INSIDE EMPLOYEES' MINDS™

FINANCIAL WELLNESS

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INSIDE EMPLOYEES' MINDS™ — FINANCIAL WELLNESS

A growing number of employers across the globe are beginning to recognize the importance of financial wellness as a core pillar of total well-being. They understand 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 is influenced by a variety of factors.

WHAT IS FINANCIAL WELLNESS?

Financial wellness is frequently used 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 in which 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 choices that allow him or her to enjoy life

This definition is not about an individual meeting certain quantitative criteria, but instead is about a state of being that changes throughout one's life stages. For employers, this state of being can directly impact employee engagement, absenteeism and (subsequently) productivity. Employers are therefore increasingly looking to better understand their own employees' financial wellness realities and how they can help to programmatically improve them over time.

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

INSIDE EMPLOYEES' MINDS™ AND THE MERCER FINANCIAL WELLNESS INDEX

Conducted in September 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.

Some of the key conclusions arising from the study:

- **Everyone has financial issues to address.** Although financial wellness is influenced 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.
- **Personal financial issues impact professional performance.** We found that, on average, people spend 13 hours per month worrying about money matters at work (the median was five hours per month), which alone provides an incentive for employers to help employees address financial concerns.
- **Traditional financial education programs are not enough.** Financial knowledge or literacy is not as important as often thought, which questions the efficacy of approaches that focus only on financial education.
- **Psychology plays an important role.** Helping individuals become more confident about engaging in financial issues — that is, building what we call *financial courage* — appears to be far more important than building financial literacy. When employees have financial courage, they're more likely to engage with a financial wellness program when prompted.
- **Break the vicious cycle, create the virtuous circle.** For employees with low financial courage, engaging in financial wellness programs will be more challenging. How do we empower them to break the cycle? For these individuals, greater support, "do it for me" solutions and incremental "wins" that build confidence will be more effective in promoting financial wellness and therefore will be an important focus for employers.

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

- Level of comfort in meeting various financial obligations
- Level of 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

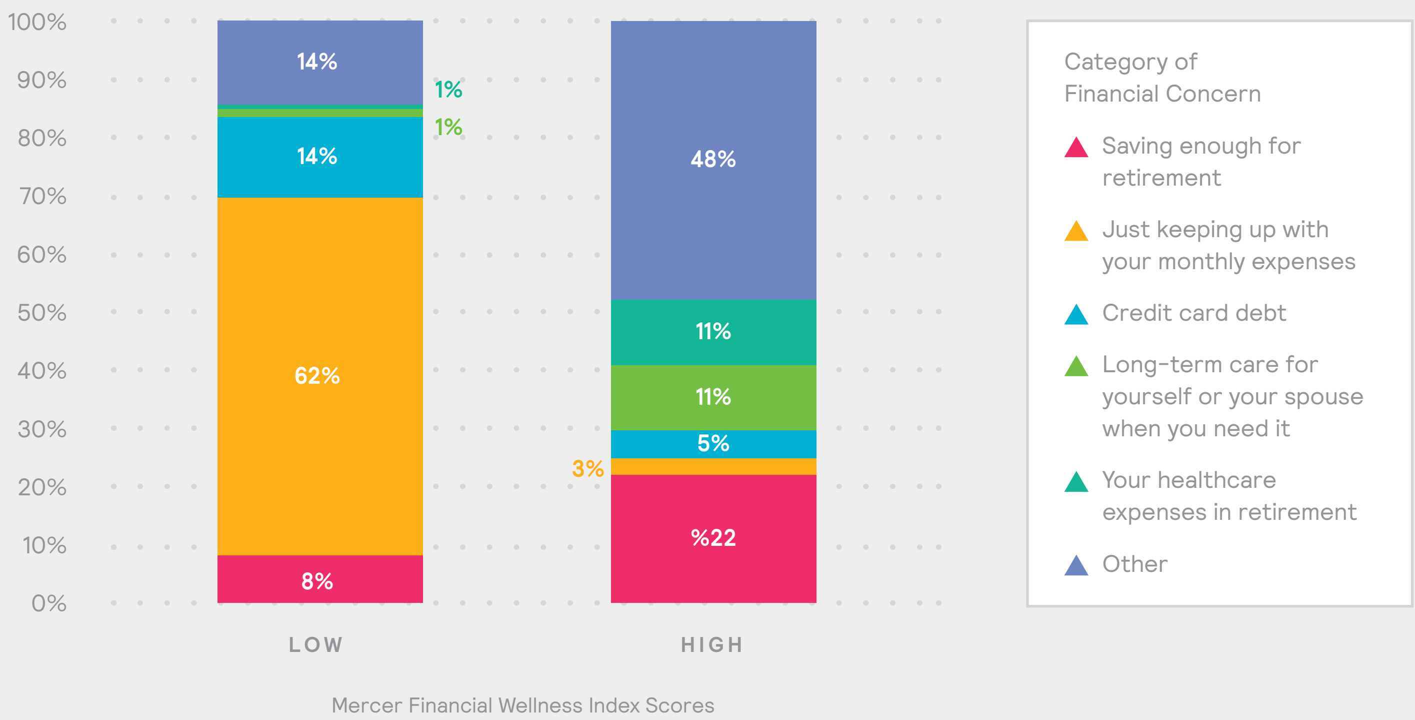
Diversity in both financial state and levels of financial wellness was apparent in responses to the survey question, "What's your biggest financial worry?"

