

reprint
benefits
MAGAZINE

Reproduced with permission from *Benefits Magazine*, Volume 48, No. 9, September 2011, pages 20-24, published by the International Foundation of Employee Benefit Plans (www.ifebp.org), Brookfield, Wis. All rights reserved. Statements or opinions expressed in this article are those of the author and do not necessarily represent the views or positions of the International Foundation, its officers, directors or staff. No further transmission or electronic distribution of this material is permitted. Subscriptions are available (www.ifebp.org/subscriptions).

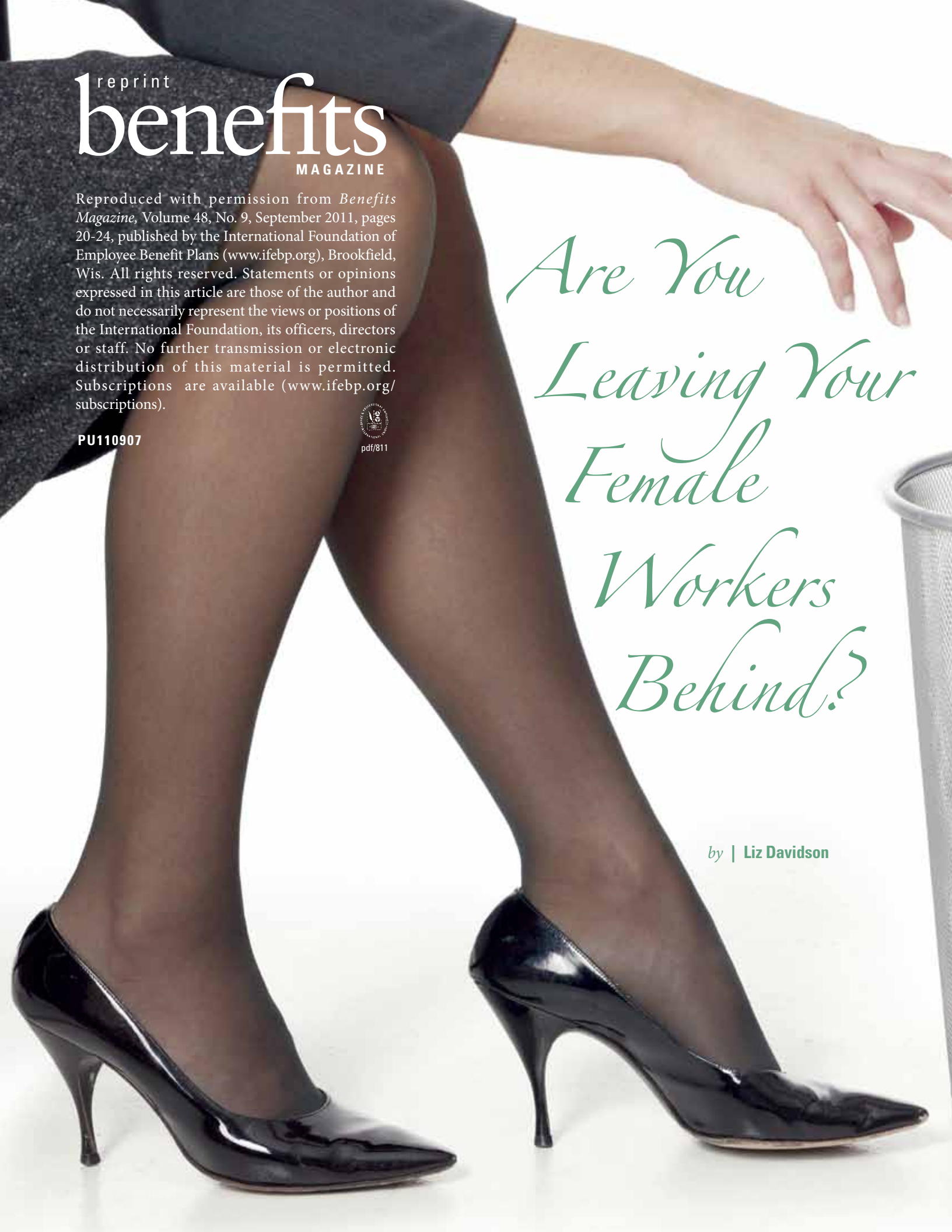
PU110907



pdf/811

*Are You
Leaving Your
Female
Workers
Behind?*

by | Liz Davidson



Although women need to save more, invest more wisely and better manage benefits in preparation for a longer retirement than men, research shows there is a significant gap in women's financial knowledge.

The Problem

Research on employee financial issues has uncovered a problem that all benefits human resources (HR) managers need to be aware of as they transition more responsibility for funding and management of benefits to employees.¹ Despite the progress women have made in the workforce over the last several decades, there is still a large gender gap when it comes to women's financial knowledge—one that has significant implications for their ability to effectively manage their benefits. Table I provides a quick summary of key findings on the gender gap in financial literacy.

