



News Review

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Personal Financial Stress and The Employer's Bottom Line

The recently released 2005 *National Survey on Financial Stress and Individual Plan Health* reveals “a dramatic increase from 2004 in the number of workers indicating some need for assistance in deciding how to allocate their 401(k) and retirement plan assets”. More than 2 out of 3 (65%) of “workers are looking for help, versus just more than half of all workers in 2004 and 2002”. The most frequently cited sources of stress in the 2005 survey were saving enough for retirement (39%), debt (37%), affording a big ticket item (32%) and paying monthly bills (30%).

In an environment of growing concern over the costs of employee benefits versus employee productivity, the effect of personal financial stress on employee productivity is a topic of growing concern. Thomas Garman, Virginia Tech professor and COTA Fellow, says...

- ...34% of workers rate their financial stress as high to extreme
- ...54% of workers say they worry about how much they owe
- ...75% of workers report that they have made better financial decisions as a result of financial education
- ...53% of workers report dissatisfaction with their personal financial situation
- ...one third of workers report that money worries sometimes hamper job performance
- ...56% of workers reported their financial situation had improved because of workplace financial education

In summary Garman notes, “There are substantial costs to employers caused by the stresses associated with the poor personal financial behavior of employees. This is the most glossed over and ignored worker issue today.” Further, Garman estimates that employers can expect as high as a 9-to-1 dollar return on investment in employer sponsored workplace financial education. “The smartest employers today”, Garman continues “are broadening their perspectives about financial education and moving beyond just retirement education to offering comprehensive financial education.”. Or as Lesley Alderman, associate editor of *Money Magazine*, put it in the recent PFEE (Personal Finance and Employee Education) conference, “Personal financial education is the most important worker benefit for the 21st century”.

Financial Distress and Employee Productivity

That financially troubled employees effect employer's bottom line has been the conclusion of several recent studies. One, *Financial Distress Among American Workers* (posted March, 2005 <http://www.EThomasGarman.net>) concludes, “It is an ugly situation for employers when more and more of their workers are distressed about their personal finances and running hard just to keep their heads above water financially. Why? The reason is that many workers who struggle with money matters are less productive at their place of employment because of their financial distress. Depending upon their place of employment, 30% to 80% of financially distressed workers spend time at work worrying about personal finances and dealing with financial issues instead of working.” In addition a “large proportion of those who are financially distressed, 40% to 50%, report that their health is directly impacted negatively by their financial worries and problems. Health problems caused by financial distress cost employers big money.” “These finding should motivate employers to offer employees access to resources...to decrease their stress about money matters and improve their financial lives.”

The study, *Financial Stress, Pay Satisfaction and Workplace Performance*, found 11 behaviors related to financial stress that abuse employees time at work: “made calls to family or friends to discuss financial problems, received call from creditors, asked about borrowing money from 401(k) plan, consulted with a credit counselor, talked to a collection agency about past due payments, talked about consolidating debts, asked about obtaining a payroll

advance, took time to handle personal financial matters, spent time worrying about personal finances, talked about money problems, and consulted with a lawyer.” “More than half (53.9%) of the respondents spent some work time dealing with matters resulting from financial stress.”

Another study (J. Kidd, Feb., 2005, *Chicago Tribune Online Edition*), notes “consumers with credit card debt... found that economic stress does impact physical health. Headaches, inability to concentrate and nausea were the most common symptoms and eight percent of respondents reported seeing a doctor because of health problems related to financial stress”. A study in *Social Science and Medicine* (Drentea & Lavrakas, 2000) “found that individuals reporting higher levels of financial stress had higher level of illness and physical impairment than others with lower financial stress levels. The higher an individual’s debt-to-income ratio, the more likely they were to be in poor health.”

The study *Financially Distressed Consumers* concludes: “Therefore, employers, in particular, have an important role to play in helping Americans improve their health and finances by offering targeted programs and incentives. After all, the workplace is where their employees spend the bulk of their time. Employers also stand to benefit tremendously from workers’ improved financial well-being. Not only are there potential productivity benefits but it is also likely that health care costs associated with stress would be reduced”.

The Benefits of Financial Literacy in the Workplace

At the second meeting of the *Financial Literacy and Education Commission* (Washington D.C., May, 2004) Governor Edward M. Gramlich of the *Federal Reserve* stated, “Workplace education benefits both the employer and employee. For the employee, more knowledge, one hopes, will result in better financial decisions and overall financial wellbeing. Employees who are taking maximum advantage of the benefits available to them will more likely have greater job satisfaction, which may result in less turnover. For the employer, research studies have shown that employees who are financially healthy are more productive. They are absent less often, spend less time at the workplace dealing with financial crises, and earn higher job performance ratings.”

Further, these findings coincide with the ERISA 404(c) rules that employers with self-directed 401(k) plans can reduce their fiduciary liability by providing financial education to their employees. Often this education is limited to a website or annual visits from the plan provider and addresses only retirement education. As the comments and studies above show, this kind of education falls woefully short of addressing the kind of health and productivity costs employers face with the mounting financial stresses of employees. On the other side of the equation is the fear that employers may incur exposure to liability by providing financial education. In the study *Financial Stress, Pay Satisfaction and Workplace Performance* (2004 Sage Publications), Jinhee Kim Ph.D. notes, “ Although concerns about fiduciary liability stop many plan sponsors from giving workers financial advice, pending legislation such as the Pension Security Act, H.R. 1000, could provide some safety to employers in the future. The Economic Growth and Tax Relief Reconciliation Act of 2001 made employer-provided retirement planning advice a de minimis fringe benefit for employees so long as such services are available on substantially the same terms to all employees. Qualified retirement-planning services are defined as any retirement-planning advice or information that an employer who maintains a qualified retirement plan provides to an employee or the employee’s spouse. This exclusion is expected to motivate more employers to provide retirement-planning services to their employees.”

Improving the Workplace through Financial Education

The study *Financially Distressed Consumers: Their Financial Practices, Financial Well-being and Health*, notes: “Sociological research data indicate that four factors strongly predict happiness and overall well-being in most cultures: health, economic status, employment, and family relationships. People are happier when they are healthy, employed, married or in a committed relationship, and financially secure.” It may sound simplistic, but, happy employees do make healthier and more productive workers. Simply stated, “Workplace financial education programs have been found to increase the participants’ confidence in their investment decisions, change their attitudes in positive directions, and improve their personal financial management behaviors, such as saving more money. Employees who attended workplace financial education...report less financial stress and higher financial well-being than those who did not.”