FINANCIAL FINESSE

ROI SPECIAL REPORT

2016

Abstract

Employers who help employees improve their overall financial wellness and reduce financial stress can reduce costs in a number of areas that positively impact the company bottom line. This case study describes the various levels of financial wellness and offers a model for measuring the benefits of addressing employee financial difficulties for large employers. We outline the actions needed to move median employee financial wellness up to an incrementally higher level, and employer best practices for supporting that shift.

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Executive Summary

Employers that help employees improve their overall financial wellness and reduce financial stress can reduce costs in a number of areas that positively impact the company bottom line. What it takes to accomplish this goal varies for employees in a given workforce population depending on their level of financial health. For our 2016 ROI Special Report, we conducted a case study of a Fortune 100 company's comprehensive workplace financial wellness program from 2009 to 2014. As part of the study, we separated participants into one of five levels of financial health based on their financial wellness score: suffering, struggling, stabilizing, sustaining, and secure.

The study found that employees who suffer from overwhelming financial stress or struggle to maintain financial stability tend to incur both immediate and future financial costs for their employer in the form of absenteeism, garnishments, payroll taxes, and delayed retirement. As employee financial health improves these costs diminish.

	SUFFERING	STRUGGLING	STABILIZING	SUSTAINING	SECURE
FINANCIAL WELLNESS SCORE RANGE	0-2	3-4	5-6	7-8	9-10
WHERE THEY STAND	In financial crisis. They are often behind on bills and overwhelmed by debt.	Lack emergency savings and uncomfortable with debt. One unplanned event could throw them into financial crisis.	Have a handle on cash flow but are not on track for long-term goals like college or retirement.	On track for long-term goals but lack wealth protection.	Have taken steps to build and preserve wealth.
KEY IMPROVEMENT NEEDED	Stop the bleeding and get cash management immediately under control.	Pay off high-interest debt and build up emergency savings.	Use financial calculators to estimate savings needed to achieve long-term goals.	Acquiring adequate insurance protection and procuring estate planning documents.	Review financial plan regularly and seek second opinions to avoid financial pitfalls.
OPTIMAL OUTREACH	Need one-on-one financial counseling with a credit counseling specialist.	Need help with budgeting and debt management.	Financial planning on how employees can use employer-sponsored benefits to achieve long-term goals.	Advanced financial planning on wealth protection strategies.	Ongoing education on benefits and tax-law changes.
AVERAGE FINANCIAL WELLNESS SCORE	1.7	3.6	5.4	7.4	9.1
AVERAGE ANNUAL COST PER EMPLOYEE	$198	$94	$0	-$82	-$143

From the case study, we are able to estimate the potential cost savings of an incremental shift in the median workforce financial wellness score from 4 to 5, and for a longer-term shift from 4 to 6 (on a 0-10 scale, with 10 indicating optimal financial wellness).

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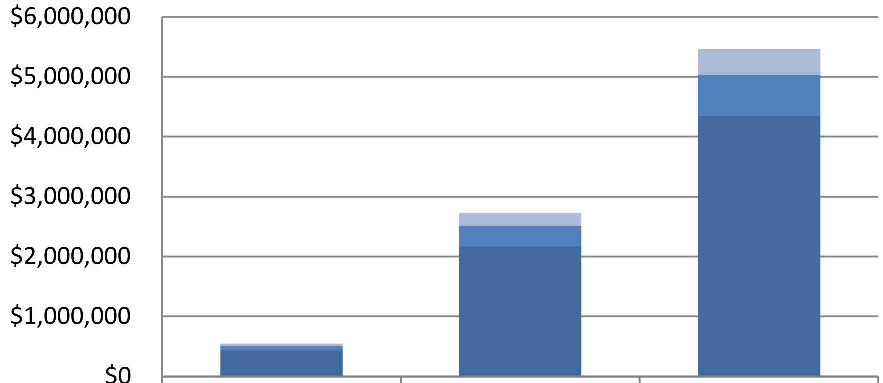
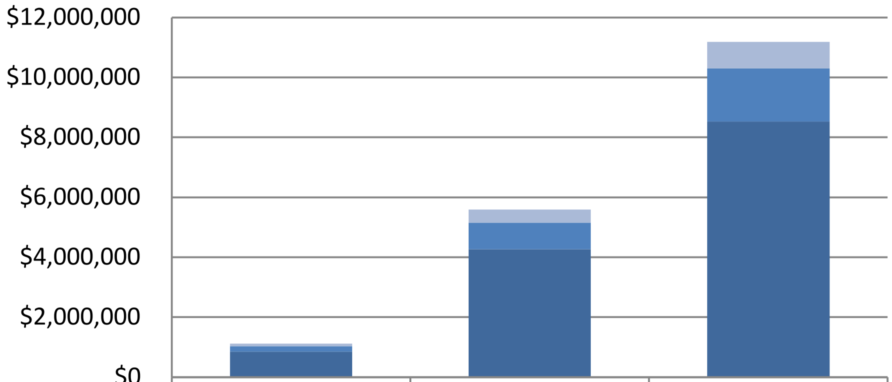
Projected Cost Savings of Incremental Shift in Workforce Financial Wellness Score from 4-5 (by employer size)



