansion. As the expansion continues, the risk of recession grows.[38] At the same time, workers are better positioned to adopt good financial habits. Employer-sponsored financial wellness programming could help employees boost their resiliency before the next downturn comes.

At the same time, falling unemployment and continued economic growth suggest that labor competition is likely to intensify. Quit rates among employees of small and mid-sized firms are approaching pre-recession levels as workers seek and find better jobs.[39] Financial wellness programming that fits employee needs may be a relatively low-cost way to attract and retain workers as labor markets become more competitive.

Financial Wellness Programs Must Evolve to Meet the Needs of Small and Mid-Sized Companies

Employees of small and mid-sized firms are less likely to have access to employer-based financial wellness programs than workers in larger firms. Still, the growing number and variety of financial wellness programs is allowing more small and mid-sized employers to offer this employee benefit.

Given the variety of approaches to financial wellness, interviews with small and mid-sized business leaders can provide valuable insights into how best to bring financial wellness programming to workers in smaller firms. Anecdotal evidence suggests that even low- and moderate-income workers will engage in work-based financial wellness programs that are designed to meet their needs and work situations. However, most financial wellness program models are aimed at large firms and white-collar workers.

As Americans gain distance from the Great Recession of 2007, family balance sheets are recovering. However, even before the recession a sizable number of people were in a challenging financial condition and even more remain that way today. Many are bringing their stress and distraction over personal financial matters to work and it is affecting their performance.

Awareness among human resources professionals of employee financial stress and the potential benefits of promoting employee financial wellness at work is high and rising. However, employer adoption of programming to address financial stress is still in its early stages, as measured by employer sponsorship and employee utilization.

The financial wellness industry is producing a variety of approaches to meet the needs of employers and employees that are as varied as the financial circumstances of workers. As more data is produced on program effectiveness, new models are likely to emerge that can gain the interest and acceptance of employers and their workers. However, the needs of small and mid-sized firms, which employ 50 percent of America's workers, are being largely left out the equation.

In **Phase Two** of the Financial Wellness Project, the National Fund for Workforce Solutions will work toward addressing this gap. With the help of its partner regional collaboratives, the National Fund will seek out small and mid-sized employers from a variety of sectors, regions and business models who have made the decision to provide financial wellness programs to their workers. Through surveys and interviews, the National Fund will deepen its knowledge of how to effectively bring these valuable employee benefits to smaller businesses.

In its **Phase Three,** the National Fund will fund six of its local collaboratives to work with employers to develop financial wellness strategies and implement programs and services that improve the financial wellbeing of their employees.

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