An oft-quoted statistic cites retirement as the biggest financial worry, and in our survey "retirement" and "keeping up with monthly expenses" were both prevalent responses. There were, however, distinct differences between those with low financial wellness scores and those with high financial wellness scores, as measured by the Mercer Financial Wellness Index. 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 more common financial concerns, employee responses revealed a wide variety of financial worries. The clear conclusion drawn from the chart below is that financial wellness programs must be designed with individuals' diverse financial circumstances in mind.

Figure 1. Biggest Financial Worries

WHAT'S YOUR BIGGEST FINANCIAL WORRY RIGHT NOW — THE PROBLEM THAT KEEPS YOU AWAKE AT NIGHT?

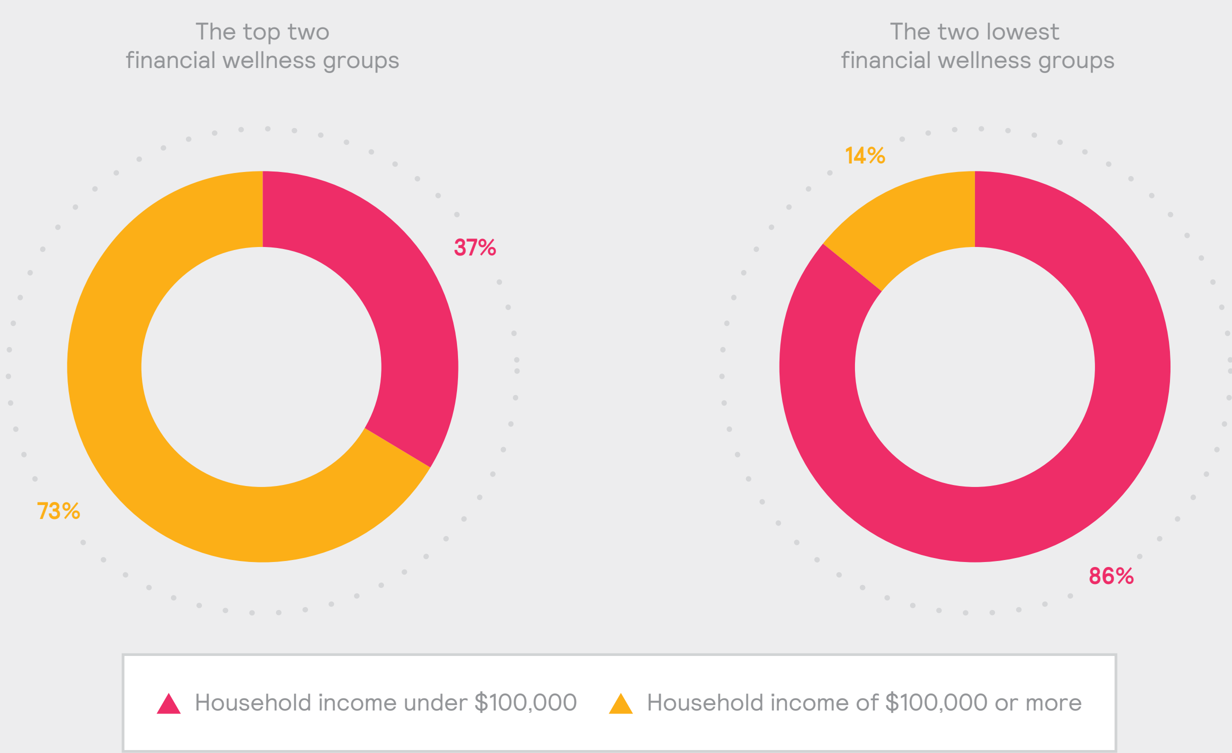


2.

FINANCIAL DIFFICULTIES CAN OCCUR AT ANY LEVEL OF INCOME

What became evident from our survey data 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.