	10,000	50,000	100,000
Garnishments	$43,301	$216,504	$433,007
Flex Spending/Health Savings	$68,203	$341,017	$682,034
Absenteeism	$434,728	$2,173,638	$4,347,275

Projected Cost Savings of Incremental Shift in Workforce Financial Wellness Score from 4-6 (by employer size)



	10,000	50,000	100,000
Garnishments	$88,683	$443,413	$886,827
Flex Spending/Health Savings	$177,446	$887,229	$1,774,457
Absenteeism	$852,879	$4,264,396	$8,528,793

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Over half (54 percent) of the population studied had a financial wellness score of 4 to 6. The most common steps taken by employees that improved their financial wellness score from 4 to 5 were:

- Establishing an emergency fund (+50%)
- Calculating the need for and/or purchasing life insurance (+39%)
- Paying off credit card balances in full (+38%)

Other notable improvements include a 56 percent increase in the percentage that understand the tax implications of investment and retirement accounts, and a 55 percent increase in the percentage that feel confident in their investment allocation.

Employers can help facilitate a shift in the overall workforce financial wellness score from 4 to 5 by offering financial education in the following areas: personal financial basics, retirement planning, and investment planning.

For employees that improved their financial wellness score from 5 to 6, the most common steps taken were:

- Developing a master asset allocation strategy (+142%)
- Rebalancing investment accounts (+68%)
- Taking a risk tolerance assessment (+41%)

Not surprisingly, there was a 61 percent increase in the percentage that feels confident in their investment allocation. Other notable improvements include a 45 percent increase in the percentage that understand the tax implications of investment and retirement accounts, and a 73 percent increase in the percentage of parents that know how much they need to save for college and are on track to meet that need.

Employers can help facilitate a shift in the overall workforce financial wellness score from 5 to 6 by offering financial education in these areas: retirement and investment planning, tax strategies, and utilizing company benefits.

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Levels of Financial Health

For purposes of the study, employees were grouped into quintiles based on their current level of financial health:

Group	Absenteeism (hours)	Frequency of Garnishment	Flex Spending / Health Savings	Deferral Election	Level of Stress (1 - 10)	% of population
Suffering	17.00	10.68%	$674	5.04%	7.2	13%
Struggling	14.05	5.64%	$861	6.18%	6.0	35%
Stabilizing	11.27	2.68%	$1,059	7.83%	4.9	34%
Sustaining	8.69	1.61%	$1,244	9.56%	4.0	15%
Secure	6.60	0.82%	$1,323	11.21%	3.1	3%

Suffering – *Financial Wellness Score range: 0 to 2*

Employees with the lowest financial wellness scores are in financial crisis. They ricochet from one cash management emergency to another. Only 14 percent indicate they have a handle on their monthly cash flow. In general, they are spending more than they make and carry uncomfortable levels of debt. Some may not have health insurance coverage for members of their households. These are the employees that are the most susceptible to wage garnishments from problems with taxes, fines, student loans or payday loans. Eighty-seven percent cite getting out of debt as a top priority, and 78 percent cite cash management as a top concern. Only 5 percent reported having an emergency fund. This group reports the highest levels of financial stress of all employees, averaging 7.2 on a ten-point scale.

