



Special Report: Financial stress and the bottom line

Why employee financial wellness matters to your organization

Introduction

Financial stress can have a major impact on employees, from greater health concerns to trouble with relationships and distractions at work. This same stress can also influence a company's well-being, including potentially higher costs due to elevated healthcare plan use, lost productivity from distractions/absenteeism, and lower savings for retirement or medical expenses. This special report, based on the results of our 2017 *Employee Financial Wellness Survey*, delves into data around stress and its impact on the financial well-being of both the employee and employer.

“Our research is showing that that financial stressors are not only negatively impacting employees, but are costing the employers. Stressed employees are found to be less productive, take more time off to deal with financial matters, are more likely to leave the company for higher compensation, and are more likely to cite health issues caused by financial stress. These findings evidence a direct correlation between an employee’s financial well-being and a company’s bottom line and may help justify an investment in a financial wellness program.”

— Kent E. Allison, Partner & National Practice Leader

What is financial wellness today?

The concept of financial wellness has been growing in popularity and has moved well beyond its roots of financial literacy to more meaningful ways to encourage and measure financial security. Truly successful financial wellness programs are able to change both money attitudes and everyday behaviors that have lasting effects. Programs that have a meaningful impact create a culture that supports financial independence, strengthens the use of employee benefits, and links to strategic HR and business objectives.

How can a program evolve from “nice to have” to “need to have”?

Despite the popularity of financial wellness, many programs are still in their early stages with company leadership seeking to justify the expansion of their programs by turning a critical eye to the program’s return on investment. Based on our experience designing and delivering financial wellness programs, and using data from our 2017 survey of more than 1,600 full-time employed U.S. adults, we’ve analyzed factors influencing return on investment of a financial wellness program in terms of these main areas impacted by financial stress—productivity, health, and employee engagement.



Stress—The basics

Over the past five years, roughly half of all employees (53% in 2017) tell us they feel stressed dealing with their personal financial situation. And, nearly half of all employees (46%) say that financial challenges cause them the **most** stress in their lives.

Which of the following causes you the most stress?

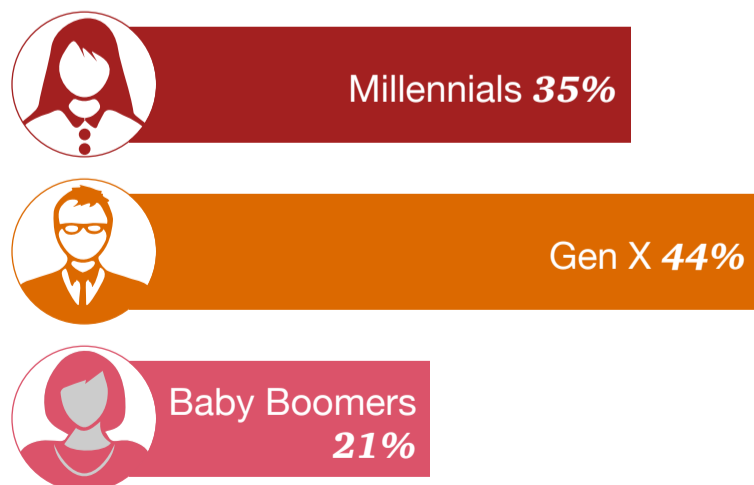


Which employees are stressed about their finances?

Those employees reporting financial stress tend to be somewhat younger and are more likely to be female.

Among those who are stressed about their finances:

By generation:




By gender:



What is stressing them?

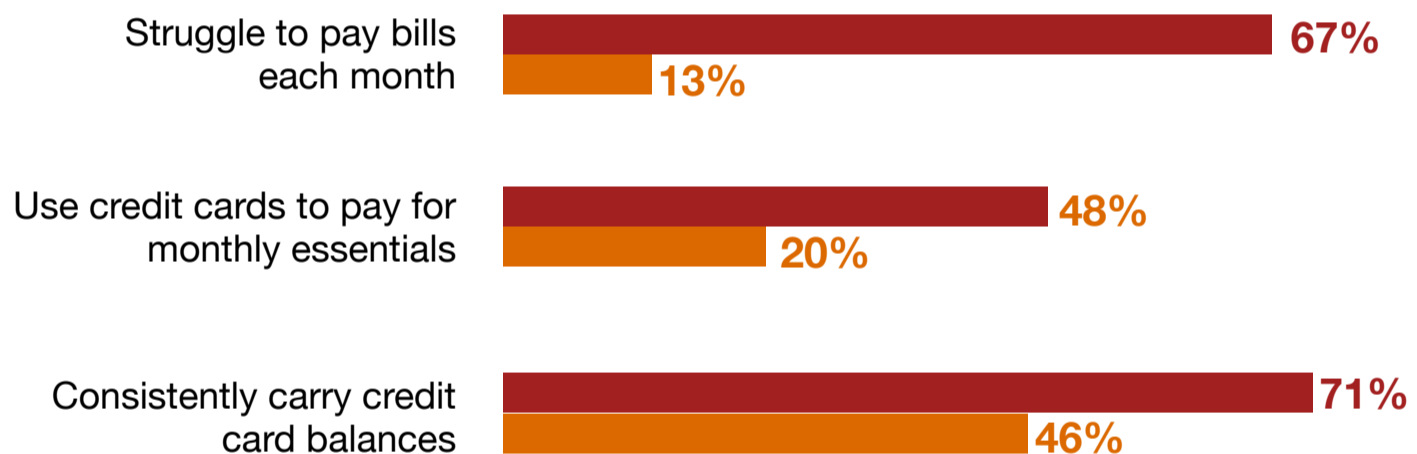
Those who say they find dealing with their financial situation to be stressful are more likely to struggle to pay bills each month, use their credit cards to pay for monthly essentials, and carry a balance on their credit cards from month to month.

*Not having enough emergency savings is employees' top financial concern. Only **28%** of those who are stressed about their finances feel they could cover unexpected expenses. Coupled with their cash flow struggles, these employees may be facing some grim cash flow concerns.*

77% of stressed employees say their stress levels  have increased over the last 12 months.



Credit and debt



- Employees who are stressed about their finances
- Employees who are not stressed about their finances

When we reviewed cash flow and debt concerns, we found that those who say finances cause them the most stress in their lives are reporting greater difficulty in meeting monthly household expenses (64% for this group versus 23% for those whose top stressor is their job, relationships, health, or something else).

