National Fund for Workforce Solutions

EXECUTIVE SUMMARY

# THE IMPORTANCE OF FINANCIAL WELLNESS TO WORKERS AND EMPLOYERS

AN EXAMINATION OF EMPLOYER-SPONSORED FINANCIAL WELLNESS PROGRAMS

By Stephen Adams

This summary outlines the primary findings of the full report—*The Importance of Financial Wellness to Workers and Employers*. Both the Executive Summary and the full report are 'working documents' and are subject to change as conditions and products in the financial wellness arena continue to evolve. This report and subsequent research inform the National Fund's Financial Wellness Project which seeks to help small and mid-sized companies improve the financial wellness of their employees.

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## 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 percent) 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.[I] This frequent and pervasive issue is creating significant performance issues and affecting the ability of companies to effectively perform and compete.

### *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**
- **Having the financial freedom to make choices that allow one to enjoy life**

### *What is the Definition of a Low- and Moderate-Income Household?*

Low- and moderate-income (LMI) households 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 had 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.

[I] Prawitz, Aimee D. Financial Literacy and Workplace Outcomes: Presenteeism and Absenteeism. Personal Finance Employee Education Foundation. January 2013.


## 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
- 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.

## Attention to Family Finances Can Bolster Financial Resiliency

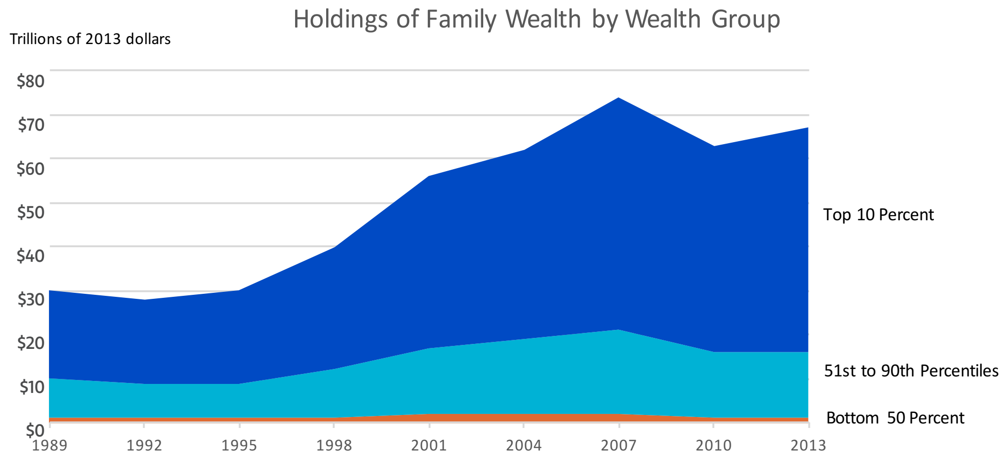
Lower-income households that engage in positive financial and economic behaviors can be as financially resilient as upper-income families that do not. For example, research has found that households with incomes below $25,000 but with at least $2,000 in liquid assets were equally financially resilient 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.

### *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.

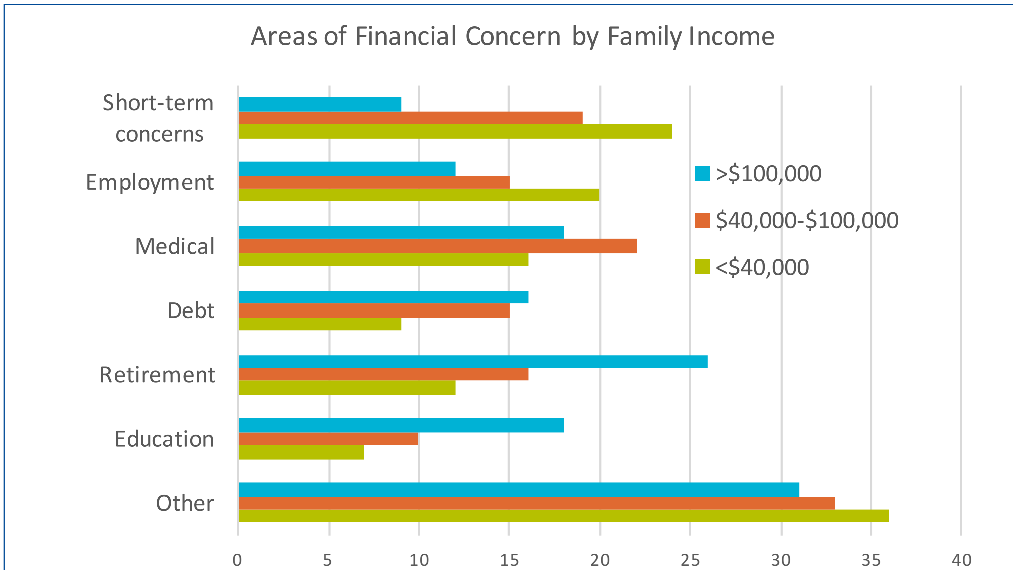
## Larger Firms are More Likely to Offer Financial Wellness Benefits

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.

### *Figure B: Financial concerns by income*




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

## 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
- Financial education classes and seminars, including courses or workshops from a financial professional offered through the workplace

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.

## 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.

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