Suffering employees are generally younger (66 percent are under age 45), come from lower-income households (57 percent make less than $60,000 per year), and have minor children (62 percent).

Though this group is just 13 percent of respondents, their financial stresses and difficulties can disproportionately affect overall workplace health and efficiency. They averaged 17 hours of absenteeism a year, 10.7 percent had wage garnishments, and 49 percent reported having taken a retirement plan loan or hardship distribution. They are also the least likely to contribute to their retirement plan (80 percent), have the lowest average retirement plan deferral rate (5.04 percent – not enough to capture the full 6 percent company match), and contribute the least on average to flexible spending and health savings accounts.

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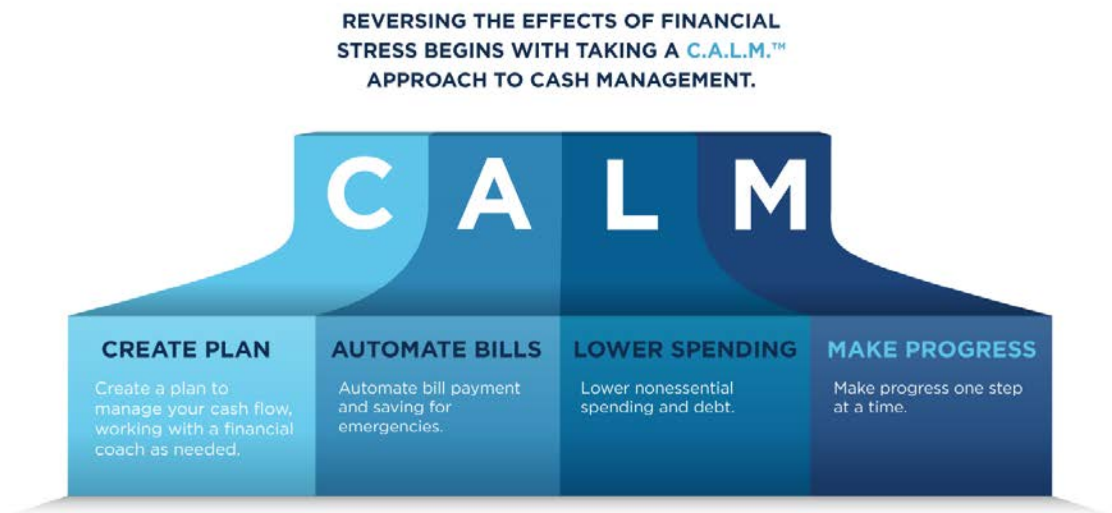
Best Practices for Suffering Employees:

Because of the disproportionate cost these employees bring to their employer, a triage approach is required. Suffering employees tend to feel overwhelmed by their circumstances and may lack the necessary guidance and motivation to help them out of their situation. For this reason one-on-one guidance and coaching on cash and debt management from financial professionals via phone-based or in-person sessions is the best way to stop the financial bleeding and to start on the road to financial recovery.

Additionally, employers should require employees to participate in mandatory financial counseling when wages are garnished, or when employees request a retirement plan loan or hardship withdrawal. Employees that receive financial counseling at the time of requesting a loan or hardship withdrawal are 35-50 percent less likely to request a subsequent loan or hardship withdrawal compared to the average rate of recidivism[i].

Employers offering customized budgeting, credit, and debt strategy workshops or webcasts can use the C.A.L.M.™ approach to improving cash management skills in this population:



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Struggling – *Financial Wellness Score range: 3 to 4*

Struggling employees also have higher-than-average levels of financial stress, evaluating their stress levels at an average of 6.0 on a ten-point scale. More than half (56 percent) have a handle on cash flow, and most (82 percent) pay their bills on time each month, but there is still a significant percentage (59 percent) that are uncomfortable with the amount of debt they carry, and only 30 percent have an emergency fund. One unexpected event like a medical emergency or car accident could set into motion a cascade of financial problems, potentially sending them into a state of crisis.

Absenteeism was still relatively high at an average of 14.05 hours a year, the frequency of garnishments was 5.64 percent, and 35 percent have taken a retirement plan loan or hardship distribution. Contributions to flexible spending and health savings accounts were a bit higher than those made by suffering employees, and average retirement plan deferral rates increased to 6.18 percent, enough to capture the full company match.

