

THE POWER OF THE WELLNESS EFFECT

Seeing the real value of employee financial health.



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Part of a Series on
Financial Wellness



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A Message from Phil Waldeck and Jamie Kalamarides

Building upon employers' realization of the value of employees' health wellness over the past decade, there is growing acceptance among employers that there is significant value in employees' *financial* wellness. Increasingly, our clients have expressed interest in augmenting their existing employee benefit programs to help employees improve their financial health. Financial wellness programs provide offerings that complement traditional employee benefits through their focus on foundational financial issues, such as budgeting, debt management, saving and investing, and protecting against key financial risks. These programs can meaningfully impact employees' financial wellness, and also benefit employers through increased employee productivity, optimized investments in employee benefits, and improved workforce management outcomes.

Prudential is a leading employee benefits provider. We have extensive experience and expertise in both retirement and group insurance benefits, and in utilizing data analytics to design benefit programs and drive constructive participant behavior. This brief offers our unique perspectives on financial wellness, including the benefits for both employees and employers, and best practices for employers thinking of implementing a financial wellness program. We invite employers and their consultants or advisors to consider these insights as they develop their own financial wellness programs.

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Executive Summary

- There is growing acceptance among employers that helping employees achieve financial wellness drives value not only for employees, but also for employers:

Increased Employee Productivity	Optimized Investments in Employee Benefits	Improved Workforce Management
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- Financial wellness programs are emerging as a new type of employer-sponsored benefit program that focuses on foundational financial issues.
- Financial wellness is realized when individuals adopt behaviors that help them achieve the foundational elements of financial security:

Managing Day-to-Day Finances	Achieving Important Financial Goals	Protecting Against Key Financial Risks
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- As long-standing providers of employee benefits, employers are viewed by employees as trusted partners who can help employees achieve financial wellness.
- Employers can maximize the effectiveness of their financial wellness programs by: designing a program that is informed by insights into the unique financial needs of their employees; successfully educating and engaging employees; and helping employees take concrete actions to improve their financial health.

The Evolution of Employee Benefit Programs

The “American Dream,” a shared ideal founded on individuals’ ability to achieve financial prosperity and security, is, for many Americans, slipping out of reach. Over 60% of Americans don’t have a “rainy day fund” with enough savings to cover a \$500 emergency.¹ In a recent Prudential survey regarding U.S. consumers’ perspectives on financial wellness, only 22% of individuals described themselves as feeling financially secure.² Debt levels are on the rise, in particular for student loans, creating an uphill battle for young professionals entering the workforce. Rising healthcare costs are increasingly straining individuals’ financial resources. These trends, while problematic today, have even more dire consequences for the future, as today’s financial shortfalls impede individuals’ ability to save adequately for retirement and protect themselves against unexpected life events. According to the latest National Retirement Research Index, 52% of households are at risk of not being able to maintain their standard of living in retirement.³ Compounding these issues, individuals often struggle with making important financial decisions on their own, or entrusting others to make decisions on their behalf.

Employees are increasingly turning to their employers as trusted providers of solutions that can help them achieve and maintain financial wellness. In fact, Prudential’s research found that individuals are more likely to use financial counseling services and tools aimed at budgeting, saving, and investing if those services and tools are offered by their employer.⁴ Employer-sponsored benefit programs have long played a role in helping

individuals prepare for retirement and obtain protection against unexpected life events. As marketplace dynamics and challenges have evolved over time, however, so too have the benefit program offerings. As a result, today’s employees bear a greater responsibility for their financial security than employees have in the past. For example, employers have shifted much of the responsibility for retirement readiness to employees by limiting the use of defined benefit (DB) plans, and expanding the use of defined contribution (DC) plans. Similarly, as healthcare costs have risen, employers have increased the percentage of these costs that they share with employees. In order to help balance the desire to provide robust benefits and the need to manage costs, employers have also increased the use of voluntary benefits. Another meaningful outcome of benefit program evolution is that employers have increasingly introduced health wellness programs, as they have realized that having employees who are physically well benefits both the employer and the employee.

