HEALTH WEALTH CAREER

INSIDE EMPLOYEES' MINDS™

FINANCIAL WELLNESS, VOLUME 2

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INSIDE EMPLOYEES' MINDS™ — FINANCIAL WELLNESS, VOLUME 2

Mercer's Inside Employees' Minds™ financial wellness survey gathered insights from more than 3,000 workers and provided an opportunity to better understand the motivation behind employee decision-making and personal financial wellness.

THIS SECOND VOLUME OF RESEARCH FINDINGS HIGHLIGHTS THE FOLLOWING KEY CONCLUSIONS:

- Employees who are offered a financial wellness program through their employer are twice as likely to report being very satisfied with their job and their employer, and are more than twice as likely to trust their employer to do what's right;
- Approximately 5% of total payroll is at risk of being spent on employees unproductively worrying about their finances during work hours. On an estimated total US wage bill of $5 trillion, this could be costing employers up to $250 Billion in lost wages each year. We can estimate a level of payroll risk within an employee group, highlighting the population where there is most likely to be a return on investment (ROI) from a financial wellness program;
- Level of financial courage is strongly correlated with employee engagement and success of financial wellness programs; and
- Employees don't want their employer directly involved with their personal finances, but value financial advice provided through an employer-sponsored source.

As introduced in Volume 1 of this report, we developed the Mercer Financial Wellness Index (MFWI) and the Mercer Financial Courage Index (MFCI) based on the Inside Employees Minds data as a means for employers to measure the financial wellness of their workforce over time. We will continue to reference these indices throughout this volume of research. An in depth explanation of these tools and their methodology is included as Appendix A of this report.

1.

HIGHER LEVELS OF JOB AND EMPLOYER TRUST AND SATISFACTION ARE REPORTED FROM EMPLOYEES WHO ARE OFFERED FINANCIAL WELLNESS PROGRAMS

Employees who have access to financial wellness benefit programs through their employer report high levels of satisfaction with both their employers and their jobs twice as often as employees who do not have access to these programs. Even if employees don't participate in these programs, they are still more satisfied with their employers when the programs are at least available. Employees who have access to financial wellness benefit programs also report higher levels of trust in their employer.

Figure 1. Employees who report being very satisfied with their employer today

Figure 2. How much of the time do you think you can trust your employer to do what is right

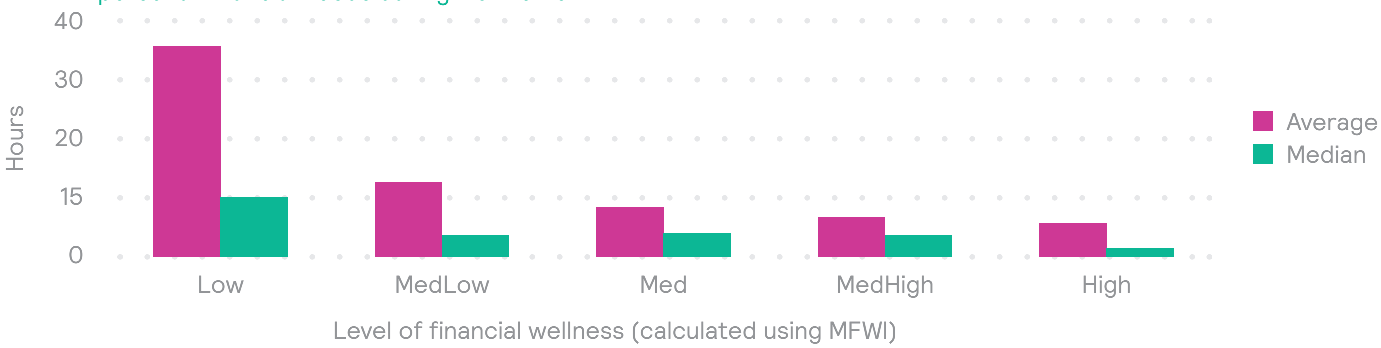
2.

THE RETURN ON INVESTMENT FOR FINANCIAL WELLNESS PROGRAMS CAN BE MEASURED BY CALCULATING PAYROLL RISK

In Volume 1 of this report, we noted that the average time an employee spent worrying about personal finances while at work was 13 hours per month and the median was 5 hours per month. The difference between these two amounts highlights the skewness of the distribution answers i.e. some people were indicating they spend in excess of 100 hours per month which really highlights the extreme stress some employees are feeling.