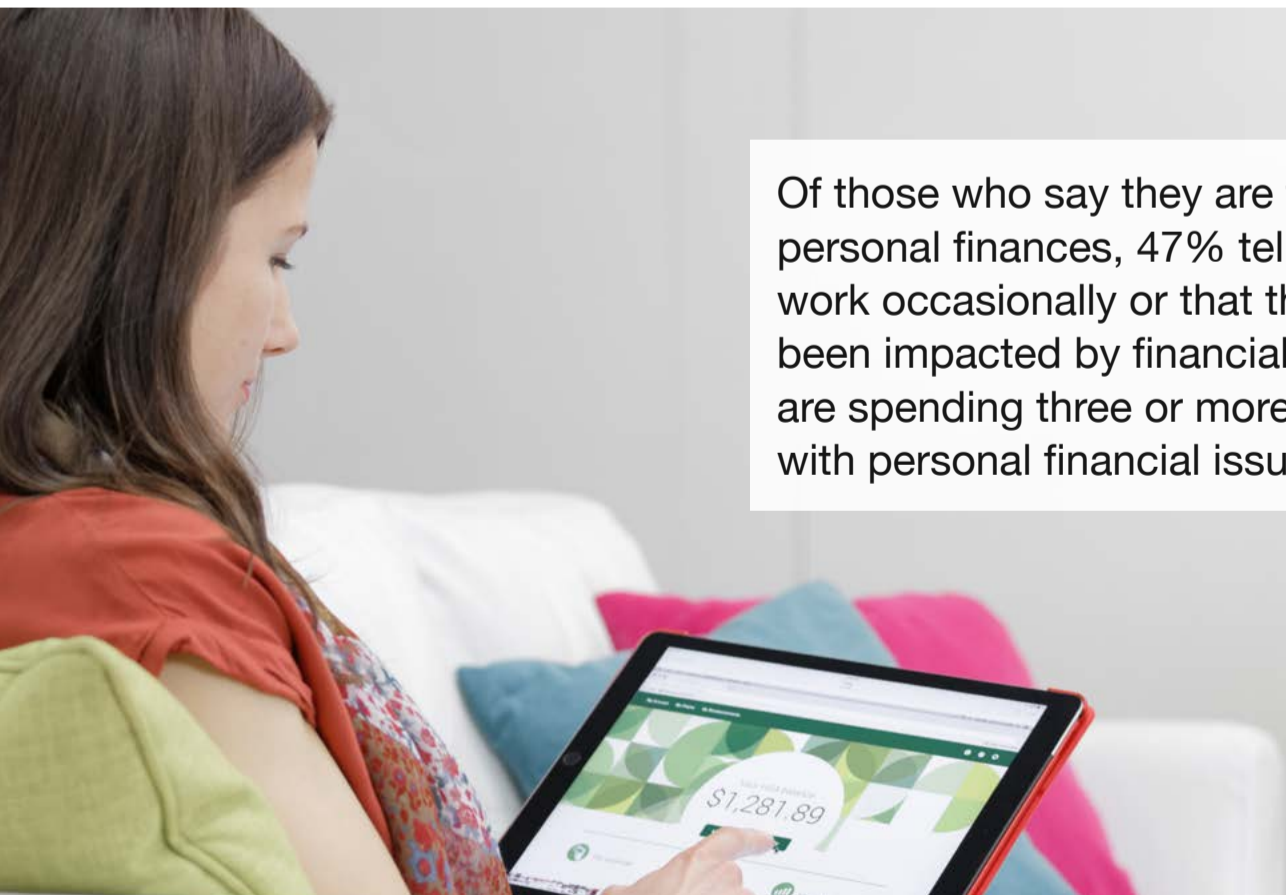
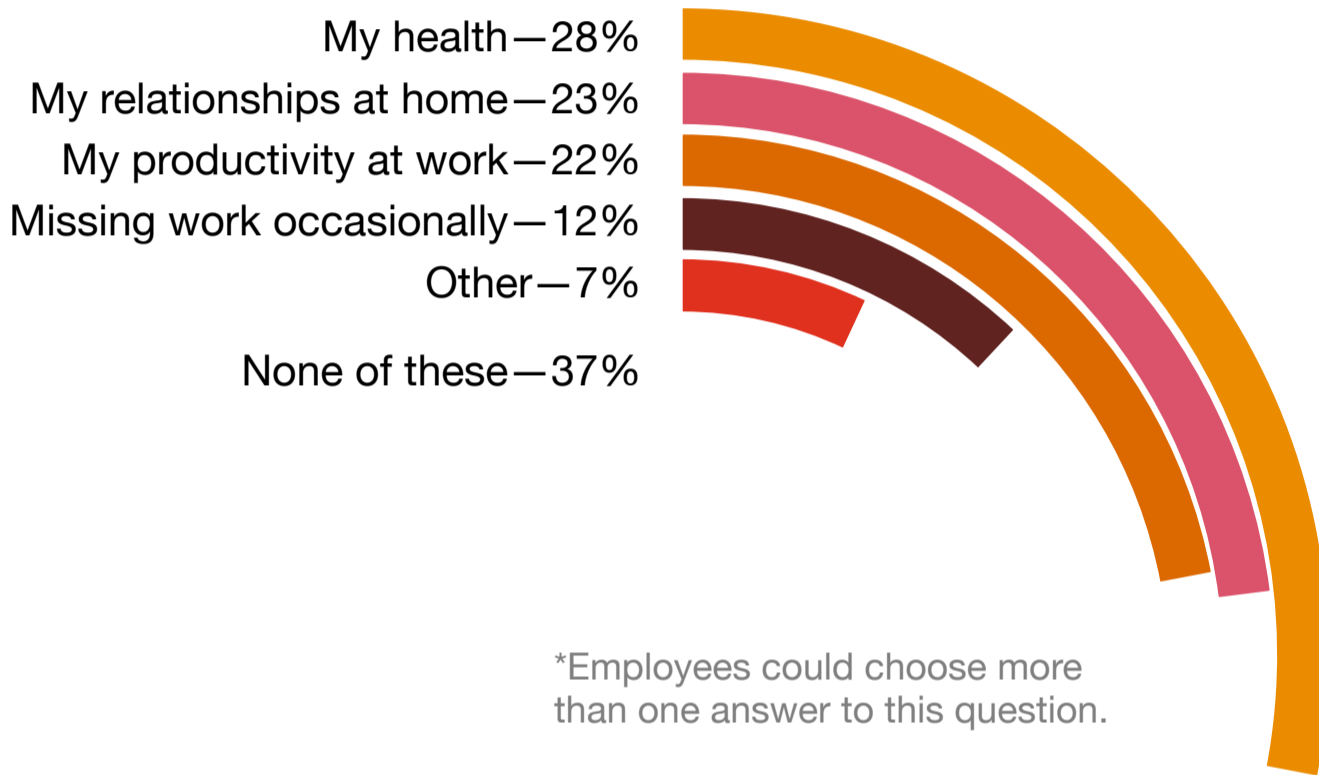
Looking at debt, among those who say finances cause them the most stress, 70% consistently carry a balance on their credit cards as compared to 50% of other employees. However, the findings are not all negative as 79% are tracking their spending and 71% are using a budget, which is on par with other employees.