Building on the success of health wellness programs, employers are recognizing the benefits of improving the *financial* wellness of their employees, and incorporating financial wellness program components that augment existing benefit offerings. As shown in the graphs on page 4, in a recent survey of finance executives, 82% agreed that their companies would benefit from having a workforce that is financially secure, and 78% felt that employers should assist employees in achieving financial wellness during working years.⁵

Over 60% of Americans don’t have a “rainy day fund” with enough savings to cover a \$500 emergency.¹

¹ McGrath, Maggie, “63% of Americans Don’t Have Enough Savings to Cover a \$500 Emergency,” 2016. <http://www.forbes.com/sites/maggiemcgrath/2016/01/06/63-of-americans-dont-have-enough-savings-to-cover-a-500-emergency/#bbc11a66dde1>

² Prudential, Financial Wellness Consumer Research, 2016.

³ Prudential, “Planning for Retirement: The Growing Impact of Student Loan Debt on Retirement Security,” February 2016.

⁴ Prudential, Financial Wellness Consumer Research, 2016.

⁵ CFO Research/Prudential, “The Value of Employees’ Financial Wellness,” 2016.

My company will benefit from having a workforce that is financially secure

Chart View Table View

Agree	Disagree	Don't Know
82%	5%	13%

Employers should assist employees in achieving financial wellness during working years

Chart View Table View

Agree	Disagree	Don't Know
78%	8%	14%

Furthermore, while only 20% of employers currently offer a financial wellness program, an additional 50% either plan to offer or would like to offer one in the future.⁶ This trend is not surprising in light of research suggesting that financial stress significantly impacts employees, and these impacts may carry over into the workplace. Forty-five percent of employees say that financial matters cause them the most stress in their lives – nearly as many as employees whose top stress is their job, health, or relationships combined.⁷ Financial wellness programs sponsored by employers may help to minimize this stress by complementing existing benefit offerings with additional benefits that help employees achieve financial security.

The Wellness Effect

Helping employees achieve financial wellness stands to benefit not only employees, but also their employers. In fact, by implementing successful financial wellness programs, employers may be better able to advance their strategic business goals, such as improving employee productivity, optimizing their investments in employee benefits, and improving workforce and cost management.

Employees who are financially well are more productive at work.

The car breaks down. The refrigerator stops working on a hot summer day. The kids need new uniforms for their sports teams. Everyday issues such as these can cause financial stress that leaves employees feeling distracted at work. In fact, 44% of employees say they worry about finances at work, and 46% admit to spending two to three hours per week on personal financial matters while at work.⁸ Financial wellness programs may benefit employers and employees alike by improving employees' financial security, thereby helping to reduce stress and distractions, and contributing to increased workplace productivity. A recent survey confirmed that 81% of employees agree that financial wellness programs would, in fact, reduce their financial stress.⁹ In addition to workplace productivity, employers may also see improvements in attributes such as employee loyalty and job satisfaction. Four out of five surveyed employees said that financial wellness programs are important to them and that they would choose a company that offered them over one that didn't,¹⁰ and 76% indicated that financial wellness programs would make them appreciate their company more.¹¹

Forty-five percent of employees say that financial matters cause them the most stress in their lives – nearly as many as employees whose top stress is their job, health, or relationships combined.⁷

⁶ Prudential, "Ninth Study of Employee Benefits: Today & Beyond," 2016.
⁷ PricewaterhouseCoopers, "Employee Financial Wellness Survey 2016 Results," 2016.
⁸ Purchasing Power, "Financial Wellness: Addressing the "9 to 5" Impact of 24/7 Financial Stress," 2013.
⁹ Guidespark, Financial Wellness Research, 2016.
¹⁰ Ibid.
¹¹ Ibid.

Financial wellness programs can help employers optimize their investments in employee benefits.

