

HEALTH WEALTH CAREER

# FINANCIAL SECURITY: MEND THE GAP

INDIVIDUAL SAVINGS PERSPECTIVE



MAKE TOMORROW, TODAY



A growing number of employers across the globe are recognizing the importance of financial wellness – they know that when employees are comfortable with their ability to meet their financial obligations, they’re more likely to be productive and engaged at work. However, new Mercer research has found that the path to financial wellness isn’t as clear as it might seem.

## WHAT IS FINANCIAL WELLNESS?

Financial wellness is a now frequently used term to describe an individual’s current and perceived financial state. The US Consumer Financial Protection Bureau (CFPB) describes financial wellness as a state of being where an individual:

- Has control over day-to-day, month-to-month finances
- Has the capacity to absorb a financial shock
- Is on track to meet financial goals
- Has the financial freedom to make the choices to enjoy life<sup>1</sup>

This definition is not about an individual meeting certain quantitative criteria but is rather about a state of being. For employers, this state of being can directly impact employee engagement and productivity. Employers are therefore increasingly looking to better understand their own employees’ financial wellness and how they can improve this state of being together with their employees.

## INSIDE EMPLOYEES MINDS™ AND THE MERCER FINANCIAL WELLNESS INDEX

Conducted in September of 2016, 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.

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<sup>1</sup> Consumer Financial Protection Bureau. *Financial Well-Being: The Goal of Financial Education*, 2015, available at <http://www.consumerfinance.gov/reports/financial-well-being/>.

Some of the key conclusions arising from the study include:

- Although financial wellness is impacted by a variety of factors, including gender, marital status and income, financial wellness is a very personal experience. In almost any organization, there will be people who struggle with financial issues, and employee financial concerns are likely to be diverse.
- On average, we found that people spend 13 hours per month worrying about money matters at work, which alone provides an incentive for employers to help employees address financial concerns.
- Financial knowledge/literacy is not as important as often thought, which questions the need for financial education. Helping individuals become more confident about engaging in financial issues appears far more important.
- Where we have financial courage, engagement with a financial wellness program when prompted (triggered) is likely to occur. This, in turn, should lead to improved financial wellness (and increased financial courage, the “virtuous circle”).
- The converse is also true: Where there is low financial courage, engagement in financial wellness programs will be challenging. For these individuals, greater support and “do it for me” solutions need to be the focus.

When we look deeper into the findings of this survey, some of the results are quite alarming. To help put these results in perspective, the Mercer Financial Wellness Index was developed based on the *Inside Employees Minds* research and includes factors such as:

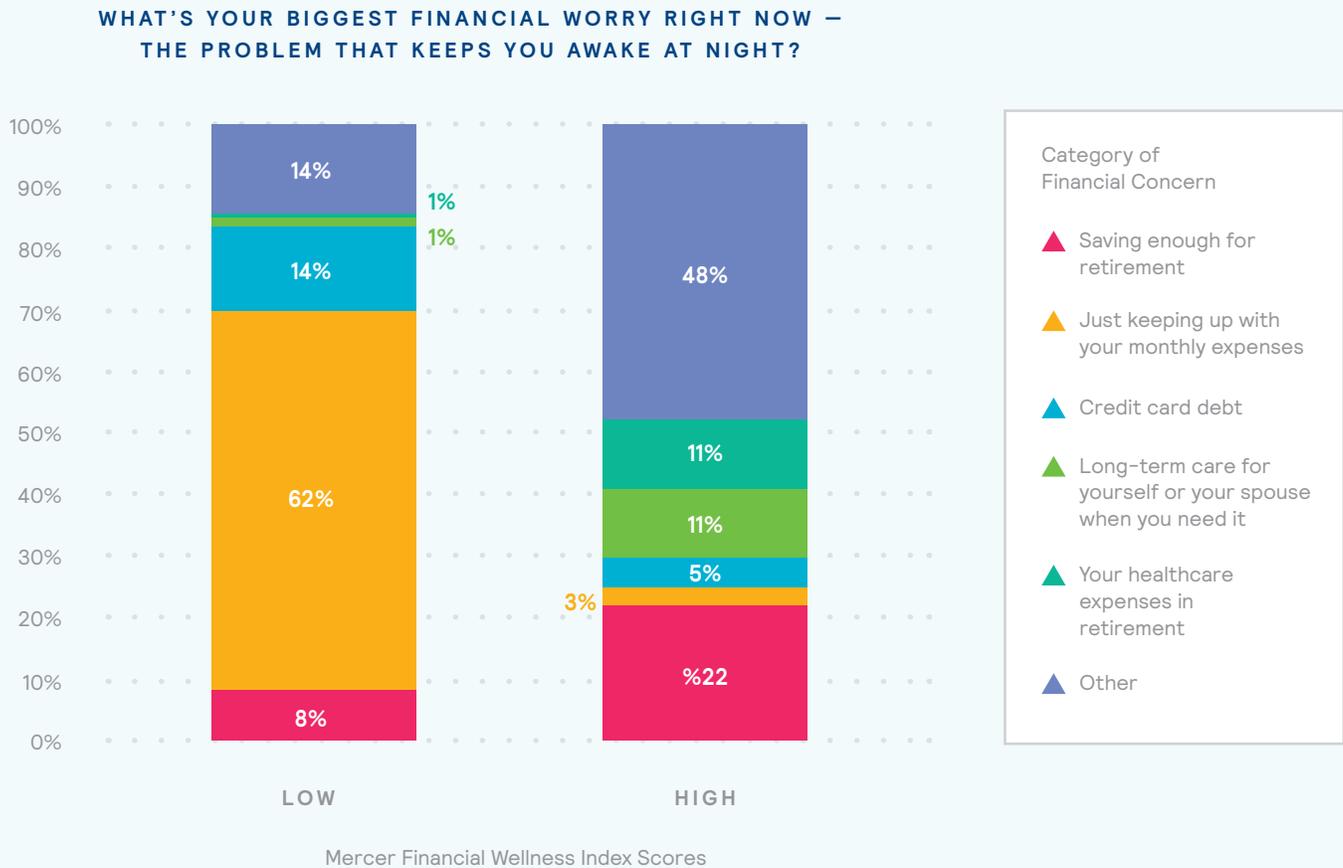
- Level of comfort in meeting various financial obligations
- Stress regarding financial situation
- Current indebtedness
- Ability to pay for an unforeseen expense
- Ability to absorb the impact of a health-related illness