How does financial stress impact their work and personal life?

Employee financial worries have a wide-ranging impact on health, relationships at home, productivity at work, and attendance at work.

Which of the following have been impacted by your financial worries?*



Of those who say they are feeling stress about their personal finances, 47% tell us they are either missing work occasionally or that their productivity at work has been impacted by financial worries. Half (50%) say they are spending three or more hours each week dealing with personal financial issues.



A word about income

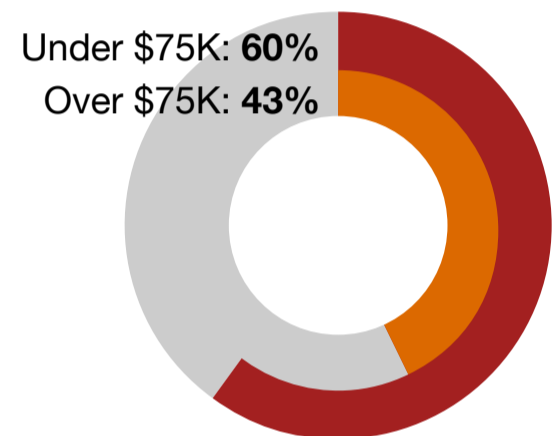
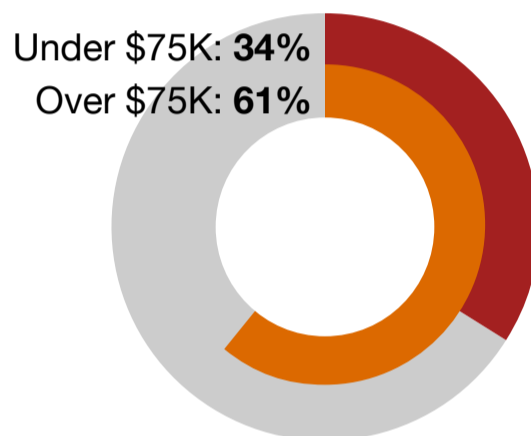
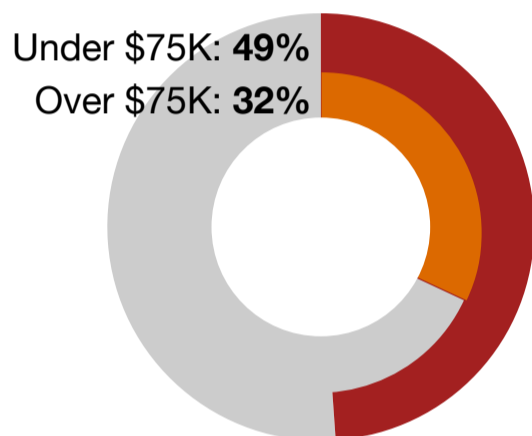
As we review the data, we do see that those who earn less than \$75,000 per year struggle more with cash flow than those who earn \$75,000 or more. Employees in the lower income brackets tend to be more likely to have trouble meeting basic household expenses, be at risk should they have unexpected expenses, and feel stress about their financial situation.

Do you find it difficult to meet your household expenses on time each month?

If you or someone in your household were out of work for an extended period of time, would you be able to meet your basic expenses?

Do you find dealing with your financial situation stressful?

Employees answering yes

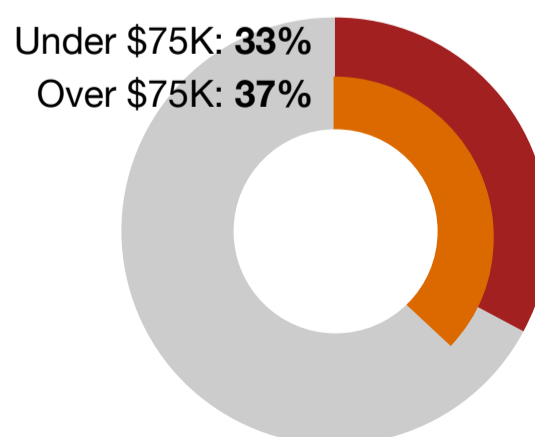
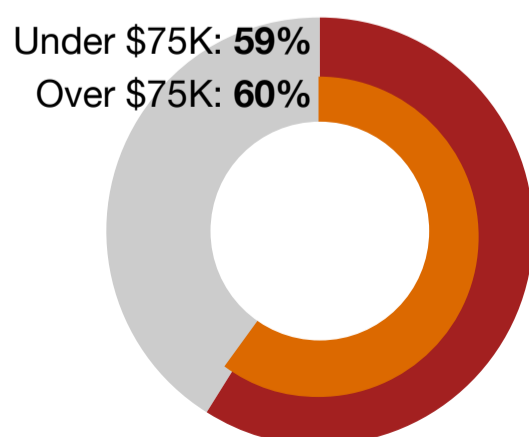


If stress were all about salary, it would be easy to fix by simply increasing income. But those in the \$75,000 and over income group also report some disturbing habits like carrying credit card debt from month to month and using credit cards for monthly necessities they couldn't otherwise afford. The combination of a lack of sufficient emergency savings and their debt load could put this group in danger should we experience another economic downturn or if salaries stagnate.

Do you consistently carry balances on your credit cards?