Employee benefit programs are an important vehicle to help employers attract and retain talent. Sixty-three percent of surveyed finance executives said that employee satisfaction with benefits is important for their company's success.¹² Given that, employers stand to benefit by integrating financial wellness offerings with existing benefits. Not only will this improve employee satisfaction, but it also may benefit employers. For example, research has shown that financial stress may lead to physical health problems that result in higher healthcare costs. People who experience stress related to their debt levels have more ulcers and digestive tract problems, migraines and other headaches, severe anxiety and depression, heart attacks and muscle tension.¹³ As a result, employers who complement existing benefit programs with financial wellness offerings may realize savings from reduced healthcare costs.

Similarly, adding financial wellness benefits to complement retirement benefits can help reduce retirement plan leakage which, in turn, protects the investment employers have made through their match of employees' retirement plan contributions. For example, employees who have accumulated a "rainy day" fund through budgeting tools provided as part of a financial wellness program may be less likely to withdraw retirement savings to cover the expense of unexpected life events. In 2012, employees withdrew \$70 billion from retirement accounts before reaching retirement age – \$60 billion of which was subject to tax penalties for early withdrawal. This equates to 59% of the matching dollars employers contributed to employees' retirement accounts that same year.¹⁴ However, among companies

providing financial wellness programs, the percentage of employees who reported having taken a retirement plan loan or hardship withdrawal declined from 30% in 2013 to 23% in 2015.¹⁵

Employees' financial wellness improves employers' workforce management.

As individuals' inability to save adequately for retirement has become more pervasive, so too has the tendency of employees to delay retirement. In a recent study, 44% of employees indicated that they will retire later than planned – up from 36% in 2015.¹⁶ The implications of this trend extend beyond employees to their employers. Employees who are unable to retire on time may experience higher stress levels, a lack of engagement, and lower productivity. Their delayed retirement may also result in turnover of younger employees due to lack of upward mobility. In addition to these workforce management implications, delayed retirements have a direct financial cost to employers, due to expected increased compensation, pension/retirement, and benefit costs. In fact, research and analysis regarding the impact of delayed retirements on employers' costs has shown that, using national averages for private sector workers, a one-year increase in the average retirement age results in an average annual incremental run rate of about 1%–1.5% of workforce costs.¹⁷

To put this in context, the blue bars in Figure A (page 6) display selected components of employers' aggregate workforce costs for all private sector workers as compiled by the Bureau of Labor Statistics.¹⁸ For comparison purposes, the red bars represent the expected *incremental* costs, as a percentage of total workforce costs, of a one-, two-, and three-year delay in retirement.

¹²CFO Research/Prudential, "The Value of Employees' Financial Wellness," 2016.

¹³Associated Press (June 9, 2008), "Debt Stress Causing Health Problems, Poll Finds." Retrieved from <http://www.msnbc.msn.com/id/25060719/>.

¹⁴HelloWallet, "The Retirement Breach in Defined Contribution Plans," January 2013.

¹⁵Financial Finesse Think Tank Research, "Year in Review 2015," 2016.

¹⁶PricewaterhouseCoopers, "Employee Financial Wellness Survey 2016 Results," 2016.

¹⁷Prudential, with supporting research and analysis from the University of Connecticut's Goldenson Center for Actuarial Research. Percentage represents the incremental annual cost of a one-year delay in retirement averaged over a five-year period.

¹⁸Represents average of all private sector workers, excluding the self-employed and farm and private household workers. Bureau of Labor Statistics, "Employer Costs for Employee Compensation – March 2016," Table 5, June 2016.