**1. There is great diversity within the financial wellness of individual employees.**

Diversity in both financial state and levels of financial wellness was apparent in responses to the survey’s question: “What’s your biggest financial worry?” An oft-quoted statistic is that retirement is the biggest financial worry, and, in our survey, “Retirement” and “Keeping up with Monthly Expenses” were both very prominent responses. There were, however, distinct differences between those with low financial wellness scores, as measured by the Mercer Financial Wellness Index, and those with high financial wellness scores. Those with lower levels of financial wellness were much more likely to be worried about “Keeping up with Monthly Expenses,” whereas those in the high financial wellness cohort were more preoccupied with “Retirement.”

In addition to these traditional financial concerns, there was a wide variety of financial worries for employees. The conclusion observed in Figure 1 below is that financial wellness programs must be designed with the diversity of financial circumstances of individuals in mind.

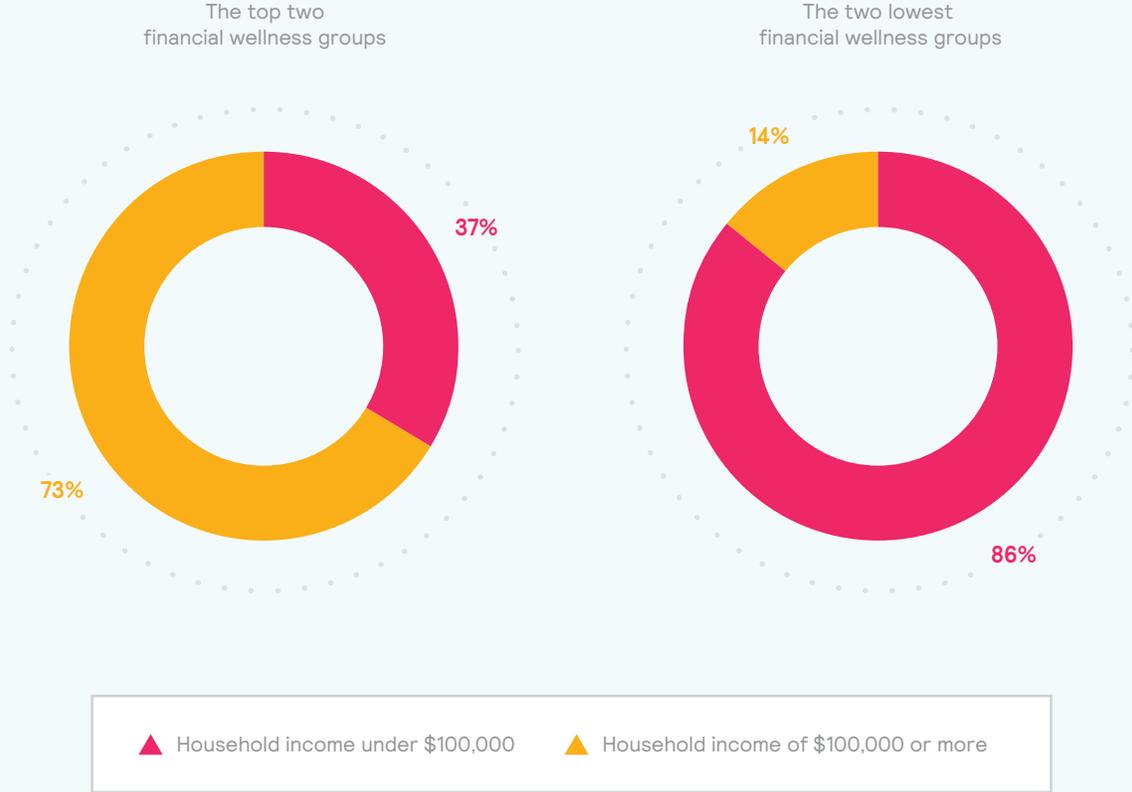
**Figure 1. Biggest Financial Worries**



**2. Financial wellness, although correlated to household income, can occur at all levels of income.**

What became evident here was that, although there was some correlation to household income, financial wellness and income were not directly linked in all instances. As measured by the Mercer Financial Wellness Index, 14% of those in the two lowest financial wellness groups have household incomes of more than US\$100,000.

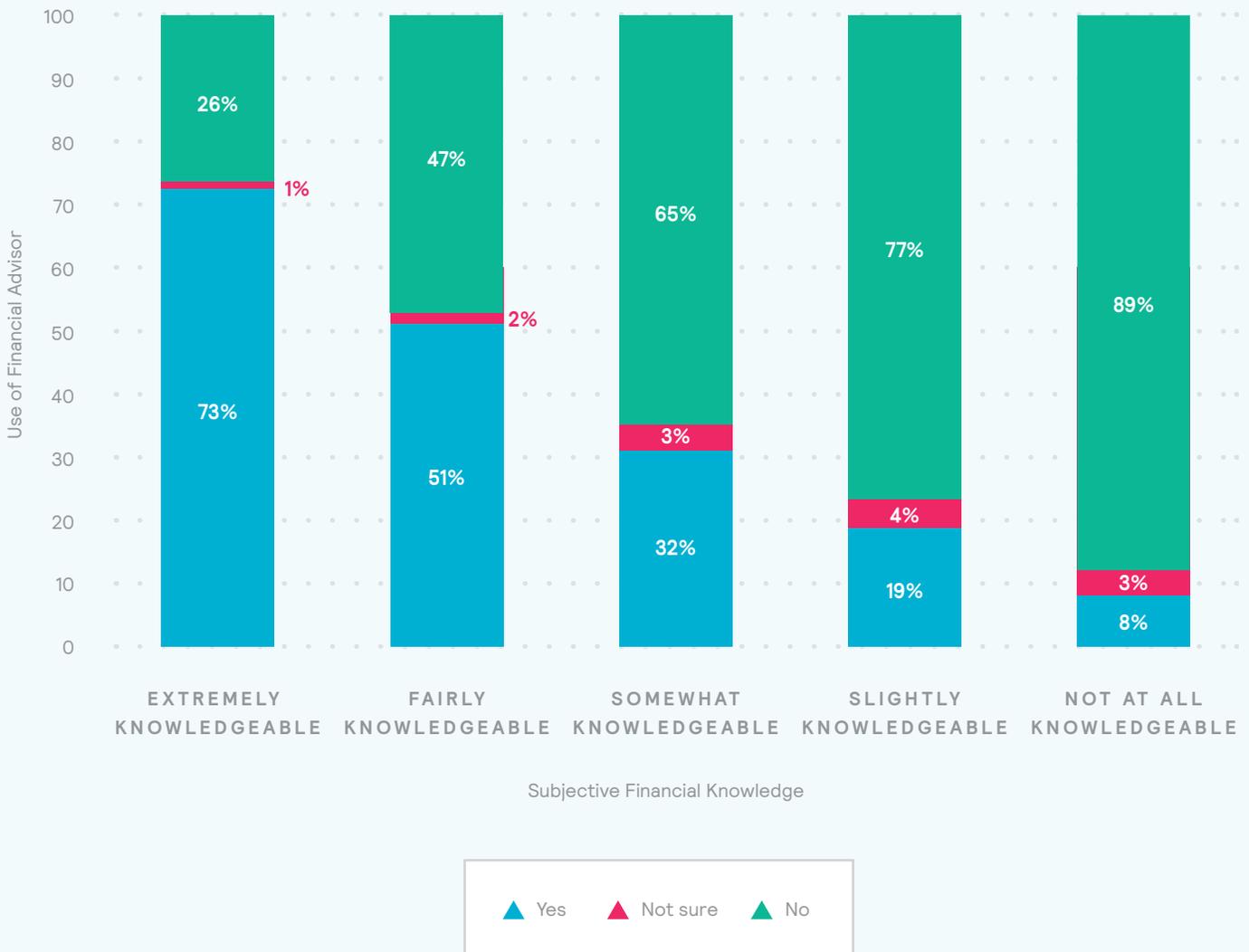
Figure 2. Mercer Financial Wellness Index Scores and Household Income