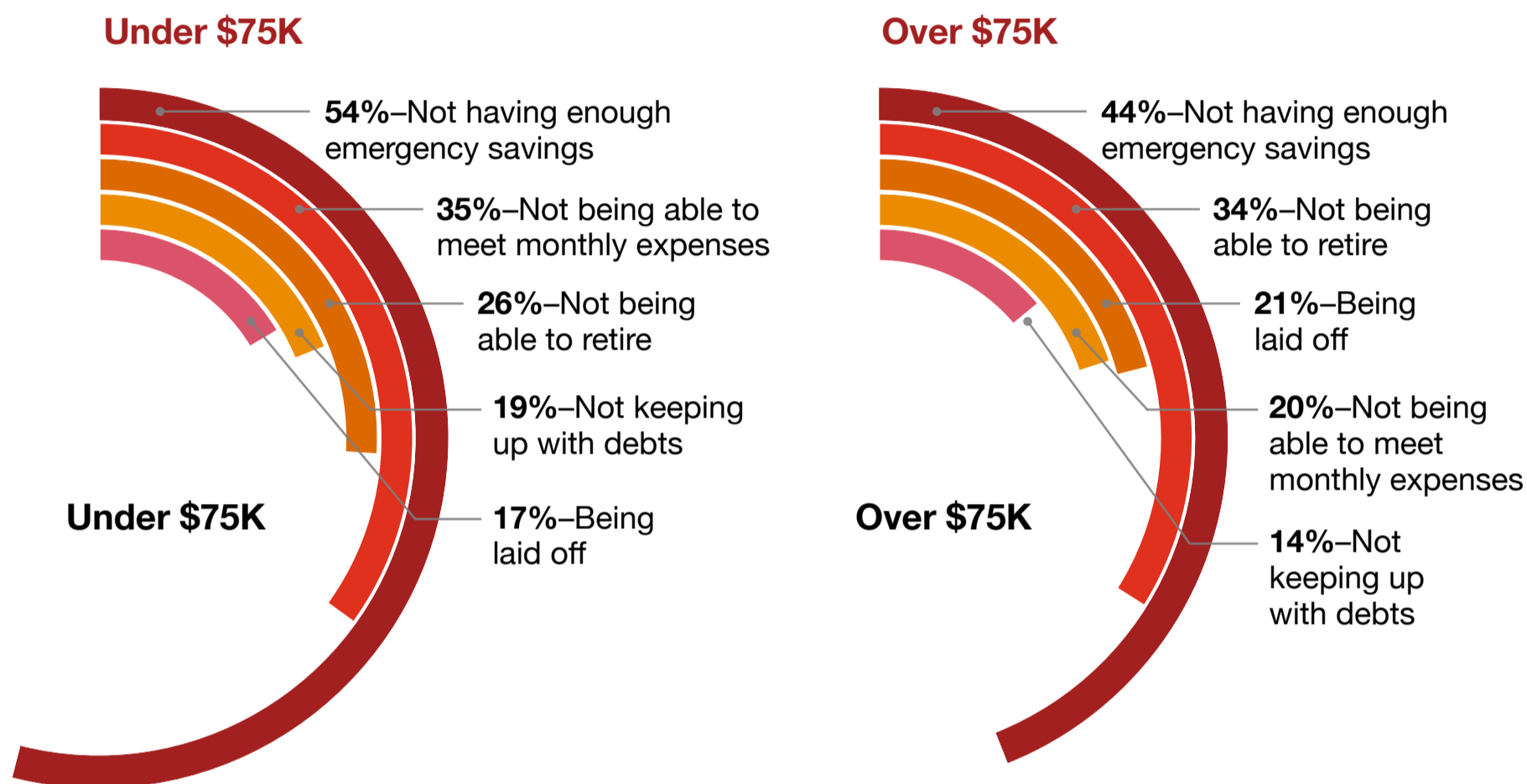
Do you use credit cards to pay for monthly necessities (like groceries) because you can't afford them otherwise?

Employees answering yes



Although we do see some connection between salary levels and stress, an increase in salary does not eliminate stress and can sometimes simply shift the focus of the stress to another area. When asked about their financial worries, both groups most frequently cited not having enough emergency savings as a top financial concern.

What are your top financial concerns?*



*Employees could choose up to two answers to this question.

Not having enough emergency savings is a top financial concern that crosses income levels and generations. While employers have traditionally focused their financial wellness efforts on retirement savings, it's imperative to address emergency savings as well. In fact, in some cases, it's necessary to prioritize building an emergency fund over saving for retirement (or at least after the employee contributes enough to get the company match); otherwise, all too often, we find that employees are raiding their retirement funds to cover immediate cash emergencies, thereby undermining efforts to achieve retirement readiness.



Financial stress and employer costs

Stress and retirement

Stress may also be impacting your employees' ability to retire when they want. Those reporting financial stress are twice as likely to have less than \$50,000 saved for retirement. They are also more apt to take a retirement plan loan or withdrawal. Of those reporting financial stress, 57% (versus 30% of those not reporting stress) think it is likely they will need to use the money in their retirement plan for something other than retirement. And 62% say they are postponing retirement because they haven't saved enough, which could be a result of an inadequate savings rate or reflective of loans and withdrawals.

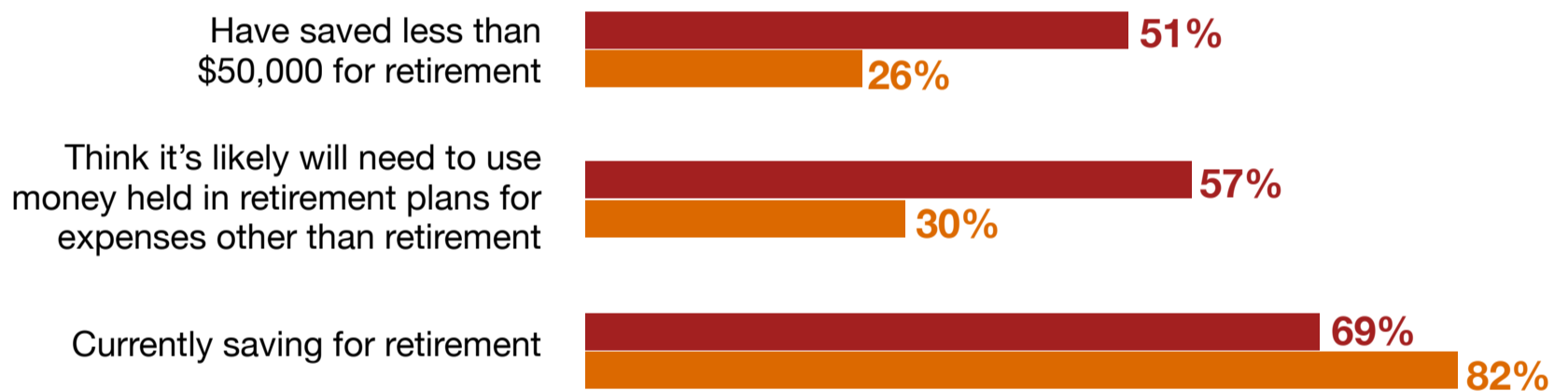
Anticipated retirement income

Nearly half (46%) of Baby Boomers say they have \$100,000 or less saved for retirement. Based on basic retirement planning guidelines, employees with \$100,000 saved at retirement may be on track to provide themselves with only \$4,000 annual cash flow from these savings.

**Assumes \$100,000 at retirement, an overall 8% rate of return, 4% yearly draw down in retirement, for 30 years.*



Retirement



- Employees who are stressed about their finances
- Employees who are not stressed about their finances

Can plan design offer a solution?