Figure A
Selected Workforce Costs: Private Sector, 2016

Chart View Table View

Selected Workforce Costs: Private Sector, 2016 Current selected workforce costs	
Life and disability insurance	0.5%
Paid sick and personal leave	1.2%
DB retirement plans	1.7%
DC retirement plans	2.2%
Paid vacation leave	3.6%

Selected Workforce Costs: Private Sector, 2016 Expected incremental costs of delayed retirement as a percentage of workforce costs (for comparison purposes)	
1-year delay in retirement	1.2%
2-year delay in retirement	2.2%
3-year delay in retirement	3.0%

Notes: 1. Selected workforce costs shown as a percentage of total workforce costs. Costs not shown include paid holiday leave, wages and salaries, supplemental pay, government payroll, and health insurance costs.
2. DB retirement plans include premiums, administration fees, and dollar amounts placed by employers into pension funds.
Source: Bureau of Labor Statistics, *Employer Costs for Employee Compensation – March 2016*, Table 5, June 2016. Prudential Financial analysis with supporting research by Goldenson Center at University of Connecticut.

This comparison demonstrates that the cost of delayed retirement is significant relative to national expenditures incurred for other workforce costs.¹⁹ Financial wellness programs may help prevent delayed retirements by increasing employees’ financial security and retirement readiness.

What is Financial Wellness?

There are many different perspectives among individuals, employers, and benefit providers about what it means to be financially well. Prudential, through consumer and employer research, and experience as a long-standing provider of financial wellness benefits, has developed a definition of financial wellness that centers around individuals adopting behaviors that help them achieve three foundational elements of financial security: managing day-to-day finances, achieving important financial goals, and protecting against key financial risks.

While this may sound simple, ingrained human behaviors often differ from the behaviors individuals should be adopting. When this occurs, the ingrained behaviors turn into challenges that can stand in the way of achieving financial wellness. Fortunately, employers who implement financial wellness programs that focus on the three foundational elements of financial security are well-positioned to help employees overcome these behavioral challenges.

Financial wellness is realized when individuals adopt behaviors that help them achieve the foundational elements of financial security: managing day-to-day finances, achieving important financial goals, and protecting against key financial risks.

Behavioral Challenge	Impact on Financial Wellness
<i>I might live how long?</i>	We have trouble imagining a longer life, which can affect our retirement savings plan.
<i>I'll do it later.</i>	We procrastinate and put off planning for the future.
<i>It won't happen to me.</i>	We tend to be overly optimistic, which can affect our decision to purchase protection solutions.
<i>I just can't resist.</i>	We have the urge to follow others, which can affect our financial decisions.
<i>I want it now.</i>	We want things now, which can affect our finances later.

¹⁹Based on national aggregate workforce costs, which are spread out over all private sector employees, even though not all employees have access to every benefit.

In particular, financial wellness programs can be designed to help employees:



Manage day-to-day finances by creating and maintaining a budget and reducing debt levels. Adopting these behaviors can also help employees achieve peace of mind and be better prepared to achieve important financial goals.



Achieve important financial goals, such as accumulating appropriate levels of savings and investments and saving for retirement. This is critical, given that achieving those goals may become more difficult or expensive the longer an individual delays.



Protect against key financial risks, such as loss of income due to death, illness or injury, and expenses related to unexpected health events. This can also help prevent losing progress toward achieving important financial goals if an unexpected event occurs.

How to Implement a High-Impact Financial Wellness Program

The landscape of financial wellness programs is broad and evolving, both in terms of the types of institutions offering the programs and the components being offered. Each type of provider may take a different approach to financial wellness and to the solutions that should be included in a financial wellness program.

Providers	Program Components
Retirement services providers	Financial education and tools
Employee benefit providers	Retirement products and services
Intermediaries	Protection and insurance products
Wellness providers	Health wellness tools
Start-ups	Counseling/advice
Consultants	

Some employers may choose to utilize one comprehensive provider to implement a financial wellness program, while others may choose to leverage multiple providers in order to offer a holistic suite of benefit offerings. These decisions will likely differ for each employer, since no two companies are exactly alike in terms of the financial wellness of their employees and the benefit offerings already in place. Notwithstanding these differences, the following are best practices that employers can use as they develop their financial wellness program:

Leverage employee data analysis and insights to adopt a needs-based approach to financial wellness benefits.