As the chart below illustrates, the hours an employee spends worrying about finances is much lower for those with higher MFWI scores and higher for those with lower MFWI scores. The chart also shows how the average and the median are quite different throughout the survey population.

Figure 4. Just as a rough guess, how much time do you spend each month worrying about money and other personal financial needs during work time



Using this data, we developed a calculation for payroll risk, which we define as the percentage of an employer's total payroll that is at risk of being spent on employees unproductively worrying about their personal finances during work hours. Using our model, we found that based on our survey data, approximately 5% of an organization's total payroll is at risk from time unproductively spent worrying. On an estimated total US wage bill of $5 trillion, this could be costing employers up to $250 Billion in lost wages each year. In order to ensure that the payroll risk calculation was reasonable, we limited the number of hours spent worrying to a maximum of 20 hours per month. In Appendix B, we provide case studies of payroll risk calculations and lessons learned in each scenario.

While employers will likely never be able to reduce the payroll risk to $0, effective financial wellness can at least increase the usefulness of these hours. Rather than powerlessly worrying for 5 hours a month while at work, an employee can use those 5 hours to take effective steps towards improving their financial health. While we certainly would not suggest that a payroll risk calculation is the only analysis that should be conducted, we do believe it is a good input that highlights the potential loss for an employer resulting from people worrying at work in addition to highlighting where an employer is likely to achieve the best return for its investment in financial wellness programs. Additional recommended analysis may include:

- An assessment of levels of financial wellness and financial courage within the various groups;
- Survey sampling to provide a point in time assessment of your employees that can be monitored over time;
- Employer benefits utilization, in aggregate, by segment, and/or by clusters of employees with similar needs.

3.

FINANCIAL COURAGE IS STRONGLY CORRELATED WITH EMPLOYEE ENGAGEMENT AND WITH SUCCESS OF FINANCIAL WELLNESS PROGRAMS

In the first release of our Inside Employees Minds Financial Wellness survey, we introduced the concept of financial courage, which we defined as an individual's confidence in his or her ability to engage in financial transactions. Our research shows that high financial courage is strongly correlated with high financial wellness. Well-intentioned employers may try to increase the financial wellness of their workforce, through new benefit offerings, communications strategies, education programs, and other tactics. However, if the employees suffer from low financial courage, they are less likely to engage with these programs, and well-intentioned employer efforts may be unsuccessful. Employers should consider the financial courage of their population when designing benefit programs, and align engagement tactics and success metrics with the courage of their population. As employers drive engagement in financial wellness programs, increasing financial courage of the workforce is a key step.

Our research shows that employees who have high levels of financial courage are more likely to know about, participate in, and take action on financial education and financial advice programs provided by their employer. However, in order for employees to take action to improve one's financial health using an employer-provided program, they have to make it through multiple hurdles:

1. A program has to be made available to them;
2. The individual needs to be aware of the program;
3. The individual must be willing and able to take advantage of the program;
4. The program has to give them tangible steps for action that they can take to improve their finances; and
5. The individual must take action based on the recommendations presented to them.

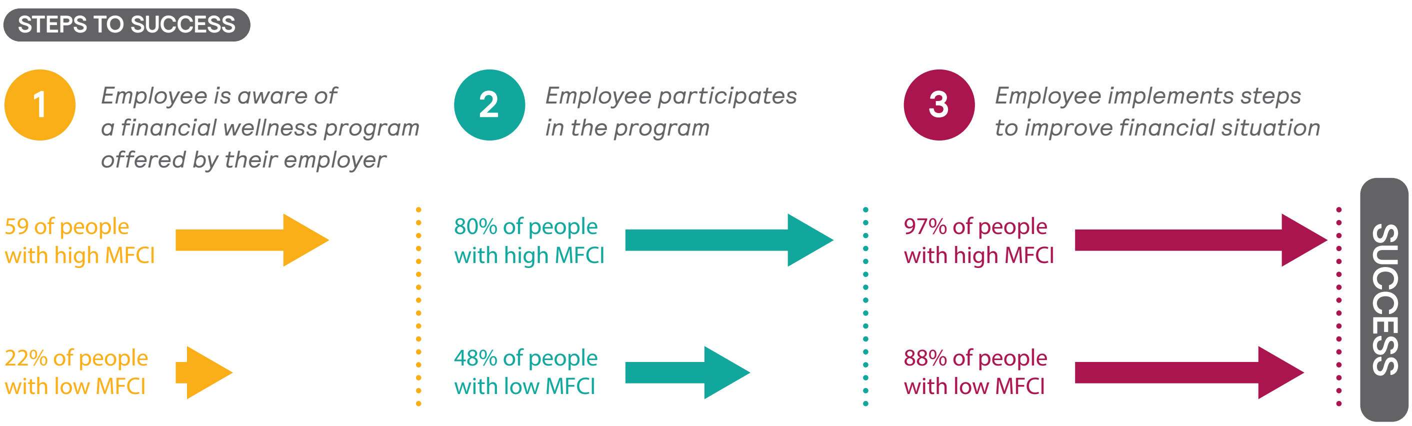
Our research showed that people with high financial courage are more likely to successfully make it through every one of these steps to success. Additionally,