### 3. Self-reported financial knowledge drives higher levels of advisor utilization.

Mercer’s survey found that, irrespective of objective financial knowledge, perceived financial literacy was a significant factor driving whether or not workers engage with financial planning resources; it also had a significant effect on overall sense of financial well-being. Confidence, therefore, has more bearing than actual financial acumen on a worker’s ability to take steps to improve his or her financial situation.

Figure 3. Subjective Knowledge Versus Financial Advisor Usage



These findings have significant implications for employers, according to three global leaders at Mercer: Jacques Goulet, Global President of Health & Wealth; Renee McGowan, Global Leader of Defined Contribution and Financial Wellness; and Joakim Alm, Global Consumer Leader. They say it's important for employers to focus on building their employees' confidence — and that a good way to do this is to help employees successfully deal with their immediate, short-term financial challenges.

## A GROWING TREND

The three Mercer global leaders say they've seen a rise in employer interest in employees' financial wellness. Financial wellness, they say, is becoming an issue particularly in countries and industries that are further along the maturity curve in asking employees to take more responsibility for their financial decisions.

“There is a broader trend around the world in which employers are limiting what they will provide or requiring employees to make more of the decisions about their employment benefits — it's not a one-way dialogue anymore,” says Goulet. “At the same time, employers are asking, ‘What can we do to keep our employees engaged and motivated, and not stressed and worried about things that are not directly work-related?’”

The global leaders say that as employers seek to help their employees attain financial wellness, it's important to keep in mind, as the study found, that:

1. There will be great diversity of employee needs with regard to financial wellness — the strongest financial wellness programs will be based on and targeted to the actual specific needs of employees.
2. Financial courage, defined as an individual's confidence in his or her ability to engage in financial transactions, is key. Employees who aren't confident tend to default to employer provisions, which work on the average but may not be right for individuals. Or they may be paralyzed by inertia and fail to take even simple actions that might be helpful. An individual with low financial courage will be likely to avoid financial discussions (it's not their comfort zone), particularly in group discussions to avoid potential embarrassment.

## THE PATH TO FINANCIAL WELLNESS

Our research found that there's no quick fix — financial wellness is built by journeying down a path of small successes and continuous improvement for individuals. Mercer's global leaders say this can be achieved by focusing not just on employees' long-term finances but also on their immediate financial concerns, such as how to budget for utility bills and other expenses. With information gathered from employees, employers can provide options for the best outcomes. Employees choose from these options, see the results and gain confidence. "The way you do this is through smaller steps," says Alm. "When you make these decisions, your worry goes down, you start to feel more confident, and you move to better outcomes in the longer term."

Change is most likely to occur through small steps — making small financial decisions and building courage. Traditional approaches, such as trying to build financial literacy by giving employees as much information as possible, are less likely to promote financial wellness than simply providing tools and approaches that enable employees to make good decisions and actions — on their own — without needing a high degree of financial literacy. Approaches might include more personalized, curated communication, pointing employees to the programs that best fit their situation. Employers can also leverage defaults, not just to get employees on a positive path but to build courage. Finally, offering tools like budgeting and coaching, as well as benefits like (student) loan refinancing, credit management, nonretirement savings vehicles and income protection, can help employees manage their finances more holistically. Such approaches might include budgeting or other tools with built-in intelligence. Examples include robo-advice and provisions that ask employees to opt out of, rather than opt into, beneficial aspects of 401(k) plans and other programs.

## FINANCIAL WELLNESS: THE NEW EMPLOYER VALUE PROPOSITION

Mercer's global leaders agree that financial wellness initiatives are becoming increasingly important to employers worldwide — and to their employees as well. Employers know that the less people worry about their financial well-being, the more productive and engaged they are. At the same time, effective financial wellness programs can help make employers more competitive. "Employees value getting help from their employers, rather than trying to sort it out on their own," says Goulet. He believes financial wellness programs will soon be seen on a par with other benefits, such as vacations and gym memberships.

McGowan agrees there is a growing expectation by employees that their employers will help them on the path to financial wellness. "I think this is where you're going to start to see a distinction," she says. "People aren't going to mind being given the individual responsibility to make choices as long as they're still feeling supported by their employers. You're going to start seeing this as being part of the value proposition for good employers."

For further information, please contact your local Mercer office or visit our website at [www.mercer.com](http://www.mercer.com).

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