This gap is particularly concerning considering that women face more significant financial obstacles than men to begin with. Women have longer life spans than men (three to five years on average), which means they must amass even more for retirement. They also earn less on average than men, typically receive a lower monthly benefit from Social Security, and have higher health care costs throughout their lives.

To even out the playing field, women would need to save more than their male counterparts, invest more wisely, and better manage their overall benefits. Instead, the opposite is happening as they are behind in virtually all areas of financial planning as well as overall financial knowledge.

Couple this with the fact that employers are placing more burden on employees to fund benefits and make complicated decisions around how to best manage their own benefits, and women are at significant risk of making poor financial decisions about their benefits—decisions that are likely to be very expensive mistakes for both themselves and their companies.

The Consequences

Now that women make up nearly 47% of the workforce, this is no longer a problem that employers can ignore or delay. The consequences are simply too dire—both from a direct financial perspective and from a longer term cultural perspective.

The costs of women's lack of financial savvy can be broken down into three key areas:

continued on next page



TABLE I >>

Responses on Financial Knowledge Survey

	Women	Men
I have a general knowledge of stocks, bonds and mutual funds.	64%	84%
I feel confident that my investments are allocated appropriately.	25%	42%
I know I am on target to replace at least 80% of my income in retirement.	12%	19%
I have a handle on my cash flow so I spend less than I make each month.	63%	80%
I regularly pay off my credit card balances in full.	49%	65%
I am uncomfortable with the amount of (nonmortgage) debt I have.	46%	30%
I have an emergency fund to pay bills for a few months if I lose my job.	46%	61%

1. Delayed Retirement Costs

Women are significantly more likely to delay or forgo retirement than men. Sixty-one percent of women aged 50-64 vs. 45% of men indicated they plan to delay retirement. This number may actually be an underestimate, as women tend to be much more conservative investors than men, leaving them vulnerable to choosing investments that don't grow sufficiently to fund income needs in retirement. From 1950 to 2010, the percentage of women aged 50-64 in the workforce doubled, and researchers expect this trend to continue through 2020 as more women delay retirement.

This will put a major financial strain on employers due to the costs incurred whenever an employee delays retirement. It has been estimated that an employee who delays retire-

ment can cost from \$10,000 to \$50,000 per year in direct tangible costs, and employees who delay retirement plan to do so, on average, for three years.

This \$10,000-\$50,000 annual per employee cost of delayed retirement includes only costs that can be easily measured—greater compensation and benefits for tenured employees vs. younger employees who would ultimately replace them at a lower compensation and benefits base.

Unfortunately, the largest costs are intangible and cannot be effectively measured, but most benefits managers who have studied this issue agree they far exceed the tangible estimate of \$10,000-\$50,000 per year. Employees who want to retire but cannot do so for financial reasons are typically less productive and less engaged, and their performance often declines. The impact may be even more significant for younger employees who are unable to move up the career ladder because their older counterparts are not retiring. In companies where this situation is particularly pronounced, HR managers face a potential “brain drain” that is the opposite of what they originally expected—with younger, high potential, star performers leaving to join companies that are growing fast enough to afford them career advancement opportunities. One HR manager we talked to commented that his company's future was “walking out the door.” There was no way to attach a price to this concern, but it was beginning to impact the entire company culture and its competitiveness in an already cutthroat industry.

2. Higher Health Care Costs

Due to unique financial challenges women face and the gap in their financial knowledge and confidence levels vs. men, women are much more prone to financial stress than their male counterparts.

A study on financial stress among U.S. employees found that women are three times more likely to face overwhelming financial stress than men—another costly proposition for themselves and their companies from a health care perspective.² With an estimated 60% of illness either directly or indirectly caused by financial stress, women's financial stress has a direct impact on an organization's health care costs. Over 200 studies have shown a direct link between financial stress and costly medical conditions such as high blood pressure, metabolic syndrome that is a precursor to diabetes, heart disease and migraine headaches, among hundreds of other diseases and ailments. Below is a summary of a poll

takeaways >>

- Because they live longer than men, women need to amass more retirement savings.
- Women are more likely than men to delay or forgo retirement.
- Because women are less likely to take advantage of employee benefits, employers are not seeing the desired return on investing in benefits.
- Traditional benefits communications aren't reaching women; employers need to shift to a benefits planning approach.

TABLE II >>

Traditional Benefits Communication Approach	Benefits Planning Approach
Done as a one-time or annual event	Ongoing education
Technical: focused on details of specific topics rather than overall picture of how each benefit works together with an employee's finances	Holistic: incorporating all benefits and helping women see their value in meeting important life goals
Transactional: usually Web-based and through a form. Employee makes important decisions about benefits without personalization.	Personalized: Benefits education is provided in a way that is specific to an individual employee's specific goals, needs and concerns.
Self-service: Employees receive information in a benefits package and are given key dates to make benefits decisions. Little guidance from anyone outside of HR, and HR is not usually able to accommodate heavy flow of employees' questions.	Relationship-oriented: Full-time independent educators provide ongoing education and are employees' resource for financial and benefits-related questions.
Ignorant to women's communication styles and needs	Subtly marketed toward women when necessary and provided in a way that appeals to both women and men

conducted for the Associated Press and AOL on the impact of financial stress on health. Those that reported high levels of financial stress had more health care problems across the board, including:

- Double the rate of heart attacks
- Triple the rate of migraines
- Three times as many ulcers and digestive tract problems
- 500% increase in severe anxiety and depression.

