

Financial Wellness:

Helping employees make the grade

A Your Financial Partner White Paper



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About Us – Your Financial Partner has created an online platform designed to empower Australian individuals and households to make more informed decisions regarding their financial future. This innovative new program, called The Journey to Financial Wellness, has been specifically created to help employers to support their most important asset – their people.

Introduction

Knowing how to make sound money decisions is a core skill in today's world, regardless of age. It affects quality of life, opportunities we can pursue, our sense of security and the overall economic health of our society.¹ But we don't learn about managing our finances in high school schools, universities or most workplaces. So what impact is this critical gap in our financial education having on Australian workers and their families?

At night many Australians ponder how to make ends meet. They worry over children who are finding it difficult to enter the workforce and friends who have lost jobs. When morning comes, these same Australians take their places in factories and offices where they are expected to do their best to compete across a global economy. But these workers don't leave their money worries at home and this impacts workplace performance – their stress becomes the employer's problem as well.

What's the solution? Financial wellness education. Employers can help their employees with short-term and long-term financial issues, as well as with changing the course of their financial behaviour so they make more informed financial decisions going forward.

This white paper explores the impact financially stressed employees have on their company and the need for a financial wellness education program.

Financial wellness defined

Financial wellness is defined uniquely and differently by each employee, as each household has different priorities and financial obligations. The broad definition of financial wellness is the ability of each employee to manage their finances for short-term needs while saving for mid- and long-term goals. The financial wellness education program that employers implement should offer a variety of options that help employees choose the information important to them.²

Financial stress: the numbers

Multiple surveys offer ample evidence of the impact of financial stress at work.³ For example, recently released figures show that stress-related absence at work is costing Australian employers about \$30 billion per year.⁴ More than half of families (54%) are living paycheque to paycheque unable to save any money at the end of each month.

Financial problems are the top sources of stress for both women and men and it's the second most common reason for relationship break-up.⁵ If an emergency strikes, Australian workers and their families also have few resources to fall back on – according to the ME Bank Household Financial Comfort Report released in August 2014, 34% of households have less than \$1,000 cash on hand and 24% said they could not raise \$3000 in an emergency.⁶

The Australian Psychological Society has been conducting its *Stress and Wellbeing in Australia* survey since 2011. It found that financial issues remain the top source of stress for the nation, with “more than half of Australians identifying finances as a cause of stress”.⁷ The survey also shows that those aged between 18 and 35 were highly stressed about being able to pay for essential needs because of uncertainty about the ongoing availability of work in the post Global Financial Crisis economy.⁸

Financial stress: impact on workplace performance

A number of surveys provide evidence that the stress employees experience from high debt levels is associated with adverse health outcomes. A 2008 AP-AOL survey of over one-thousand adults by ABT SRBI found those who report high debt stress are much more likely to report they suffer from headaches, severe depression, anxiety, and digestive tract problems. While 31 percent of adults with low levels of debt stress say they experience muscle tension and lower back pain, just over half of those with high debt stress experience this kind of pain. High debt stress is also associated with trouble sleeping and concentrating.⁹

Given the high levels of self-reported financial distress, it shouldn't be a surprise to learn that many employees (40%) say that they want help in achieving financial security.¹⁰ And that number is much higher (81%) for workers saying financial problems have affected their productivity.¹¹

All of this has an impact on the way employees perform at work:

- At this moment around one in four of employees are seriously financially distressed¹²
- Financially distressed employees spend 20 hours per month trying to solve their financial problems¹³
- 35% of workers admit that financial concerns have prevented them from performing their best at work.¹⁴
- 51 percent of workers say that that stress caused them to be less productive at work.¹⁵

It's not just employees who want help managing financial stress at work. Managers and Human Resources departments confront this stress every day. In a recent survey, 61% of HR professionals say financial stress is having some impact on employee work performance.¹⁶ The same study also revealed that twenty-two percent say worries over personal finances have a "large impact" on employee engagement.¹⁷

Elements of a successful financial wellness education program

Many employers already provide wellness and employee assistance programs alongside other benefits to support their employees' overall quality of life. However, those programs don't always address the complexities of each employee's financial situation. Employers not only need to prepare employees for their financial future, but also provide tools to get them on the path to financial wellness today.

The goal of financial wellness education programs is to change behaviour to address short-term needs and plan for the future. To be successful, the programs that employers implement must be able to be customised for each employee's situation.

To build a financial wellness education initiative into the employee benefits program employers can construct it themselves, making various online tools and resources available to employees, or utilize non-profit organizations, consulting firms, or other company offerings to provide services which include online education and more.

Either way, the first step must always involve some sort of financial assessment for the individual employee which would include outlining their current financial situation, identifying areas for improvement and prioritising action steps. Setting goals and implementing actions for their specific situation are the roadmap for success in changing their behaviors.

Among the numerous topics covered in financial wellness education programs are:

- ✓ Budgeting;
- ✓ Basic financial management;
- ✓ Paying off debt;
- ✓ Methods for saving;
- ✓ Setting up an emergency fund; and
- ✓ Investing for the future.

One of the best practices in financial wellness education is getting employees engaged through rewards and incentives at various stages of the program.

The impact of financial education

A 2012 MetLife report suggests that there is a correlation between those employees who have participated in financial education programs and those who are confident about financial decision-making.¹⁸ MetLife comments that “while employers may not be in a position to make greater monetary contributions to employee savings ... there is an open opportunity to help build these savings by helping employees of all ages to become more knowledgeable and confident about managing and planning their finances”.¹⁹

Organisations that have offered financial education for longer periods of time generally have less stressed, more financially savvy employees who are also better prepared for retirement. Organisations not offering financial education are more likely to regard their employee populations as highly stressed, not financially savvy and not well prepared for retirement compared with organisations that provide financial education.²⁰

The Institute for Social and Economic Research at the University of Essex in the UK has published extensive research into the impact of financial capability on psychological wellbeing. This found that improving financial wellbeing increases general health questionnaire (GHQ) scores for both men and women by a far higher percentage, regardless of income level, than giving them an extra \$1000 a month income alone. The researchers comment that if financial capability is improved it will have “beneficial spillovers on psychological health in addition to the expected benefits associated with reducing problem debt and welfare dependency and increasing savings and general skill”²¹

Conclusions

Employers have to address the workday impact of their employees' financial stress by providing them with education to help prevent major financial issues, change the course of their financial decisions and improve their financial wellness.

Some industry experts predict that financial wellness is the next big trend in 2015. Workplace wellness is expanding beyond physical health to include a financial wellness component, helping employees ease economic stress, overcome money challenges and promote financial health.

The time is right for employers to take a more active role in their employees' financial wellness.

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