- Around 20% of people with low financial courage are not sure if their employer offers a financial education/financial advice program, compared to 8% of people with high financial courage.
- Of people who are aware of a financial education/financial advice program, about half of the people with low financial courage participate, compared to over 80% participation of people with high financial courage.

Note: Based on the results, we suspect that individuals do not appreciate the differences between financial education and a financial advice program.

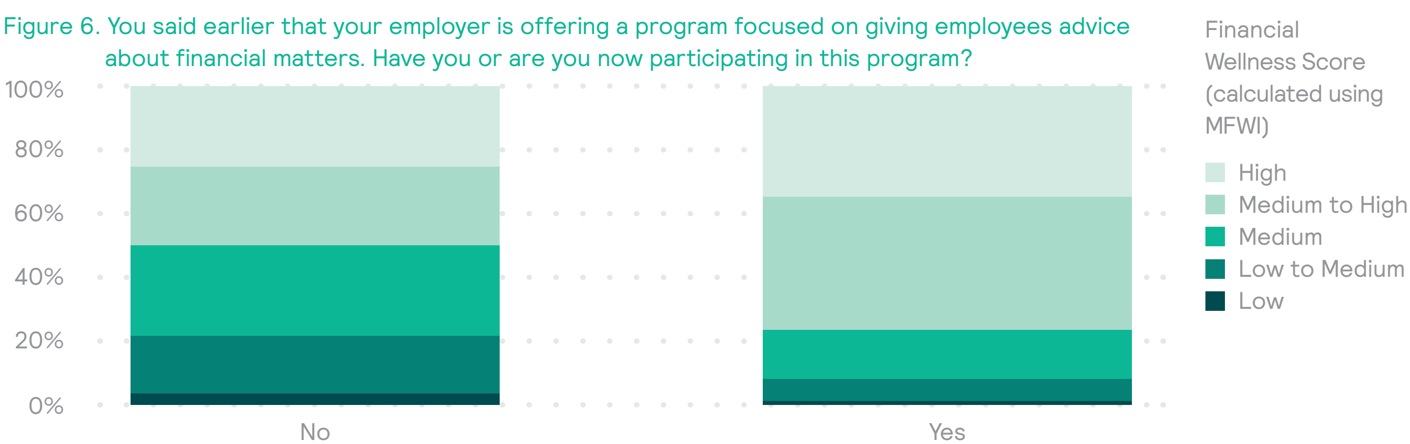
Figure 5 illustrates the path to financial wellness program success and how, at each step, the probability of success is improved in those individuals with stronger financial courage. While having high financial courage is quite important when it comes to an individual being aware of employer-provided programs and participating in those programs, it is significantly less important when it comes to the success an individual experiences when implementing specific steps recommended by the program. In other words, if a participant is presented with specific steps they should take, it doesn't matter how much financial courage they have at the beginning of the program as long as they, in fact, begin to implement the recommended steps.

Figure 5.



As the chart below illustrates, survey respondents who participate in financial programs demonstrate higher levels of financial wellness.