Despite having substantially higher cash and debt management financial wellness scores relative to their suffering counterparts, struggling employees exhibit a severe lack of confidence in retirement and investment planning. Only 18 percent reported feeling confident in their investment strategy, and a dismal 5 percent indicated being on track for retirement.

Best Practices for Struggling Employees:

Struggling employees may not be overwhelmed by debt, but due to their lack of emergency savings they are one unplanned financial event away from finding themselves in a financial hole. For this reason, struggling employees should focus on strengthening their cash management habits and developing more robust emergency savings and a stronger financial foundation. One-on-one coaching that implements the C.A.L.M.™ model will benefit struggling employees and help them stabilize their finances, allowing them to focus on longer term financial planning goals like retirement. Struggling employees can also benefit from financial education workshops and webcasts that highlight basic financial planning and retirement preparedness.

Best practices for financial wellness programs that target struggling employees include:

- Mandatory financial counseling for employees requesting a retirement plan loan or hardship distribution, or who are having wages garnished
- Employer-paid financial education offered during work hours
- Access to financial coaches following workshops/webcasts

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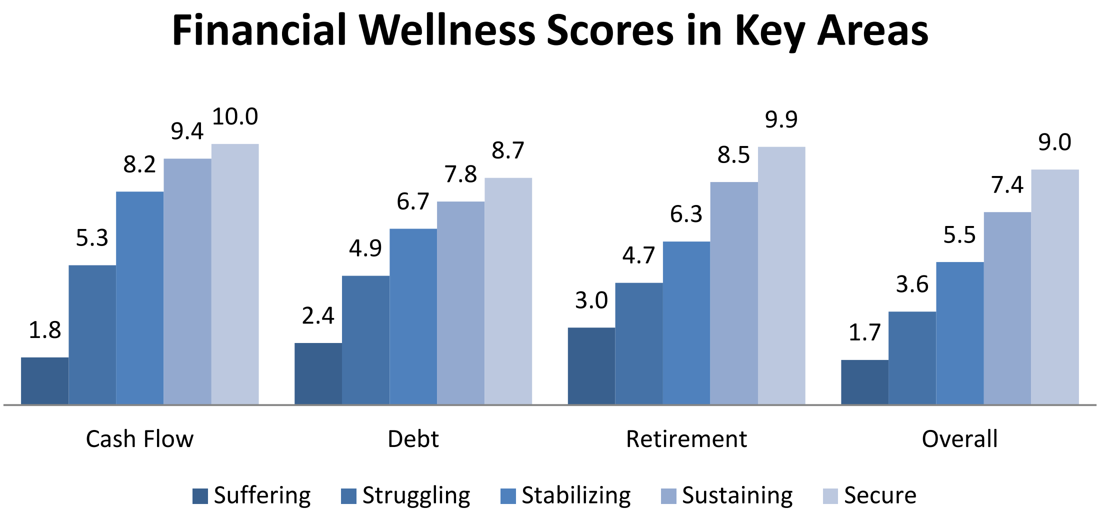

Stabilizing – *Financial Wellness Score range: 5 to 6*

Employees who fall in the middle range of financial wellness have some breathing room, but they also have room to grow. These employees are not in crisis, but they still report average levels of financial stress (4.9 on a ten-point scale). Their attention is more on retirement planning, with 75 percent citing that as a top-three priority, but they still worry a lot about cash management (51 percent) and getting out of debt (45 percent).

Garnishments were much lower at 2.68 percent, but absenteeism is still significant at 11.27 hours a year. However, these more financially stable employees may not be fully utilizing their employer-sponsored benefits. Forty-one percent do not have long-term disability insurance, 57 percent have not run a retirement projection, and 60 percent are not utilizing their employer's flexible spending plan. These employees are less likely to understand and appreciate the full value of their employer benefits, and thus more inclined to switch employers for economic opportunity.

Best Practices for Stabilizing Employees:

Stabilizing employees have cash flow and debt under control, but they generally lack progress toward longer term financial goals like paying for college and retirement. Employers should offer financial education that incorporates company benefits on these topics. Since stabilizing employees may not be able to take time off to participate in these educational sessions, employers should offer them during lunch periods, online, or via one-on-one coaching either on the telephone or in person. Benefits planning should be offered prior to open enrollment to improve benefits participation, and general financial planning should be offered throughout the year to assure budget, credit and risk issues are being addressed.

