Financial Fitness Group

WHITE PAPERS

THE ECONOMIC RAMIFICATIONS OF FINANCIAL STRESS:

HOW FINANCIAL WELLNESS BENEFITS BOOST THE BOTTOM LINE

FINANCIAL LITERACY PAYS DIVIDENDS

According to the American Psychological Association (AMA), the number one cause of stress is money. [1] When employees are financially stressed, the stress can affect their health, job performance, and productivity, and can even erode workplace ethics and integrity.

Is it any wonder? Just look at these statistics:

56%
of American adults don't have a budget [2]

32%
have zero non-retirement savings [2]

41%
grade themselves C, D, or F in personal finance [2]

22%
don't know how much they spend on food, housing, and entertainment [2]

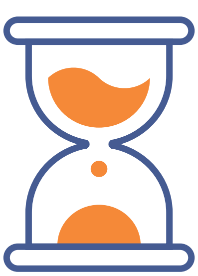
28%
do not pay their bills on time [2]

21%
believe that winning the lottery is the most viable way to fund retirement [4]

29%
can handle emergencies only by using a credit card [3]

40%
carry credit card debt month to month [2]

77%
of Americans live paycheck to paycheck



According to Human Resources Magazine, more than 53 percent of financially stressed employees spend hours on the clock dealing with their financial issues. [6] Dr. E. Thomas Garman, a recognized leader in research into the impact of financial stress in the workplace, compared financially stressed workers to "a poison poured on the floor of the workplace."

[7] Those who show up make more personal calls, talk about personal issues longer, and waste about 20 hours a month dealing with money problems.

Financially stressed employees cost employers a bundle.

The AMA also estimated that stress in the workplace costs American businesses **$300 billion a year** in reduced productivity, unnecessary turnover, and increased medical expenses. [1] A Commerce Clearing House Unscheduled Absence Survey projects that unscheduled absenteeism alone can increase direct payroll costs at the largest employers by as much as $760,000 per year on average. [6]

Stress in the workplace costs American businesses $300 billion a year.

Employees who want to retire but are financially unable to do so cost businesses. These costs include lower productivity, higher health care costs, and higher payroll expenses. There are also direct costs associated with higher FICA taxes and benefits administration costs.

Financially stressed people who can't make good money and credit management decisions and who have not taken advantage of employer-provided benefits cost their employers between $450 and $2,100 annually. [7] Other research suggests that financial stress costs businesses $15,000 per affected employee. [8] And the bad news doesn't stop. Unless your workforce is unique, at least 25 percent of your employees — regardless of their position or salary — are affected. [9]

Here is one analyst's summary of what financial stress costs a company:

$7,000

REDUCED EMPLOYEE PRODUCTIVITY
$7,000 PER EMPLOYEE PER YEAR

$29,000

INCREASED WORKPLACE ACCIDENTS
$29,000 PER WORKPLACE ACCIDENT

$8,000

HIGHER EMPLOYEE TURNOVER
$8,000 AVERAGE COST TO REPLACE EMPLOYEE

10%

AVERAGE COST TO REPLACE EMPLOYEE 10% OF HR DEPARTMENT PAYROLL BUDGET

All aspects considered, the benefits of helping employees understand and self-manage their physical and financial wellness are compelling.

For example, let’s take a look at 401(k) participation. Up to 50 percent of eligible workers choose not to enroll in their employer’s 401(k) plans,10 and of those who do, less than 10 percent contribute the maximum amount allowed by the plan. These employees need basic financial training on debt reduction and budgeting before they can tackle more advanced topics like investment strategies, planning for a child’s college education, and saving for retirement.

Dr. Susan Jenkins of Idaho State University says, “Even a small increase in an employee’s financial security can add significantly to [the] bottom line.” [11] Dr. Garman tells employers they can expect $450 in positive job outcomes from each employee who slightly increases his or her financial behaviors and financial well-being. [4]

The return comes from reduced absenteeism and less time on the job spent dealing with personal financial matters. Financially literate employees practice good financial behaviors. They save and invest within their employer’s 401(k) plan at a level sufficient to anticipate a comfortable retirement. Where appropriate, they enroll in health care and dependent care reimbursement plans.

Engaged employees deliver better performance, which is critical for business success. They understand their role in the business strategy and have a strong connection and commitment to the company. Striving to maintain a higher level of employee engagement not only contributes toward short-term survival during economic volatility but is also a key factor for longer-term business performance.

