It's Time to Create a Financially Literate Workforce to Improve the Bottom Line[1]

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What is Financial Distress?

The 2008 housing/credit/stock market collapse and economic crisis was of historic proportions. Many people saw the value of their homes shrink 20% while at the same time 40% of their retirement funds evaporated. Millions had their jobs disappear, and consumer confidence dropped to an all-time low. Today's ensuing slow recovery is fraught with fear about personal financial issues. *This* is financial distress.

According to a recent survey reported in *USA Today*, distress over financial matters is contributing to irritability, anger, fatigue, and sleeplessness for over 52% of Americans. Every day families are running harder and harder to stay in the same place economically while others are trying to reduce the amount that they are falling behind. Millions of these people carry their distress about financial matters into the workplace where it reduces employer profits. Employers need to know how to assess the financial wellness of their employees as well as what to do about it. Curious employers, if they wish, then can evaluate the value of improvements in employee financial well-being to their bottom line.

Financial Satisfaction Measures

Satisfaction with the various facets of one's life contributes to the overall well-being people experience. Over the past 35 years, researchers have looked at both objective and subjective measures to depict the financial health of individuals and families. They have found that, while objective measures like household income and net worth are more straightforward and more readily available, they do not capture the complete picture of a family's financial health and well-being. Also, those indicators are slow to change, and thus do not convey important shifts. Missing is the individual's judgments about and emotional responses to his or her financial condition.

Objective measures also are criticized as not being useful barometers of financial health and well-being. For example, two individuals with equal paychecks very well may have different feelings about their financial situation, partly because their spending behaviors are dissimilar. While one individual may be extremely dissatisfied with personal financial conditions, another with the same income could be quite content. Professors Sharon Danes and Kathryn Rettig have referred to this judgment people make on whether their income can meet the financial demands of life as perceived income adequacy.

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[1] Prawitz, A.D., & Garman, E.T. (2009, April), It's time to create a financially literate workforce to improve the bottom line, *Benefits Compensation Digest*, Volume 46, Number 4, pages 1, 11-14.

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The extent to which disposable income can provide for one's needs and wants guides one's judgment of income adequacy. Those with few needs and wants, of course, will have greater perceived income adequacy than will those with equal income who have a multitude of needs and wants. Danes and Rettig found that people who reported that their income did not meet even basic living expenses also reported dissatisfaction with the gap between their standard of living (their ideal) and their level of living (their reality). Such normal, negative feelings about the personal financial situation certainly reduce one's overall psychological well-being.

Subjective measures of one's financial condition provide a richness that objective measures do not, for they help tell the story about how financial issues affect individuals and families. Measuring an individual's reaction to the personal financial condition, though, is challenging. Researchers have chosen different names for the concept describing perceptions about one's financial situation, including perceived economic well-being, personal financial wellness, financial satisfaction, financial strain, financial stress, debt stress, economic strain, economic distress, and financial distress/financial well-being. Not surprisingly, each term has a slightly different meaning as well. Recently, a team of national scholars (Prawitz, Garman, Sorhaindo, O'Neill, Kim, and Drentea) developed a tool to measure the concept encompassing perceptions of and reactions to one's financial situation. Their Personal Financial Wellness (PFW) measure represents a continuum from *overwhelming financial distress/lowest financial well-being* to *no financial distress/highest financial well-being*.

Financial Distress Has Negative Workplace Outcomes

Researchers have found that financial distress spills over into the workplace, contributing to such work-related occurrences as personal finance-work conflict, lower commitment to the organization, less satisfaction with pay, work time wasted dealing with personal finances, more absenteeism, and poorer health. Employers need to recognize that at any given time, in every workplace, part of the workforce (typically 15-30%) is seriously financially distressed.

Personal Finance-Work Conflict. A number of studies have examined relationships between financial distress and workplace outcomes. Professor Jinhee Kim and colleagues found that financial distress contributes to increased personal finance-work conflict, a situation described as personal financial issues interfering with one's job. Examples of personal finance-work conflict include the inability to get to work on time and to complete daily work tasks. Clearly, such occurrences can decrease job productivity, a condition of special interest to employers.