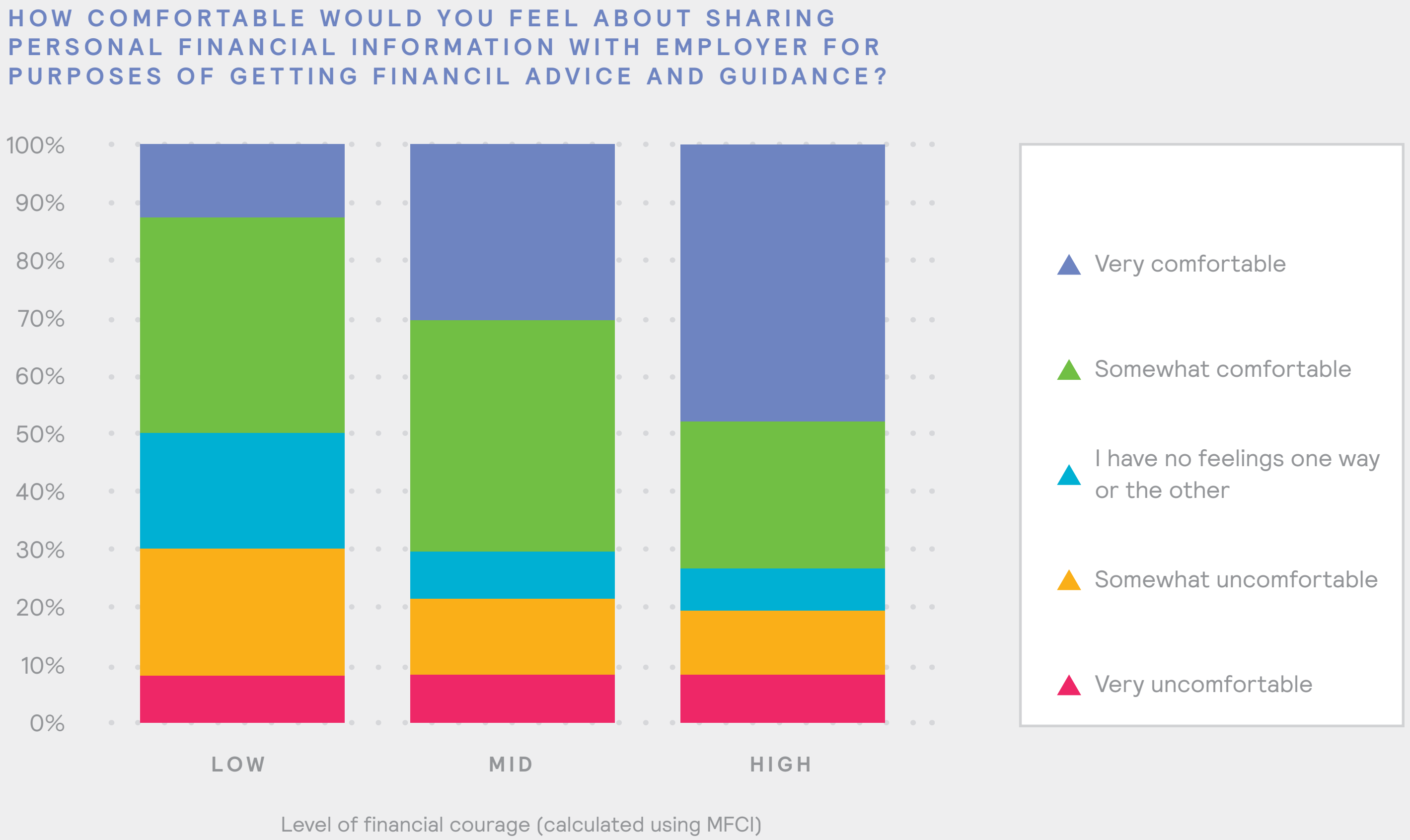
Figure 6. You said earlier that your employer is offering a program focused on giving employees advice about financial matters. Have you or are you now participating in this program?



4. EMPLOYEES DON'T WANT THEIR EMPLOYER DIRECTLY INVOLVED WITH THEIR PERSONAL FINANCES, BUT VALUE FINANCIAL ADVICE PROVIDED THROUGH AN EMPLOYER-SPONSORED SOURCE

A potential barrier that may keep some employees from engaging in employer sponsored programs is a hesitancy to share personal financial information with an employer or employer-provided vendor. It is difficult to provide appropriate programs and communications if the vendor doesn't know what an individual needs, and many programs require the user to share some basic financial information to even accomplish the first step of engagement. However, our research also shows that individuals with higher financial courage are more likely to be willing to share personal financial information with their employer than those with lower levels of financial courage. The survey highlights that employees don't want their employees directly involved with their finances, but do value financial advice provided through an employer-sponsored source.