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Best practices for financial wellness programs that target stabilizing employees include:

- Offering financial wellness as part of a total rewards program
- Offering incentives for program participation
- Incorporating financial wellness into the company culture

Sustaining – *Financial Wellness Score range: 7 to 8*

Employees in this sustaining range are in good shape. Fewer cite cash management as a top issue, and their cash management scores are very high at 9.4 out of 10. Their focus is squarely on retirement planning (85 percent cited it as a top priority). These employees have accumulated more of a retirement nest egg, and are more concerned about how to invest it (55 percent). Employees in this category were more likely to be highly engaged and productive, with absenteeism much lower at 8.69 hours. Financial crisis was rare, with garnishments very low at 1.61 percent.

At this financial wellness level, some financial stress is still present, with these employees reporting an average stress level of 4.0 out of ten. We believe this is due to the typical financial complexity these employees face regarding investing, taxes, health care, estate planning and insurance.

Employees in this category tend to be older (57 percent were age 45 or older), more likely to make more than $100,000 per year (52 percent), and homeowners (83 percent).

Best Practices for Sustaining Employees:

As employees become more financially healthy, it will be important for them to develop wealth protection strategies that preserve assets and manage risks. This can be done through advanced financial planning and education that addresses wealth-protection strategies through insurance, tax, and estate planning. This can raise awareness of voluntary benefits such as prepaid legal and portable insurance and help position the plan sponsor as an employer of choice.

Best practices for reaching sustaining employees include:

- Promoting advanced financial planning in program communications
- Creating peer-to-peer learning opportunities through group learning sessions
- Offering access to unbiased financial professionals for investment portfolio reviews

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Secure – *Financial Wellness Score range: 9 to 10*

Employees with the highest financial wellness scores are financially secure. They have a strong financial foundation and a plan firmly in place to achieve their financial goals. For these employees, it is important to offer access to CERTIFIED FINANCIAL PLANNER™ professionals that can provide unbiased second opinions on their financial plans and investment policy statements. This can protect them from making costly mistakes such as taking unnecessary risk, or purchasing unnecessary financial products or services. Coaching with a financial planner also provides an opportunity to explore more complex financial planning issues like retirement income and distribution strategies, tax-reduction strategies, and long-term care planning. For executives, it can also include planning around stock options, deferred compensation, and other executive benefits.

Best practices for assisting secure employees include:

- Offering access to highly credentialed, experienced financial coaches, such as CFP® professionals and CPAs
- Promoting secure employees as financial wellness program champions that can serve as internal ambassadors and/or lead peer-to-peer learning groups

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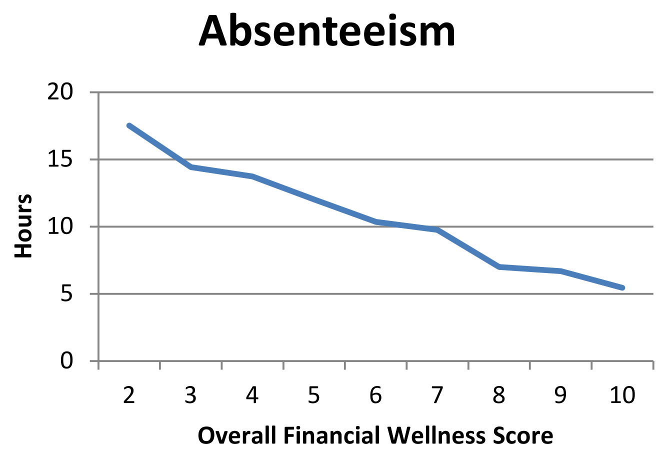
Cost Savings from Improving One Level

To assess measurable costs to the employer of employee financial difficulties, the survey tied scores to incidence of absenteeism in annual hours, number of employees experiencing garnishments, and the extent of employee participation in flexible spending and health savings accounts. The results coincide with our observed experience from employee consultations and present a value proposition to the employer for customized programming to promote score improvements.