Commitment. Financial distress also has been studied in the context of its contribution to workers' commitment to the company that employs them. Such commitment includes things like pride in the company and feelings about whether this a good place to work. Professors Jinhee Kim and E. Thomas Garman found that employees with more financial distress displayed less commitment to their organization, a situation that does not bode well for the employer.

Pay Satisfaction. Another variable that has been studied in conjunction with financial distress is pay satisfaction, which includes such concepts as fairness of pay for the work being done, adequacy of pay raises, and perceptions of being appreciated by the employer. Kim and Garman report that those with greater financial distress are less satisfied with their pay, regardless of the amount of money they make. Dissatisfaction with pay is a concern for employers as well as employees, as it could lead to increased turnover. Employee turnover represents huge costs to employers in the form of recruitment, interviewing, training, and other expenses.

Presenteeism. Researchers have examined the relationship between financial distress and amount of work time wasted dealing with personal financial issues. Work time wasted is called "presenteeism," referring to the use of work time for activities unrelated to work. According to Professor Cary Cooper, who coined the term, such activity may occur because an employee is ill, stressed about financial or other personal matters, or distracted for other reasons. According to the Integrated Benefits Institute, presenteeism accounts for three times the amount of work time lost than does absenteeism. Thus, if employees are absent an average of five days a year, their work time lost is actually equal to 20 days/year, with presenteeism accounting for the equivalent of 15 additional days of non-productive work time. The Personal Finance Employee Education Foundation (PFEEF) reports that of those 15 days worth of time wasted at work, 5 of them are due to personal financial issues. Examples include such workplace activities as communicating with creditors about one's past due bills, talking with co-workers about personal financial problems, and spending time worrying about personal finances. Undoubtedly, employees who waste time at work dealing with personal finances will be considered by employers to be less productive.

Absenteeism. Research also has supported the relationship between financial distress and absenteeism from work. Kim and colleagues have found in a number of different studies that employees with more financial distress were absent from the workplace more often. Jacobson and colleagues, researchers at Oklahoma State University, determined that financial distress represented one of the strongest predictors of illness-related absence from the workplace. Employees who are absent from work clearly are unable to effectively contribute to productivity in the workplace if they are not there.

Health. Professor Barbara O'Neill and colleagues have studied the relationship between financial distress and health outcomes, and have found that those who report more financial distress also report poorer health. The quantity and quality of work produced by employees who experience poorer health may be decreased, and , according to Jacobson and colleagues, unhealthy workers likely will be absent from work more often. Employer health costs also are higher for such workers.

Reducing Employee Financial Distress Benefits Employers

Job Productivity. Considering the economic challenges facing American employers today, it is important that they realize workers suffering financial woes reduce profits. The effects of financial distress spill over into the workplace as employees struggle with financial problems compromise job productivity. Financially distressed workers often lack initiative and exhibit signs that they are distracted and anxious. These are not characteristics of productive employees. According to Personal Finance Employee Education president E. Thomas Garman, employees with money problems are like sharks swimming around the workplace taking bites out of the bottom line.

More Profits. According to researchers at PFEEF, an effective way to help employees reduce financial distress is the provision of appropriate financial education in the workplace. In so doing, employers will find that in addition to a boost in employee productivity, the company also will experience higher profits.

Return on Investment. The Personal Finance Employee Education Foundation argues that the return on investment for employers who offer employees easy access to quality financial programs is 3:1 or more; thus, for an employer who invests $250 in a financial education program, the expected return is $750. The foundation suggests that each employee whose financial health and literacy is improved can save the employer up to $2,000 a year through increased productivity, reduced health care costs, better choices among employee benefits, and in a variety of other ways.

Stewards of Employee Well-Being. More profits may provide strong motivation for offering financial education in the workplace, but profits should not be the only reason employers do so. A more important reason is that it is the right thing to do. As stewards of the financial well-being of their employees, employers who provide high quality financial education programs in the workplace communicate a critically important message to employees: “We know you may be struggling financially, we care about you, we want you to have a secure financial life and a financially successful retirement, so we will empower you to champion your own financial interests.” Employers that provide appropriate financial education programs will increase productivity, reduce absenteeism and turnover, and increase profits. Committed investments in financial education programs will benefit employers as well as employees.