Figure 7. Sharing personal financial information



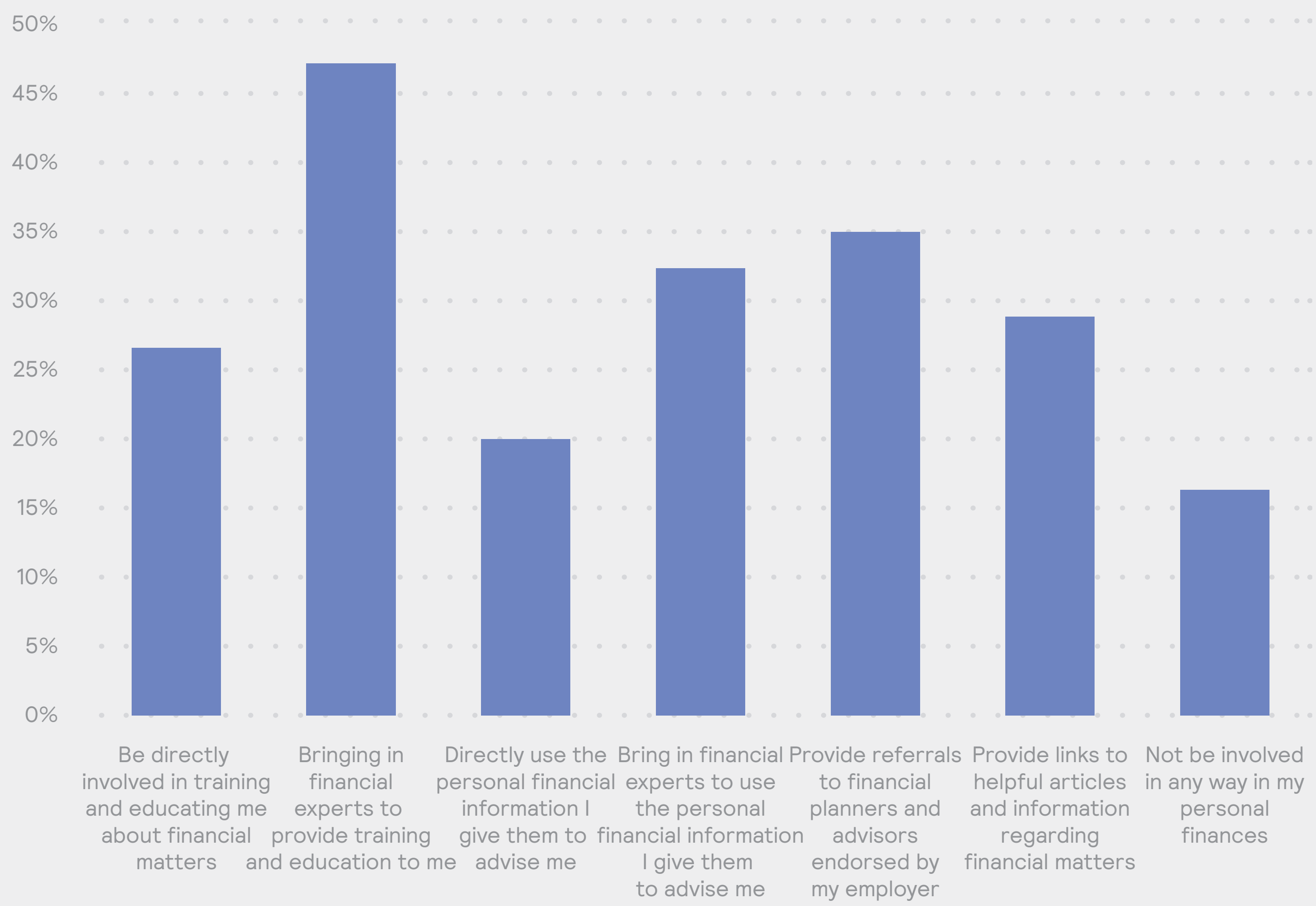
Given that, we believe that financial wellness programs can:

- Build financial courage;
- Lead to improved financial wellness; and
- Generally lead to happier, more contented employees;

Then what role should the employer play?

When asked about how they preferred their employer to be involved with helping with financial decisions, survey respondents indicated the strongest interest in their employer bringing in financial experts to provide training, education, and advice. Responses indicate that employees don't want their employer directly involved with their personal finances, but respond favorably to the idea of getting referrals or access to financial experts provided by or endorsed by the employer.

Figure 8. How much of a role do you want your employer to play in helping you make the best financial decisions for yourself and your household



A CALL TO ACTION

Our Inside Employees' Minds Financial Wellness survey results show that employees who are offered a financial wellness program from their employer experience greater levels of job satisfaction than those that do not. Combined with the tangible costs that employers face with their payroll at risk due to the lost time employees spend worrying about finances while at work, there are significant incentives to implementing a thoughtful financial wellness program.

When designing a financial wellness benefit program, it is critical to first understand who the employee population is that needs help. Not only demographically speaking, but it is also important to gain an understanding for what financial challenges they face and how likely they are to respond positively to a financial wellness program.