Financial wellness programs should be designed to offer solutions that meet employees' needs. Financial wellness programs offered by certain providers may include a set "package" of solutions. For such programs to be truly effective, however, they should be tailored to provide solutions that employees need most, and focus on areas where gaps are identified in existing benefit program offerings. Employers can leverage data about their employee base to obtain insights into the types of benefits employees need at various life stages, and help predict financial behaviors. This information can be harnessed to redesign benefit plans, educational programs, and communication materials to make better use of benefits dollars. For example, employers can utilize analytics to identify employee segments that are inadequately protected against the risk of disability, and offer a customized benefit that targets those segments.

Empower employees by providing financial education and guidance.

Successful financial wellness programs provide employees with financial education and guidance to complement the other offerings included in the program. Without proper education, employees may not be motivated to take advantage of financial wellness program offerings. Without financial guidance, employees may not feel confident that they are making the right decisions. A recent survey of employed consumers revealed that 38% would like to access one-on-one advice with a financial advisor through their employer, and more than half of those aged 25-34 are in favor of this benefit.²⁰

The education and guidance components of a financial wellness program should be delivered through multiple channels and formats, such as in a classroom setting, through one-on-one counseling, and using web-based tools, to maximize impact. Providing access to these resources helps empower employees to take the right steps toward improving their financial security.

Maximize employee engagement by driving financial wellness messaging through multiple communication channels.

As with any benefit program, a financial wellness program will only be successful if employees utilize the benefits offered. As a result, employers should develop an employee marketing campaign that drives financial wellness messaging through multiple communication channels, such as through a combination of emails, printed materials, and web-based tools provided through an employee intranet portal. Utilizing multiple channels can increase the penetration and impact of the program by expanding employee awareness about financial wellness and improving employee engagement with the related benefits being offered. Additionally, employers should consider implementing

year-round communications, rather than only engaging employees during the annual benefit enrollment period. Employers may also benefit from tailoring messages to appeal to segments of employees who may be focused on different near-term objectives, such as Millennials, who may be saving to buy a house, compared to Baby Boomers, who may be focused on maximizing retirement income. To complement these strategies, employers can highlight the importance of financial wellness in communications regarding both existing and new benefits.

Help employees take concrete actions to improve their financial health by providing the right solutions.

At the heart of any successful financial wellness program are the product solutions, tools, and support that enable employees to take concrete actions to improve their financial health. As a starting point, employers should evaluate their existing benefit programs and ensure that employees can easily access their benefits, interact with tools and solutions, and reach out for support if needed. After ensuring the foundation for existing benefits is in place, employers can augment these programs with new solutions and tools. In deciding which benefits to offer, employers should leverage insights gleaned through data analysis, and include solutions that broadly address the three foundational elements of financial wellness. To ensure a successful rollout, employers can consider utilizing a phased approach that focuses first on offerings that will have the biggest impact. Since employees' needs change over time, or in response to life events, evolving the program to adapt to employees' needs can help yield the best return on investment.

²⁰LIMRA, "LIMRA Report: Household Finances Cause Highest Stress Levels for Americans," 2015. http://www.limra.com/Posts/PR/News_Releases/LIMRA_Report_Household_Finances_Cause_Highest_Stress_Levels_For_Americans.aspx

Conclusion

While financial wellness broadly includes the ability to manage day-to-day finances, achieve important financial goals, and protect against key financial risks, it also has a unique, specific meaning for each individual striving to achieve it. Peace of mind. Retirement preparedness. Financial freedom. Whatever the meaning, employers can make a significant difference in employees' ability to achieve financial wellness by implementing financial wellness programs that motivate employees to adopt the right behaviors and focus on the three foundational elements of financial wellness. These programs not only help employees, but also benefit employers through increased employee productivity, improved workforce and cost management, and optimized investments in employee benefits.

Although each employer faces different challenges when implementing a financial wellness program, employers should design financial wellness programs that are informed by insights into the unique financial needs of their employees, successfully educate and engage employees, and help employees take concrete actions to improve their financial health.

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