Although plan design is sometimes touted in the marketplace as a solution to address low savings rates and plan leakage, for many companies and their employees, the benefits obtained by automatic enrollment and auto increases are being offset to some degree by other issues causing employees to raid their retirement funds or use alternative (and often costly) forms of debt to meet their cash flow needs. In many cases, employees who are experiencing stress around personal finances have turned to plan loans and withdrawals which undermines their retirement preparedness. For example, among the 44% of

all employees who think it's likely they'll need to use money in their retirement plans for other expenses, more than half (54%) say it's to deal with an unexpected expense and another 21% say it's to pay medical bills.

While some retirement and benefits professionals have focused on tightening their retirement plan loan and withdrawal provisions as a means to help keep money in the retirement plan, we believe it's critical to solve the underlying issues that are causing employees to feel they need to use their retirement plan savings as a source of emergency savings.



Postponing retirement

More than half (54%) of employees who are stressed about their finances plan to postpone retirement, and even 30% of those who are aren't reporting financial stress are planning to postpone retirement. **The cost to the employer related to an employee who postpones retirement may include higher healthcare premiums and salaries, as well as potential promotion and retention issues for younger employees.**

How employees view healthcare costs

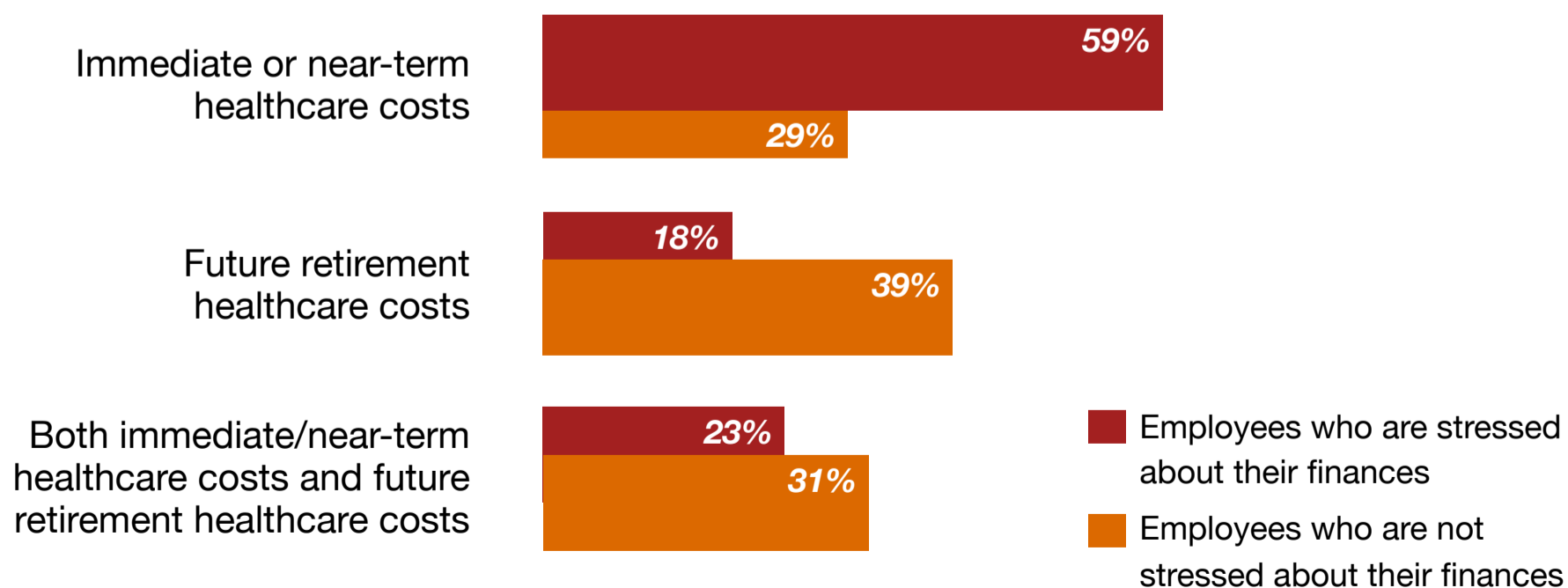
20% say they would be willing to sacrifice a portion of their future pay increases for better healthcare benefits

19% say that lower healthcare costs would most help them achieve their future financial goals

50% of those with a high or mid-deductible healthcare plan contribute to their Health Savings Account (HSA)

One way to help address healthcare concerns and defray future costs is to save for those costs in a Health Savings Account (HSA). Although both the group reporting financial stress and those not reporting stress see the benefit of saving, those reporting stress are not as apt to keep HSA funds for future healthcare costs. In fact, employees who are feeling stress are twice as likely to use the HSA savings to pay for current or immediate medical expenses. Taken together with those who plan to use the money for both current and future expenses, the vast majority of those feeling stress (82%) appear to have a shorter term view of healthcare savings.

I plan to use the funds in my Health Savings Account (HSA) for:

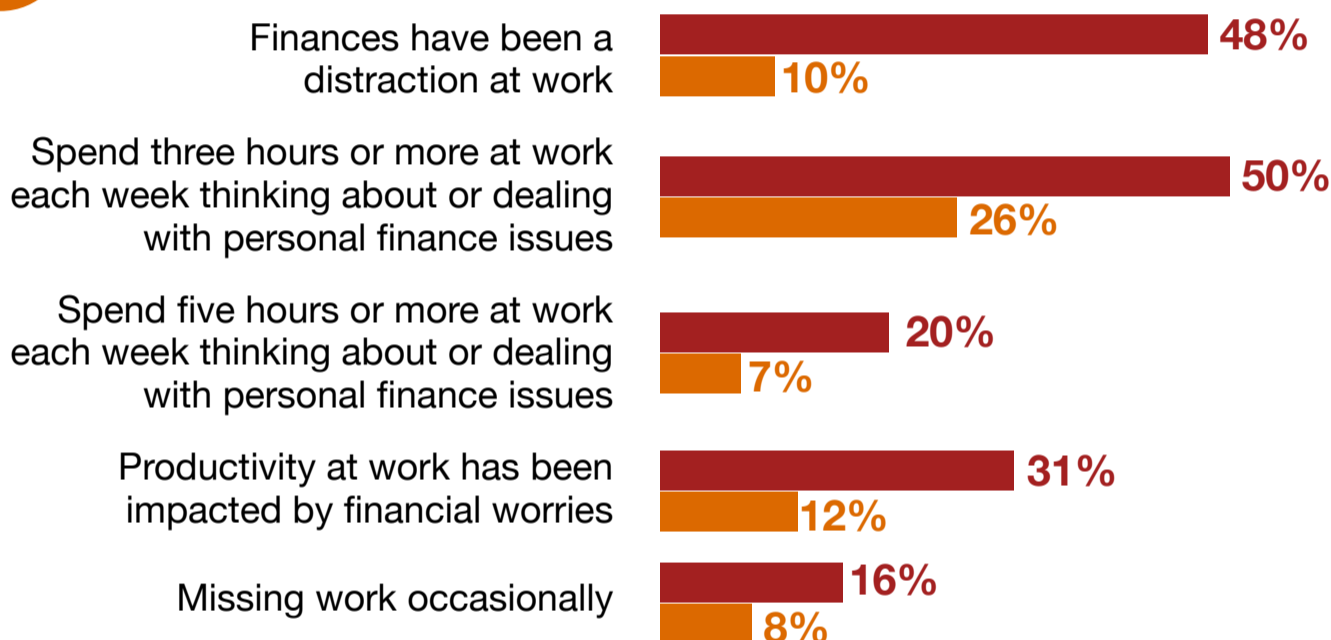


Stress and productivity

The effect of financial stress on worker productivity is striking. Employees who are stressed about their finances are nearly five times more likely to be distracted by their finances at work, twice as likely to spend three hours or more at work dealing with financial matters, and three times more likely to spend five hours or more. Stressed employees are also twice as likely to miss work on account of their personal financial issues and are more inclined to cite health issues caused by financial stress. They are also more likely to experience difficulties with relationships at home.



Productivity



Health and relationships



- Employees who are stressed about their finances
- Employees who are not stressed about their finances



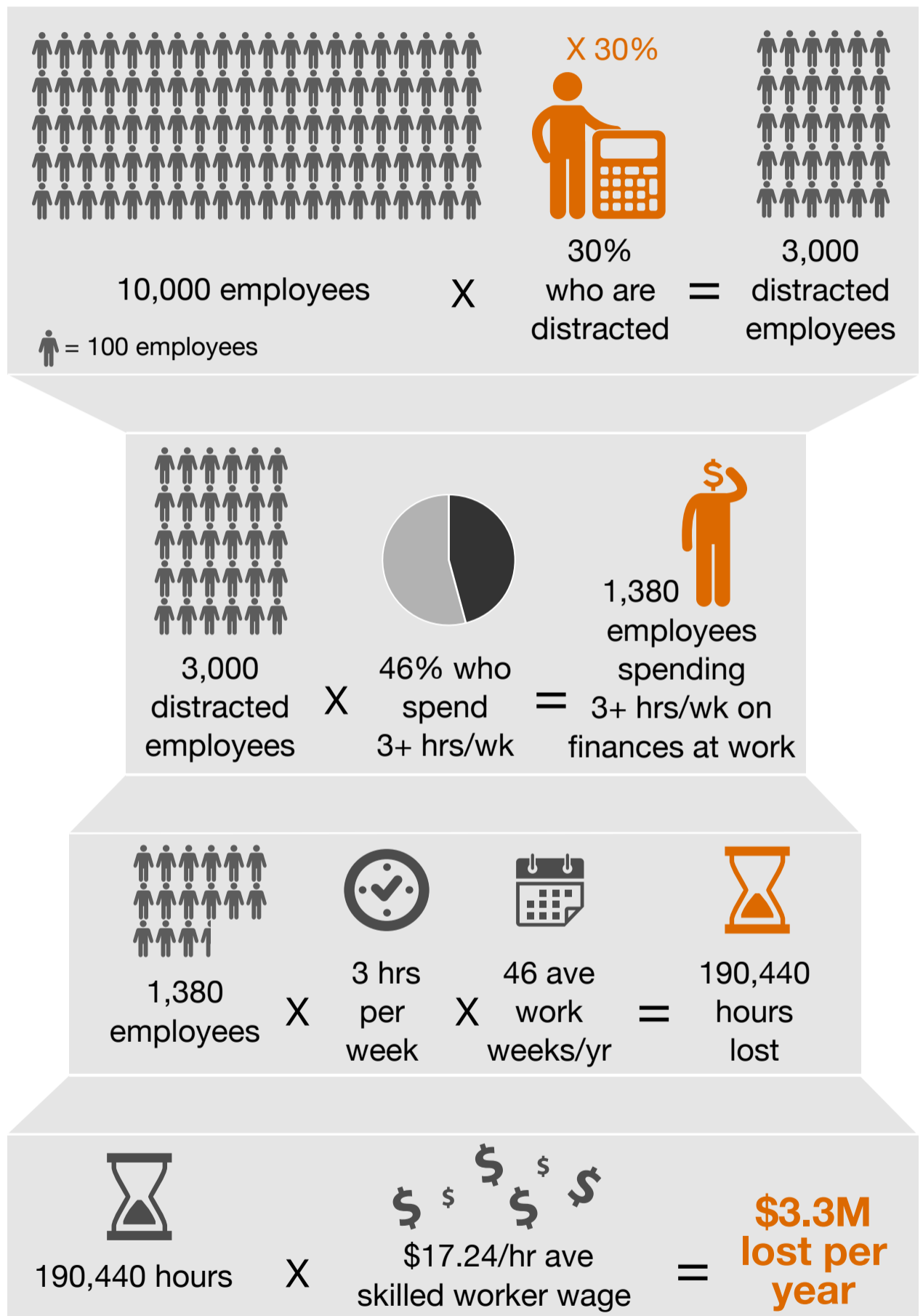
What do financial distractions mean for productivity?

Based on our 2017 Employee Financial Wellness Survey results, we found that 30% of employees are distracted by their finances at work and 46% of the distracted employees say they spend three hours or more at work each week dealing with issues related to their personal finances.

In the graphic to the right, we've estimated the productivity cost impact of those distractions at \$3.3M per year for an employer with 10,000 workers.

Employers may also incur costs from lost productivity due to absenteeism. 12% of employees admit to missing work occasionally due to financial worries which we estimate could cost an employer with 10,000 workers an additional \$166,000 per year.

Estimate of productivity cost due to financial distractions



And if your company has a particularly large contingent of Millennials, the numbers may be even more dramatic given that 37% of Millennials say their finances have been a distraction at work and of that 37%, 49% admit to spending three hours or more at work each week dealing with personal finance issues.