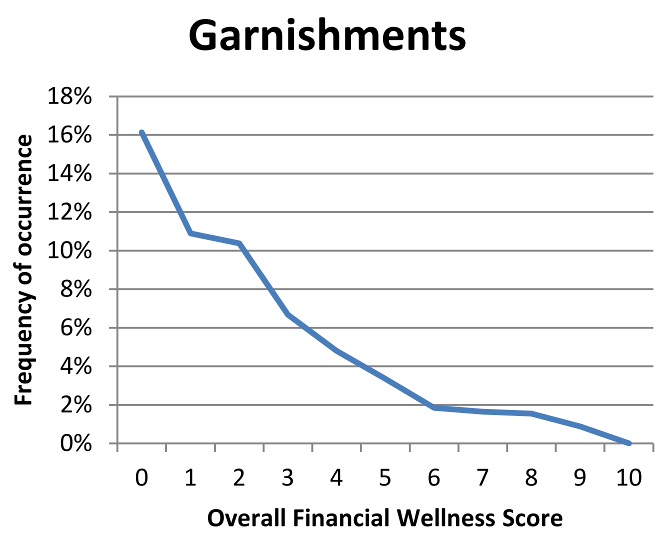
Absenteeism

The data suggests the reduction of absenteeism hours accelerates as financial wellness scores improve.



Garnishments

There is an inverse relationship between financial wellness scores and the degree to which garnishments occur among employees. As financial wellness levels improve, garnishments are significantly reduced.



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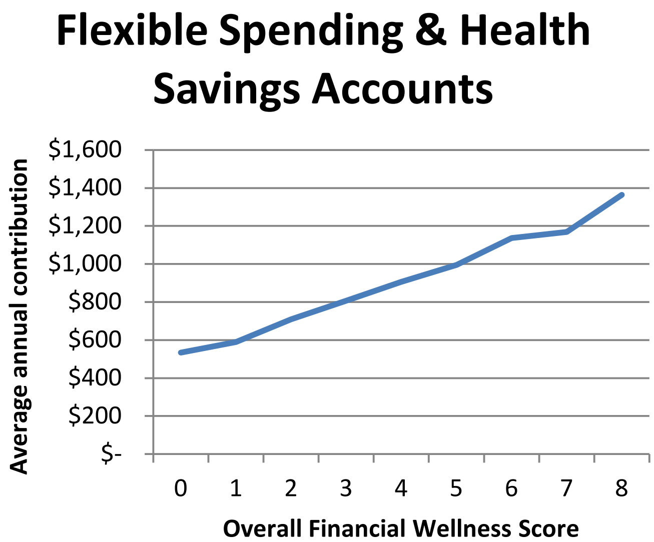
Flexible Spending and Health Savings Account Contributions

Higher rates of flexible spending and health savings account contributions occur among participants with higher wellness scores. As employees contribute more into pre-tax flexible spending and health savings accounts, employer FICA-tax expenses are reduced.



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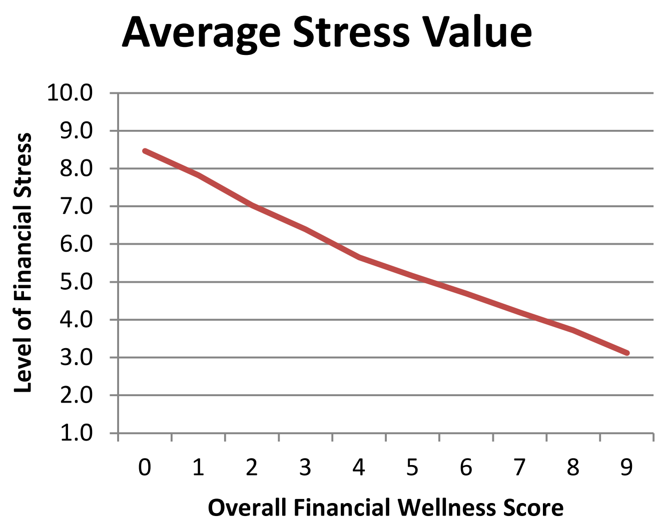
Financial Stress and Financial Wellness



Financial stress is negatively correlated with financial wellness, following a linear relationship. As overall financial wellness scores decrease, the corresponding level of financial stress increases. Addressing sources of financial stress varies by level of financial wellness. For those employees who are suffering or struggling, stress comes primarily from cash management difficulties. Financial stress can result from financial problems, and when not addressed these problems can further exacerbate the financial stress. For example, when income is not sufficient to meet expenses, an employee may fall behind on payments or default on a loan. This may result in wage garnishments that can lead to further stress.

