EMPLOYEE FINANCIAL WELLBEING

THE IMPACT ON US & UK BUSINESSES

SALARY FINANCE

INTRODUCTION

Employers across the globe strive for growth. Growth is typically delivered by an energized and engaged workforce. This is enabled by employees who believe in the purpose or mission of their employer and those who are personally "well": mentally, emotionally, physically, and financially. It goes without saying, employers who can create this environment for their employees, are most likely to be winners in Economy 4.0.

In recent times, the role of the employer in helping to improve the "financial wellbeing" of their employees, over and above pay, has made it on to the management agenda, often as part of broader mental wellbeing initiatives. However, historically, it has been difficult to quantify the impact of poor financial wellbeing and identify what actions would result in the greatest improvement. To address these two issues, we surveyed over 10,000 UK employees and 10,000 US employees, to support the development of a quantitative analytical model, that allows employers to identify the scale of the problem in their business and benchmark themselves against their peer group.

THE FINDINGS WERE DRAMATIC & SIMILAR ACROSS BOTH MARKETS:

- A large percentage of employees have money worries (48% US, 40% UK);
- They are more likely to have sleepless nights (8.1 times US, 8.8 times UK), more likely not to finish daily tasks (5.8 times US, 7.6 times UK), more likely to have troubled relationships with work colleagues (4.3 times US, 5.7 times UK) and more likely to be looking for a job (2.1 times US, 2.3 times UK);
- The cost of this in lost productive days and greater staff turnover equates to 11-14% US, 13-17% UK, of total salary cost for the employer – which is almost $500bn annually for corporate America as a whole and £50bn annually for UK Plc;
- Those that have money worries are more likely to suffer from poor mental health by an order of multiples. They are more likely to be depressed (4.0 times US, 4.9 times UK) and more likely be prone to panic attacks (3.4 times US, 3.8 times UK);
- The highest level of depression and anxiety were with the lowest earners, perhaps not surprisingly, but also with the highest earners (earning more than $160,000 per annum in the US, more than £100,000 in the UK);

One of the most commonly held beliefs is that financial wellbeing is simply a function of how much money you earn: pay more and financial wellbeing is improved. This turns out not to be the case.

In the UK, the two groups that have the highest rate of financial worries are those earning £10,000 - £14,999 pa (perhaps not surprising), but also those who earn more than £100,000 pa. The percentage stating that they had financial worries in both of these groups is 49% vs the national average of 40%. More alarmingly, in the UK those earning more than £100,000 pa are more likely to suffer from panic attacks and depression than any other income group.

Lack of financial wellbeing, money worries, and likelihood of running out of money before pay day are highly correlated in both markets. An average of 34% of US, 39% of UK, employees regularly run out of money before pay day. Astonishingly, 26% of US employees who earn more than $160,000 per annum regularly also run out of money before they get their pay check. The solution to financial wellbeing isn't just pay rises.

Our conclusion is that financial wellbeing is a consequence of employees' financial habits in relation to how they spend, save and borrow. This led us to develop the Financial Fitness Score, based on the responses to 10 behavioural questions. It is an indicator of current financial health and a lead indicator of future financial health. We found that 91% US, 82% UK of those scoring 1 worry about their finances, while only 12% US, 8% UK of those scoring 5 worry about finances. The higher the Financial Fitness Score the greater the financial wellbeing.

Those who regularly borrow money to make up the difference between their spend and income (scoring 1-3) are more likely to suffer stress resulting in a number of symptoms: loss of sleep, distracted at work, job dissatisfaction, higher absenteeism, and are more likely to leave their job.

THE FINANCIAL FITNESS SCORE IS INTUITIVE & EASY TO UNDERSTAND:

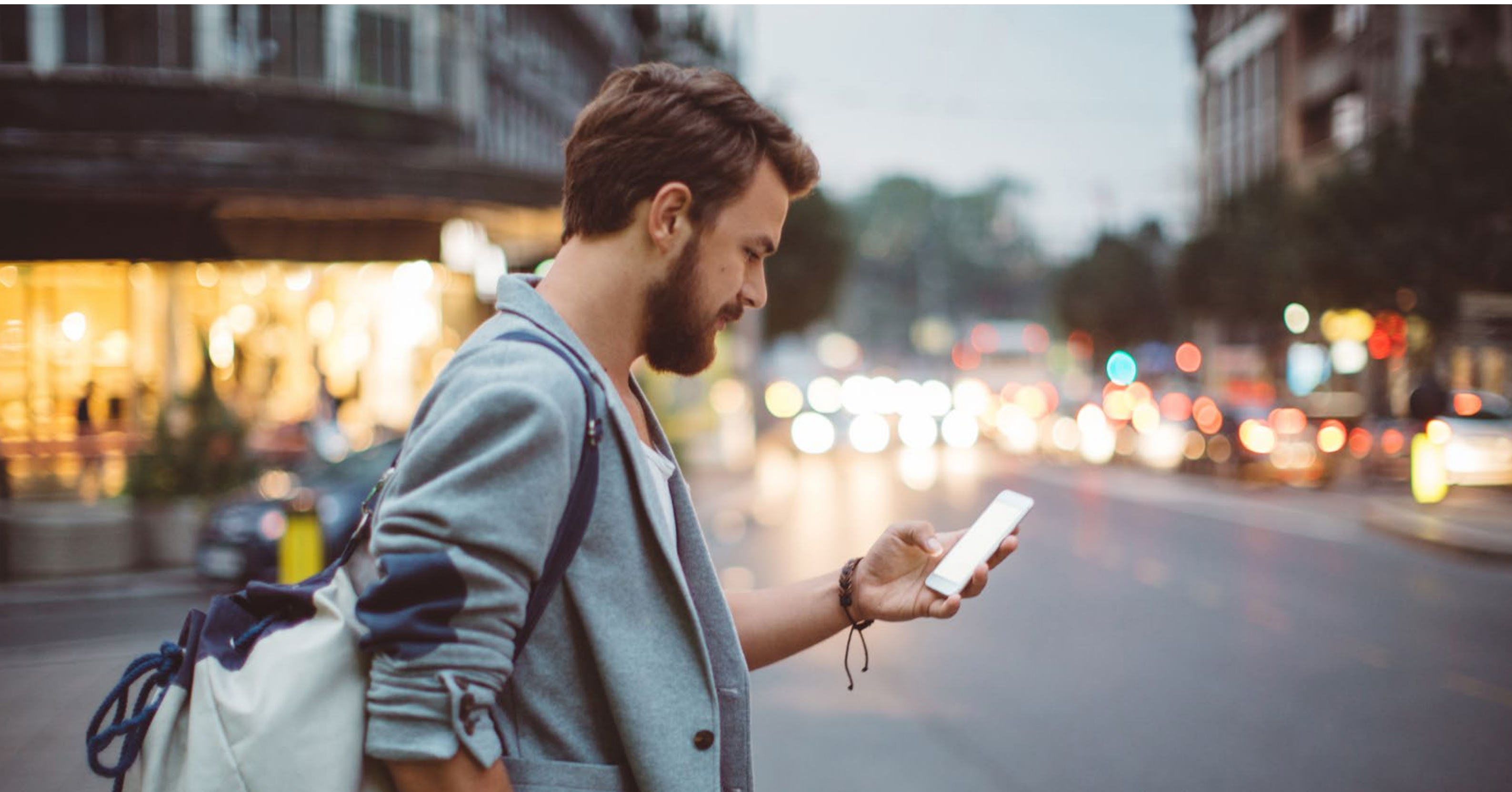
1: STRUGGLING
I often run out of money before pay day.

2: (JUST) COPING
I have virtually no savings and don't have enough to spend on life's little luxuries (e.g. new pair of sneakers, taking the kids to an amusement park, an evening out etc.) that I enjoy doing without feeling guilty.

3: BUILDING (RESILIENCE)
I have some savings but less than three months, so don't have sufficient resilience to deal with life's unexpected expenses (e.g. new transmission on a car, a medical bill etc.)

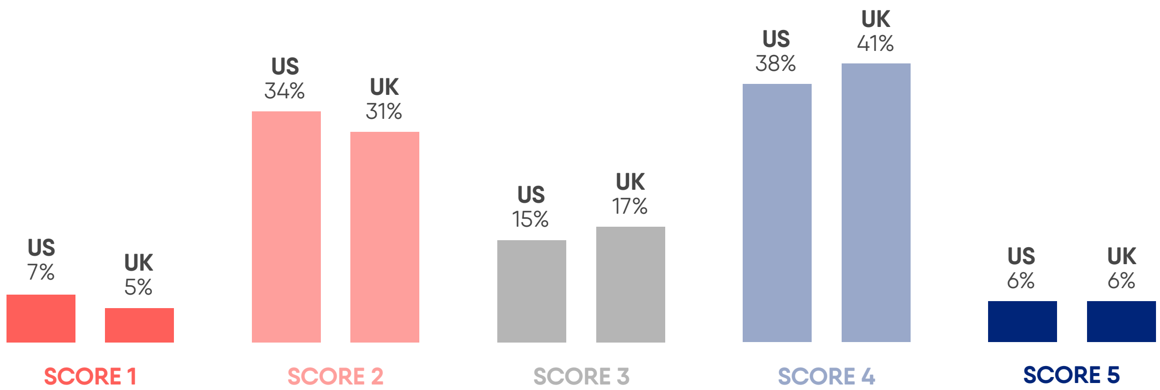
4: PLANNING
I have more than 3 months of savings to cope with an unexpected expense and a plan in place to achieve long term financial goals.