3. Low Return on Investment Associated With Core Benefits

The gender gap in financial literacy limits employers' ability to realize a strong return on investment on their benefits offering because women are less likely to take advantage of benefits, and less likely to understand how to effectively manage them to achieve critical financial goals. For large companies, this can mean hundreds of millions of dollars end up going to waste, as their benefits end up frustrating employees rather than motivating them, completely defeating the purpose.

Study after study shows that benefits are among the top reasons that an employee joins or stays at a company, and that an employee's level of engagement, job satisfaction, productivity and performance is highly correlated with his or her appreciation of the benefits.

Contrary to popular belief, an employer's generosity with respect to benefits does not necessarily translate into high levels of employee satisfaction and appreciation. In

fact, many companies with very generous benefits packages find the opposite is true and end up creating a culture of entitlement rather than one of empowerment.

So, if an employer's generosity with respect to benefits is not the key indicator of employee benefits satisfaction, what is?

It turns out the employees who appreciate their benefits overwhelmingly are those who manage those benefits well and use them to achieve key financial goals.

For every employee who doesn't fully understand his or her benefits, doesn't participate in them or doesn't effectively manage benefits to achieve goals, employers effectively waste the money they spend providing this employee with benefits. And with women having more financial challenges around saving and investing, employers run the risk of a negative return on investment on the benefits they provide their female employees.

continued on next page

learn more >>

From the Bookstore

Communicating Benefits: Changing Methods and Changing Minds

by Ann Black. International Foundation. 2007.

For more details, visit www.ifebp.org/books.asp?6313.

<< bio



Liz Davidson is CEO of Financial Finesse, a leading provider of unbiased financial education programs for employers nationwide, delivered by on-staff Certified Financial Planner™ professionals. Davidson has an M.B.A. degree from UCLA's Anderson School of Management with a concentration in finance. She can be contacted at Liz.Davidson@financialfinesse.com.

What Employers Can Do to Close the Gap

More women are actively employed than ever before, more women are at high risk of not being able to retire on time and women need more help than men in gaining a knowledge and understanding of their benefits and finances. So it seems obvious that employers should be defaulting their communication and education efforts to a standard that reaches women and successfully helps them manage their benefits.


The traditional form of benefits communication hasn't worked because women can't relate to it. Women learn in more collaborative and holistic environments, which has been overlooked in the past. When employers shift to a holistic and ongoing educational program that looks at all benefits under an um-

brella of how they relate to employees' financial goals, both women and men are influenced to change their behavior. Our studies have shown that the more interactions employees have with benefits education, the more they will save in their retirement plan, with the average employee saving 11% after five interactions and the deferral rate increasing from there. And women are twice as likely as men to take advantage of benefits education and are more apt to make lasting change in the way they manage their benefits and plan for retirement.

To get these results, employers need to shift from a traditional benefits communication mindset to a benefits planning mindset. It is no longer enough to simply explain the benefits from a technical perspective. To get a strong return on investment,

benefits managers today must find ways to help employees better fund and manage their benefits so that they can achieve key financial goals and so that they connect with the company as a partner in helping them achieve these goals.

This is particularly important for female employees who think more holistically and tend to focus more on the big picture. But it turns out this approach also works better for men now that benefits are more complex and the employee carries more of the burden for funding benefits. Table II contrasts the traditional benefits communication approach that has not effectively connected with women with the more successful benefits planning approach that resonates with women and helps employers to close the gender gap.

The gender gap is not an easy problem to solve as women start out with significant disadvantages from a demographic perspective—earning less, living longer and in most cases retiring alone. But it is solvable with the right strategy and an ongoing commitment to approaching benefits communication as a personalized, holistic process that ties the employer's benefits to employees' specific financial goals. There is a cost to taking this approach, but the cost of leaving female workers behind is much greater—for the employer, for them and for society as a whole. 

learn more >>

Education

Wellness and Disease Management

For more information, visit www.ifebp.org/elearning.

From the Bookstore

Healthy Employees, Healthy Business: Easy, Affordable Ways to Promote Workplace Wellness, Second Edition by Ilona Bray. Nolo. 2009.

For more details, visit www.ifebp.org/books.asp?8821.

Endnotes

1. *The Gender Gap in Financial Literacy* is available at <http://goff.im/2011-Gender-Gap-Report>.
2. *Financial Stress Among U.S. Employees* is available at http://goff.im/financial_stress.