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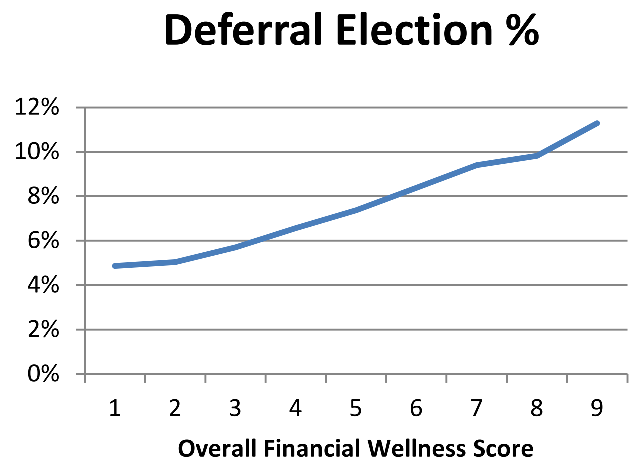
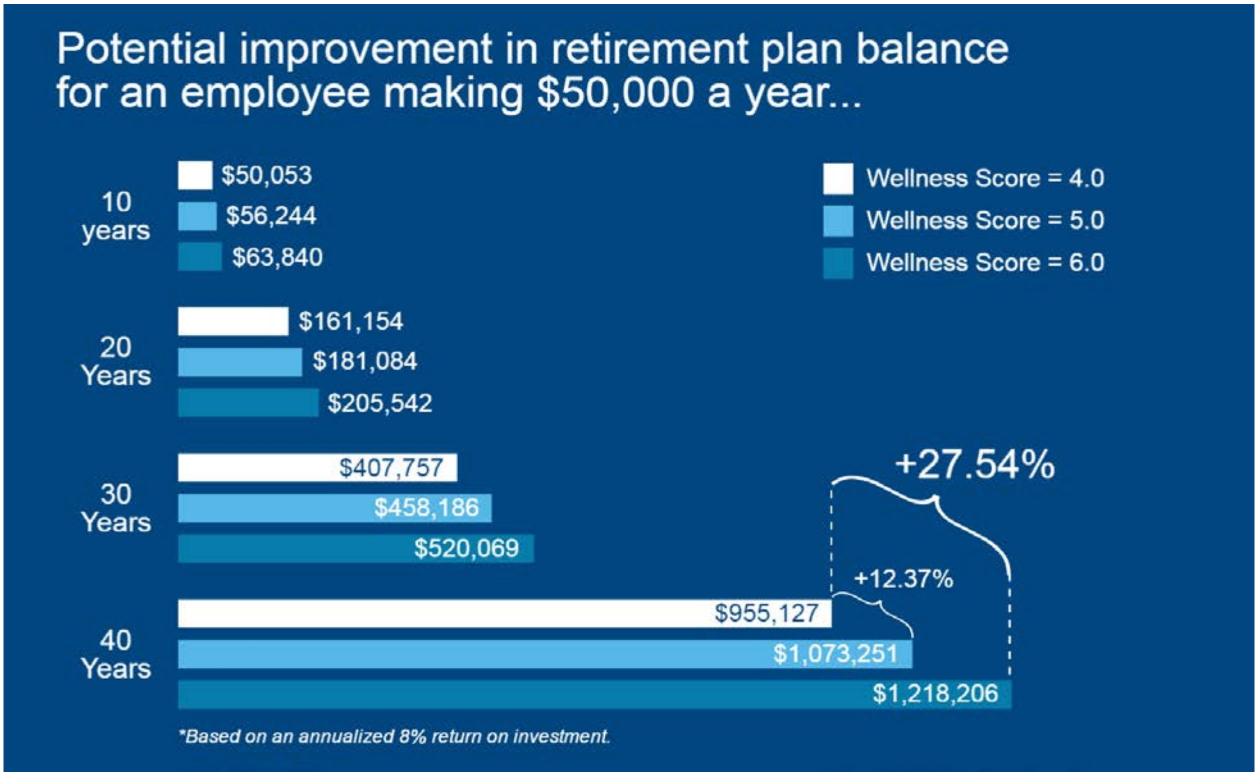
Financial Health and Retirement Preparedness

Not surprisingly, higher financial wellness scores correlate to the ability and choice to make increased retirement saving deferrals. While employees overall were not saving the recommended 10 to 15 percent of their income for retirement, those with higher financial wellness levels made larger contributions on average.