Up to **50 percent** *of eligible workers choose not to enroll in their employer’* **401(k) plans**

Financial wellness programs offer a compelling ROI

Since financially illiterate employees do not make the best decisions for themselves or their employers, it’s logical that employee financial illiteracy positively impacts employers. This should motivate employers to offer employees financial wellness benefits that could decrease their stress and improve their financial lives. Calculations illustrate that for every dollar employers spend on financial education, they gain a return of $3 or more. [12]

CALCULATIONS ILLUSTRATE THAT FOR EVERY DOLLAR EMPLOYERS SPEND ON FINANCIAL EDUCATION, THEY GAIN A RETURN OF $3 OR MORE.

What can your organization expect to save? Determining the benefits in dollars can be challenging, but a formula devised by Paul Squires, Ph.D., president of Applied Skills & Knowledge, assumes there are three elements to the calculation. [13] After each element is calculated separately, add up the elements to obtain the value in dollars of the personal financial wellness program. Then subtract the cost of the program to obtain the ROI.

Here is his example:

1,000 EMPLOYEES	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
EMPLOYER FICA SAVINGS FROM HSA & FSA PARTICIPATION	30,600	61,200	91,800	122,400	153,00
EMPLOYEE ENGAGEMENT SAVINGS	800,000	1,600,000	2,400,000	3,200,000	4,000,000
TIMELY RETIREMENT SAVING	596,000	1,192,000	4,279,800	5,706,400	2,980,000
TOTAL ROI	**1,426,600**	**2,853,200**	**4,279,800**	**5,706,400**	**7,133,000**

The first ROI element is money associated with employees' failure to save money in 401(k) accounts, flexible spending accounts, or health savings accounts. The second element is employee engagement. The easiest way to estimate this is to apply the rule of thumb that for every 100 employees on the payroll, your company loses 22.5 person days of productivity per year due to financial distress.

Then do the arithmetic. The third ROI element relates to employees who cannot afford to retire. Costs associated with these employees are higher health care premiums and higher wages paid to higher-tenured employees. Financial wellness education makes a difference when you add up all these costs and compare them to the cost of financial education. The ROI is large and the payback period is fairly immediate.

Financially literate employees are happier and healthier in more ways than one

Offering employees the ability to participate in financial wellness programs, such as the online Financial Fitness Challenge, has proven to be successful in driving higher 401(k) participation and reducing the number of hardship 401(k) loans. Employers also recognize the other benefits of offering workplace-based financial wellness programs. Employees with greater financial well-being are healthier due to the reduced physical and mental effects of stress. For employers, this can translate into reduced operating costs — on average, $348 per sick day, 14 per employee.

In one instance,
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In one instance, a large public company reported an annual savings of 21.57% on health care costs for heavy users of a workplace-based financial education program. This amounted to more than $1 million in health care savings among all users of the program. [14] The same company also reported a savings of $837,230 through reduced absenteeism among users of the financial education program.

Employees who reduce their financial stress also reduce workplace distractions and increase productivity. Estimates of potential employer savings from limiting personal financial distractions in the workplace can be as high as $5,000 per employee per year. [14] Employees who are more focused at work perform better and are less likely to experience a workplace accident.

Finally, offering financial wellness programs can help employers increase retention and employee commitment. Offering comprehensive benefits packages helps employers recruit talent and increase employee loyalty. Similarly, offering financial wellness programs can help employees mitigate financial crises and become more engaged and more confident, which leads to higher job satisfaction.

A Watson Wyatt** study concluded that the largest impact on participation and contribution rates was found through the use of the **Internet** and **Web-based tools.

What type of program produces successful financial behaviors?

Although there are many different ways to educate employees, studies show that information presented in an engaging, interactive manner is assimilated more effectively than the same information presented in other formats. Individuals pay better attention, retain more information, and take action when a message is delivered in an interesting format.

But it appears that the single largest factor in the success of any learning program is the accessibility of the information being presented. A Watson Wyatt study concluded that the largest impact on participation and contribution rates was found through the use of the Internet and Web-based tools.16 And the key to the usefulness of such resources is flexibility — employees should be able to access their account information, software, and educational material on their own time and at their own pace.

The Financial Fitness Group, a purveyor of comprehensive online financial education programs, offers the Financial Fitness Challenge, which provides unbiased online, interactive instruction in personal finance and investing fundamentals. The one-hour-a-week, five-week program leverages best practices in technology + psychology + online competition to make learning about personal finance and investing fundamentals efficient, effective, and fun.

The Challenge is a proven training program that delivers 500 percent better results than traditional programs. It results in improved employee productivity, increased participation in retirement plans, more engaged workers, and benefits for the bottom line.

Results from more than 750 organizations and more than 100,000 employees who have participated and completed 400,000 hours of financial training include:

80%	**on average chose to participate**
30%	**improvement in knowledge**
70%	**changed their attitudes and behaviors**
70%	**improvement in confidence**
90%	**would recommend the program**
90%	**would participate again**

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For more information about the Financial Fitness Challenge,

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