5: PROSPERING
My finances are not a constraint to living the life I want.



One would expect that the distribution of Fitness Score would follow a normal distribution (as is the case of salary and income level). However, what we see is a bi-modal distribution where there are two peaks, one at 2 and one at 4. Another bi-modal distribution is that of book prices on Amazon.com, there is a peak at $25 and another at $10. The $25 peak is the average price for hardbacks, and that at $10 is for paperbacks. A paperback can never become a hardback and vice-a-versa. So when we encounter a bi-modal distribution, we are not looking at a single population but two distinct populations super-imposed. This is the case with the Financial Fitness Score. There are those that are natural '2's' who are 'coping', and then there are those who are natural '4's' who are 'comfortable' when it comes to dealing with personal finances.

% OF EMPLOYEES AT EACH FITNESS SCORE (UK VS US)



% OF THOSE WORRIED ABOUT FINANCES AT EACH SCORE

US	**91%**	**71%**	**39%**	**28%**	**12%**
UK	**82%**	**69%**	**29%**	**22%**	**8%**

In general, financial worries for US employees become less the more they earn. On average 40% of those that earn $160-200k per annum have financial worries, compared to 58% of those that earn $25-40k. However, 30% of those that earn $160-200k have a Financial Fitness Score of 2, and 71% of those 2's have financial worries. So, if you are a 2, it doesn't matter how much you earn, you are still more likely to have financial worries. It's not income level that is keeping those 2's that earn $160-200k a 2, rather it is their spending, borrowing and saving habits. More money for a 2 means that a 2 will spend more. They don't suddenly start saving more. Whereas more money for a 4, will mean that they will save more, their spending levels may not increase. Helping 2's become 4's is the real issue.

THE EMPLOYER'S FINANCIAL FITNESS SCORE

A Financial Fitness Score can help both employees and employers identify what can be done to help improve an individual's financial fitness, and thereby increase wellbeing. Employers can tailor their benefits programme to meet the specific needs of their employee base. Those who score 1 or 2 would benefit from weekly budgeting and tips to save a little extra, whereas those scoring 4 want help on figuring out how to maximise their pension/ retirement savings.

Following this methodology, a business can establish its own Financial Fitness Score, which is the average score of its employees. This can be set as a KPI for the business to benchmark vis-à-vis its peers, and determine what interventions are available to improve its employees' Financial Fitness Scores. It can be used to measure the effectiveness of any programs that an employer chooses to implement. More critically, an employer can now determine which financial wellbeing benefits will have the greatest impact on improving the mental health of their workforce, enabling them to quantify the benefits and ROI. An employer can now improve the overall financial wellbeing of their employees helping them improve their individual scores, which will increase the average Financial Fitness Score for the entire organization.

Those businesses with a higher-than-average Financial Fitness Score will have fewer employees suffering stress due to financial worries and make them better placed to succeed in Economy 4.0.

IMPACT OF POOR FINANCIAL WELLBEING: THE COST

USA

48%

of people are worried about money

8.2x

more likely to have sleepless nights

3.4H

hours lost per week on money worries

1.1

sick days a year for financial stress

4.9x

more likely to affect quality of work

5.8x

more likely to not be able to finish daily tasks

4.5x

more likely to have troubled relationships with colleagues

2.2x

more likely to be looking for a new job

THE CONSEQUENCE

23-31

Mon Tue Wed Thu Fri

productive days lost annually

additional recruitment costs

additional training costs

THE IMPACT

11-14%

of salary cost

IMPACT OF POOR FINANCIAL WELLBEING: THE COST
UK

40% of people are worried about money

→ **8.8x** more likely to have sleepless nights

3.6H hours lost per week on money worries

1.5 sick days a year for financial stress

6x more likely to affect quality of work

7.6x more likely to not be able to finish daily tasks

5.7x more likely to have troubled relationships with colleagues

2.2x more likely to be looking for a new job

THE CONSEQUENCE

25-34 productive days lost annually

Mon Tue Wed Thu Fri

additional recruitment costs

additional training costs

THE IMPACT

13-17% of salary cost

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