An analysis of retirement plan contribution rates found that employees that improve their financial wellness score from 4 to 6 could potentially improve their retirement plan balance by more than 27 percent.





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Methodology

All of Financial Finesse's research is primary—based on tracking employees' most pressing financial concerns through their usage of our financial education services.

Trend analysis research is compiled by tracking questions received by planners through Financial Finesse's Ask-a-Planner services. Financial Wellness data is compiled by tracking employees' usage of Financial Finesse's Online Financial Wellness Assessment and Learning Center, which provides employees with a personalized financial education plan and analysis of their current financial wellness.

This report uses data based on the analysis of 5,516 financial wellness assessments completed on January 1, 2014 through December 31, 2014. All figures are rounded to the nearest whole percentage unless otherwise noted.

Results have a +/-2 percent margin of error at the 99 percent confidence level.

About the Financial Wellness Assessment

The Financial Wellness Assessment is a proprietary tool designed and developed by our Think Tank of CERTIFIED FINANCIAL PLANNER™ professionals used to measure employees' financial wellness. To get a realistic assessment of wellness in each category, planners determined the most important criteria for achieving financial success in that specific category. By asking key questions that determine employees' progress on these different actions, we are able to approximate their financial wellness in those areas.

About the Financial Wellness Score

The Financial Wellness Score is measured on a scale of 0 to 10, with 0 indicating minimal financial wellness and 10 indicating optimal financial wellness. Scores are adjusted to consider age and income and determine how well employees are managing their finances based on these factors and the needs associated with different life stages and income levels. Employees who achieve a Financial Wellness Score within a specified range exhibit financial behavior as outlined in the following chart:

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Wellness Score	Financial Behavior
9.0 or above	Employees have excellent financial skills and habits, and have achieved an optimal level of financial wellness. They are on track to meet their goals and fully prepared to weather unexpected challenges that arise.
7.0 to 8.9	Employees have good financial skills and habits, and are in a fairly good position to reach their goals, but there are additional actions they need to take to fully prepare for their goals and protect themselves from challenges that may arise.
5.0 to 6.9	Employees are demonstrating some personal financial skills, but have significant gaps in their overall financial planning and behaviors, and really need education and guidance to make decisions and develop financial habits that will allow them to achieve their goals.
3.0 to 4.9	Employees may be sabotaging their own goals through poor personal financial skills and are in need of more basic information.
Below 3.0	Employees are in dire need of guidance around basic personal financial skills to help keep them from experiencing serious financial consequences.

About Financial Finesse

Financial Finesse is an unbiased financial education company providing personalized and innovative financial education and counseling programs to over 2,400,000 employees at over 600 organizations. Financial Finesse partners with organizations to reach goals such as reducing fiduciary liability, increasing plan participation, decreasing stress, and increasing productivity through its unique approach to financial education. Financial Finesse does not sell products or manage assets. For more information, visit www.financialfinesse.com.

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End Notes

[i] A Financial Finesse review of 1,226 phone-based financial counseling sessions from January 1, 2004 through December 31, 2014 found that approximately one out of three employees that requested a loan or hardship withdrawal requested a subsequent loan or withdrawal. This is less than the one out of two reported by Fidelity in their July 23, 2015 edition of Fidelity Viewpoints (https://www.fidelity.com/viewpoints/retirement/be-cautious-about-401k-loans), and the two out of three cited by Tara Siegel Bernard in her August 16, 2013 New York Times article *One Dip Into a 401(k) Often Leads to Another* (http://www.nytimes.com/2013/08/17/your-money/one-dip-into-401-k-savings-often-leads-to-another.html).

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