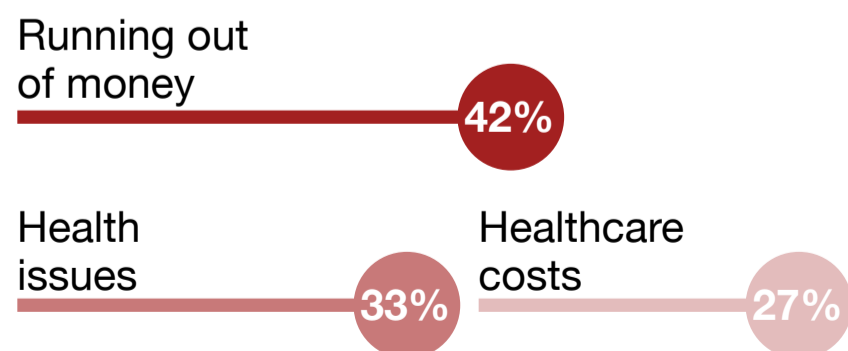
Stress and healthcare costs

Healthcare costs have become a major concern for employees, and these concerns have impacted their work and their health. Over a third (35%) of those reporting financial stress say their health has been impacted by their financial worries. A majority of employees (82% of those reporting stress and 75% of those not reporting stress) say they feel healthcare costs will rise over the next several years. With the potential for changes to current healthcare laws (ACA) still looming, a large percentage (54% of those feeling stressed and 34% of those not reporting stress) say they are more concerned about their ability to save for future healthcare expenses.

Concern over rising healthcare costs is also contributing to employee stress about retirement. **Over three-quarters (78%) of those reporting stress feel that rising healthcare costs will impact their ability to retire, while almost half (49%) of those not reporting stress feel the same way.** Only 39% of employees reporting financial stress say they feel confident they will be able to meet healthcare costs in retirement, as compared to 66% of those not reporting stress.

Even more compelling is employees' ranking of concerns about retirement. The most frequently cited concern every year is running out of money, yet health issues and healthcare costs added together are cited as top concerns even more frequently than the fear of running out of money.

What are your biggest concerns about retirement?*



*Respondents could choose up to two answers to this question from among a list of 11 responses.

What does financial stress mean for healthcare costs?

Twenty-eight percent of employees tell us that their health has been impacted by their financial worries. Stress can have a direct impact on physical health, and employees report that financial issues cause them the most stress in their lives. Financial stress can increase healthcare costs for employers. In fact, by our estimation, it could cost an employer with 10,000 workers an additional \$660,000 per year.

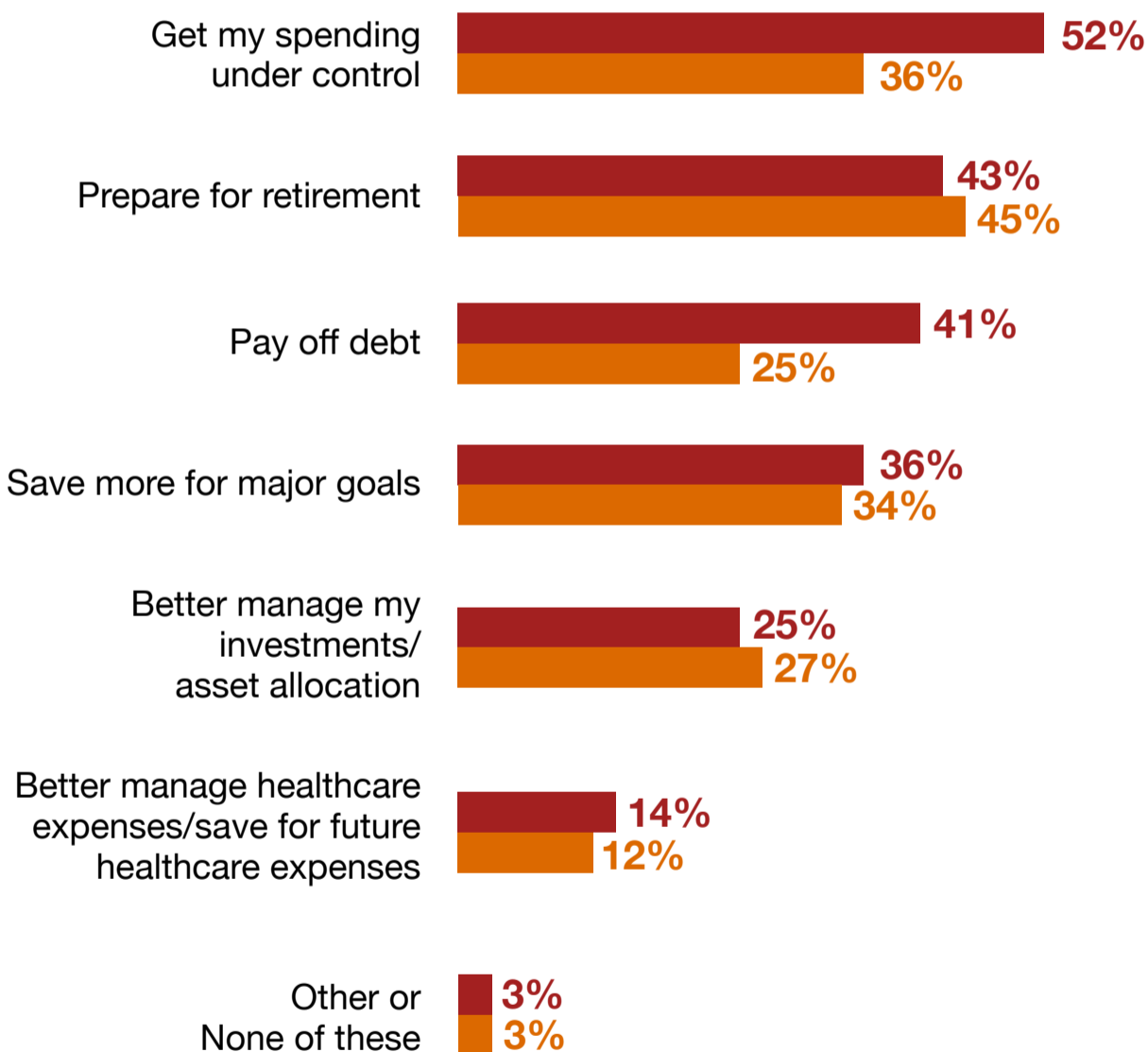


Addressing financial stress at the workplace

Help from employer programs

Over a third of employees considers an independent financial planner who doesn't sell financial products (similar to the unbiased planners in a financial wellness program) as the most trusted source for financial education and guidance. When a financial wellness program is offered by the employer, stressed employees are even more likely to use the financial wellness services (72% said they use the services their employer provides versus 64% of those not reporting stress).