Workforce research studies, such as the Mercer Financial Wellness Index and Mercer Financial Courage Index, can provide a great starting point for understanding the needs of a workforce population. The data generated from these tools can be leveraged to thoughtfully inform an appropriately tailored financial wellness program, with plan design features that are influenced by the financial courage of the population, such as:

- Using appropriate defaults options and auto features to account for employees with low financial courage, who are unlikely to take action on their own, or implementing a personal financial coach to help those people.
- Striving to make it as easy as possible for employees with low financial courage to take the best, easiest, and most appropriate right step to improve their financial wellness.
- Taking advantage of opportunities to leverage or redeploy and promote existing vendors who are experiencing suboptimal utilization, or who are missing a key segment of the population.
- Using segments identified through cluster analysis to develop and apply persona-driven communication strategies regarding available benefits and possible actions.

APPENDIX A:

MERCER'S PROPRIETARY TOOLS FOR FINANCIAL WELLNESS ASSESSMENT

In order to provide meaningful, actionable context for our survey results, we have developed the Mercer Financial Wellness Index (MFWI) and the Mercer Financial Courage Index (MFCI) based on the Inside Employees Minds research. These proprietary tools provide a means for employers to measure the financial wellness of their workforce over time. Designed to capture behavioral and attitudinal data, the MFCI enables employers to identify those populations within the workforce that may be more likely to utilize the programs and react favourably to financial wellness interventions, taking the guess work out of "who will benefit" and allowing for more targeted strategies.

The Mercer Financial Wellness Index is defined by the following factors:

- Level of comfort in meeting various financial obligations
- Stress regarding financial situation
- Current indebtedness
- Ability to pay for an unforeseen expense
- Ability to absorb the impact of a health-related illness

The Mercer Financial Courage Index is defined by the following factors:

- Overall attitude to financial matters/planning;
- Time spent at work worrying about financial issues;
- Preferences around financial planning;
- Self-assessment of financial knowledge;
- Preference for control with investments versus reliance on others

APPENDIX B: PAYROLL RISK CASE STUDIES

Case 1: This was based on the survey population (with total salary roll normalized to $100 million per annum)

	Millennials (18-32)	GenX (33-50)	Baby Boomers (Over 50)
Over $100k	$0.58M	$1.41M	$0.46M
$50k to $100k	$0.48M	$0.76M	$0.31M
$25k to $50k	$0.14M	$0.16M	$0.1M
Under $25k	$0.02M	$0.02M	$0.01M

This heat map highlights that the greatest ROI will most likely be achieved by focusing on the higher paid Generation Xers.

Case 2: This was based on a sample retailer (with total salary roll normalized to $100 million per annum) but in this case we estimated the number of hours spent worrying based on a predictive regression we developed using the survey data

	Millennials (18-32)	GenX (33-50)	Baby Boomers (Over 50)
Over $100k	$0.03M	$0.3M	$0.11M
$50k to $100k	$0.17M	$0.25M	$0.06M
$25k to $50k	$0.29M	$0.27M	$0.11M
Under $25k	$2.15M	$0.9M	$0.44M

In this case the heat map highlights that the greatest ROI will most likely be achieved by focusing on the lowest paid Millennials

Case 3: This was based on a sample engineering firm (with total salary roll normalized to $100 million per annum) but in this case we estimated the number of hours spent worrying based on a predictive regression we developed using the survey data.

	Millennials (18–32)	GenX (33–50)	Baby Boomers (Over 50)
Over $100k	$0.78M	$0.76M	$0.93M
$50k to $100k	$0.26M	$0.38M	$0.33M
$25k to $50k	$0.09M	$0.16M	$0.12M
Under $25k	$0.02M	$0.01M	$0.01M

In this case, the heat map focuses on the higher paid with a leaning towards the Baby Boomers. While it's true that the payroll risk measure will tend to focus on the higher paid, Case 2 shows that this is not always the case. Also, these heat maps can prove to be very useful when directing your financial wellness spend, for example:

- In case 1, we can look at the typical financial concerns of Generation X employees, subsidized financial coaching may be worth considering this is the age group that has many demands on it;
- In case 2, we can focus on the needs of lower paid Millennials, finding ways to assist these employees with basic debt or budgeting may be more important;
- In case 3, retirement support may be a key consideration given this is one of the key concerns of the Baby Boomer group.

The analysis shown here is relatively simplistic but if there are other classifications of employees, such as clusters or personas, we can similarly identify which is the group that has the most significant payroll risk.

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