Financial Literacy Education: Not Simply Retirement Planning

Many American workers lack the knowledge needed to prepare adequately for their own retirement, and need the information offered in educational retirement planning programs. Employees, however, also need educational programs focused on basic financial literacy, including information about setting financial goals, developing spending plans, using credit wisely, saving for emergencies, and learning to spend less than they earn. Workers lacking such knowledge will not learn to save for retirement or save enough on their own because they neither know how to or why they should. With appropriate basic personal financial practices in place as a solid foundation, workers can control their financial futures and weather the inevitable economic storms over time. Such employees not only can live well today, but also can position themselves to enjoy a financially successful retirement down the road.

The PFW: A Good Tool to Measure Employee Financial Wellness

Employers can use the Personal Financial Wellness (PFW) instrument to benchmark the financial health of their employees. They can insist that financial education providers design programs that help employees reduce financial distress and improve financial well-being. If desired, one year later, employees can be surveyed again to evaluate program effectiveness in reducing financial distress.

The Personal Finance Employee Education Foundation offers employers free use of its research-based Personal Financial Wellness (PFW) scale and encourages its use to measure employee financial distress/financial well-being. The PFW scale is a peer-reviewed, published, valid and reliable measure (over 25 years in development) with national norms; the 8-item online questionnaire takes only 3-4 minutes to complete. (To access the survey, go to www.personalfinancefoundation.org.)

A peer-reviewed article published in a prestigious academic journal notes that the PFW is concise, simple to administer, easy to interpret (scoring is 1-10), and has consistently and accurately measured the concept repeatedly over time with various populations. The survey tool has been used to facilitate early detection of problems and provide evidence of the need for appropriate intervention. It also has been useful in assessing the effectiveness of financial education interventions. Over 100 employers, financial education providers, universities, and foundations are approved users of the PFW.

Target Programs Based on Level of Financial Distress

Suggested topics for a quality financial program follow; topics targeted to groups of employees should differ based on employees' reported levels of financial distress. The financial program provider working with the employer also can help make appropriate decisions about which financial program information should be emphasized with which groups of employees.

High financial distress/Poor financial wellness (PFW scores = 1, 2, 3, and 4)

- Setting financial goals
- Individual budgeting, credit education, and credit recovery counseling
- Benefits information
- Credit union and bank affiliations providing preferred services to employees
- Coaching in how to begin preparing for a financially successful retirement

Average financial wellness/average financial distress (PFW 5 and 6)

- Benefits information
- Credit union and bank affiliations providing preferred services to employees
- Money coaching on critical wealth management practices
- Tax preparation education
- Mortgage lender education for achievement of homeownership goals
- Insurance education
- Investment education and advice
- Retirement planning education that explains the various components of post-work income and how to continue preparing for a financially successful retirement
- Estate transfer workshops
- Post-retirement financial education

High financial wellness/low financial distress (PFW 7, 8, 9, and 10)

- Retirement planning education that explains the various components of post-work income and how to continue preparing for a financially successful retirement
- Money coaching providing direct education on critical wealth management practices
- Investment advice

- Tax preparation education
- Estate transfer workshops and individual counseling
- Post-retirement financial education

Outcomes of High Quality Financial Education Programs

Employees will see immediate gains from participating in a high quality financial program. Provision of high quality financial education in the workplace results in employees learning to make better financial decisions and improving their financial behaviors. This directly leads to lower financial distress and increased financial well-being. Workers with increasing financial well-being will waste less time at work tending to personal financial matters. Job performance, productivity, and commitment to the organization will improve. Pay satisfaction also will increase as employees learn to manage their resources more effectively. Employees will become healthier, resulting in less absenteeism.

Conclusion

Can employees successfully manage their personal finances in such an era of economic turbulence? Yes, they can, although it will be challenging. Employees who have easy access to quality workplace financial programs can learn how to be successful in these economic times. They must, because their long-term financial futures depend upon it...as does a portion of their employers' profits. The economy is going to be bumpy for the next few years, and employers need to do all they can to stay in business and remain profitable.

Three-time *New York Times* Pulitzer Prize winner Thomas Friedman observes that, "We need to save more, invest more, consume less, and throw out most of our credit cards to bail ourselves out of this economic mess." That's good advice for employees. Here's some good advice for their employers: Take heed-- don't just give employees a raise. Offer help with financial management challenges through high quality financial programs.