My employer financial wellness program has helped me:*



- Employees who are stressed about their finances
- Employees who are not stressed about their finances

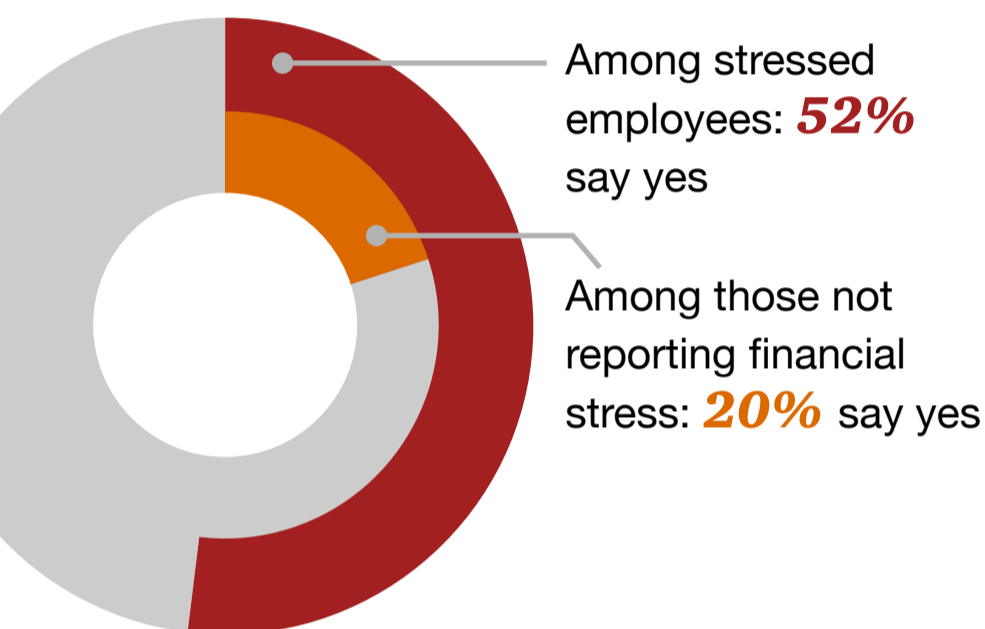
*Employees could choose as many answers as applicable.

Personal coaching is employees' most desired way to receive financial education and guidance. Check that your financial wellness program allows employees to connect to a coach who can help guide them through decisions as they improve their financial habits. Programs that lack this one-on-one connection often are not as successful as those that do. Many programs rely on technology to reach large groups of employees efficiently, and while technology can be a powerful part of a financial wellness program, review your technology offering and ask yourself if it is compelling enough to garner the attention of busy employees. Then consider whether the technology is personalized enough to sustain engagement and motivate employees to take necessary, and sometimes challenging, steps to improve their financial well-being.



Even though employees who are stressed say they use employer-provided wellness benefits more than those who aren't reporting stress, they are nearly three times more likely to find it embarrassing to ask for help with finances.

Do you find it embarrassing to ask for help with your finances?



Financial wellness programs need to help remove the stigma around personal financial struggles so that stressed employees get the personalized assistance they need. While stressed employees say they're using the benefits provided, they may be doing so in a more reactive manner (e.g., reading an article about budgeting or debt versus working with a financial counselor to implement solutions). Personalized guidance is critical to behavioral change and can often make a real difference to employees experiencing improvements, staying motivated, and feeling supported. When financial wellness becomes part of company culture, employees see colleagues like them facing similar challenges and benefiting from the support that leads to lasting positive change.

Stress and planning for the unexpected

Planning for the unexpected goes beyond just having sufficient emergency funds. Risk management and insurance are areas often neglected by employees, and that neglect can lead to devastating financial crises. Employers offer a wide range of group benefits to address this risk, including life insurance, disability insurance, legal services, and sometimes other insurance coverage for auto, home, and even pet costs. However, many employees don't understand how insurance works or how much they need.

For example, when it comes to life insurance, employees experiencing financial stress may be underinsured. When asked if they felt confident that their loved ones' needs would be met should the employee pass away, only 37% of those experiencing financial stress answered "yes" as compared to 59% of those employees not reporting financial stress. Stressed employees are also less likely to have reviewed their property insurance needs within the past 12 months which may contribute to higher insurance costs and greater concerns around cash flow.



Stress and Employee Engagement

Financial stress may also influence employee engagement. We are seeing some signs that loyalty, appreciation for salary and benefits, and recruiting may be linked to overall financial wellness. For example, employees who are reporting financial stress are less likely to think their employer cares about their financial well-being and more likely to be attracted to an employer who does care about their financial well-being.



- Employees who are stressed about their finances
- Employees who are not stressed about their finances

Employees who report financial stress are much less likely to feel their compensation is keeping up with the rising cost of their living expenses—58% say it isn't, as compared to 28% of those not reporting financial stress. Stressed employees are also less likely to believe their employer benefit plans are competitive with other organizations—60% say they are, as compared to 67% of non-stressed employees.

Engagement and stress could also have an impact on recruiting efforts. Many of the best employees are referrals from your current employee base. This word of mouth can reduce the time, effort, and cost of recruiting new employees. Those who are reporting financial stress are not as likely to be proud to work for their employer (72% vs. 77% of those who are not stressed) and less likely to recommend their employer as a great place to work (66% vs. 72% of those who are not stressed).



Conclusion

This special report highlights some of the causes and effects of employee financial stress. Based on our research, the impact of financial stress is pervasive, negatively effecting not only the employees' financial well-being, but also their physical well-being, engagement, productivity, absenteeism and even loyalty. All of these factors can come at a considerable cost to the employer. While most employer financial education programs focus mainly on better preparing their employees for retirement, employers may want to consider balancing those programs with tools and resources that help employees achieve financial stability in the near term, starting with ensuring they have sufficient savings set aside to address an unexpected expense or emergency.

How can you find out what financial stress is costing your organization?

One method is to assess your employee group to find out what financial issues they're dealing with and how financial wellness differs by employee demographics. This gives you a baseline and helps identify the potential for improvements. Employers can then combine the financial assessment results with other HR metrics about absenteeism, performance, engagement, turnover, or medical costs—creating a powerful predictive analytics tool to better evaluate your benefits offerings, link them to business outcomes, and measure the return on investment of the programs you implement.



About this report

This report is based on information and analysis extracted from PwC's Employee Financial Wellness Survey which tracks the financial and retirement well-being of working U.S. adults nationwide. In 2017 the survey incorporated the views of more than 1,600 full-time employed adults representative of the U.S. population by age and gender. The margin of error was +/- 3%. Participants were categorized by generation using the following age groups: 21 to 35 (Millennials), 36 to 56 (Gen X) and 57 to 74 (Baby Boomers).

About the PwC Employee Financial Education and Wellness practice

Employees may be stressed over organizational shifts, market conditions, personal life events, or benefits changes. PwC's Employee Financial Education and Wellness practice works with clients to design and deliver customized financial wellness programs tailored to employee needs and specific employer objectives. Our goal is to empower employees to make educated decisions to improve their financial well-being.

www.pwc.com/us/financialeducation

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