SIXTEEN PERCENT OF EMPLOYEES SPEND MORE THAN 20 WORKING HOURS EACH MONTH WORRYING ABOUT MONEY, WITH THE AVERAGE BEING 13 HOURS EACH MONTH

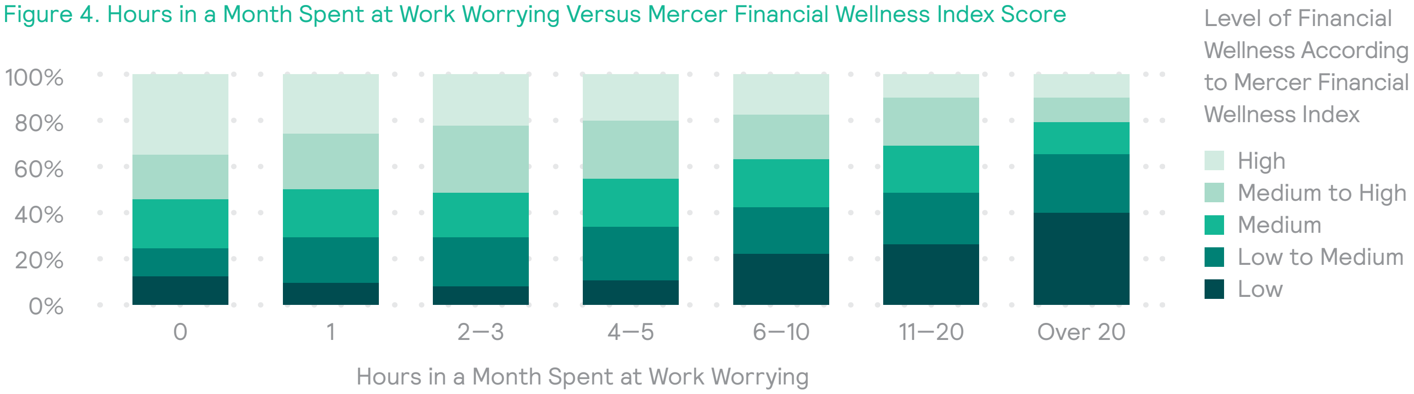
Many argue that financial wellness programs will reduce healthcare costs, improve productivity and reduce absenteeism. Mercer's view is that it may not be that straightforward, so a practical measure we considered was the number of hours spent in a month worrying about money at work.

We found that, on average, people spend 13 hours per month worrying about money matters at work (the median is five hours, highlighting that some individuals spend a lot more time than others focusing on financial issues).

Figure 3. Hours Spent at Work Worrying

Below we show that the number of hours spent at work considering financial issues is typically greater for those with lower Mercer Financial Wellness Index scores, yet 9% of those with high Mercer Financial Wellness Index scores still spend more than 20 hours a month worrying about financial issues.

Figure 4. Hours in a Month Spent at Work Worrying Versus Mercer Financial Wellness Index Score



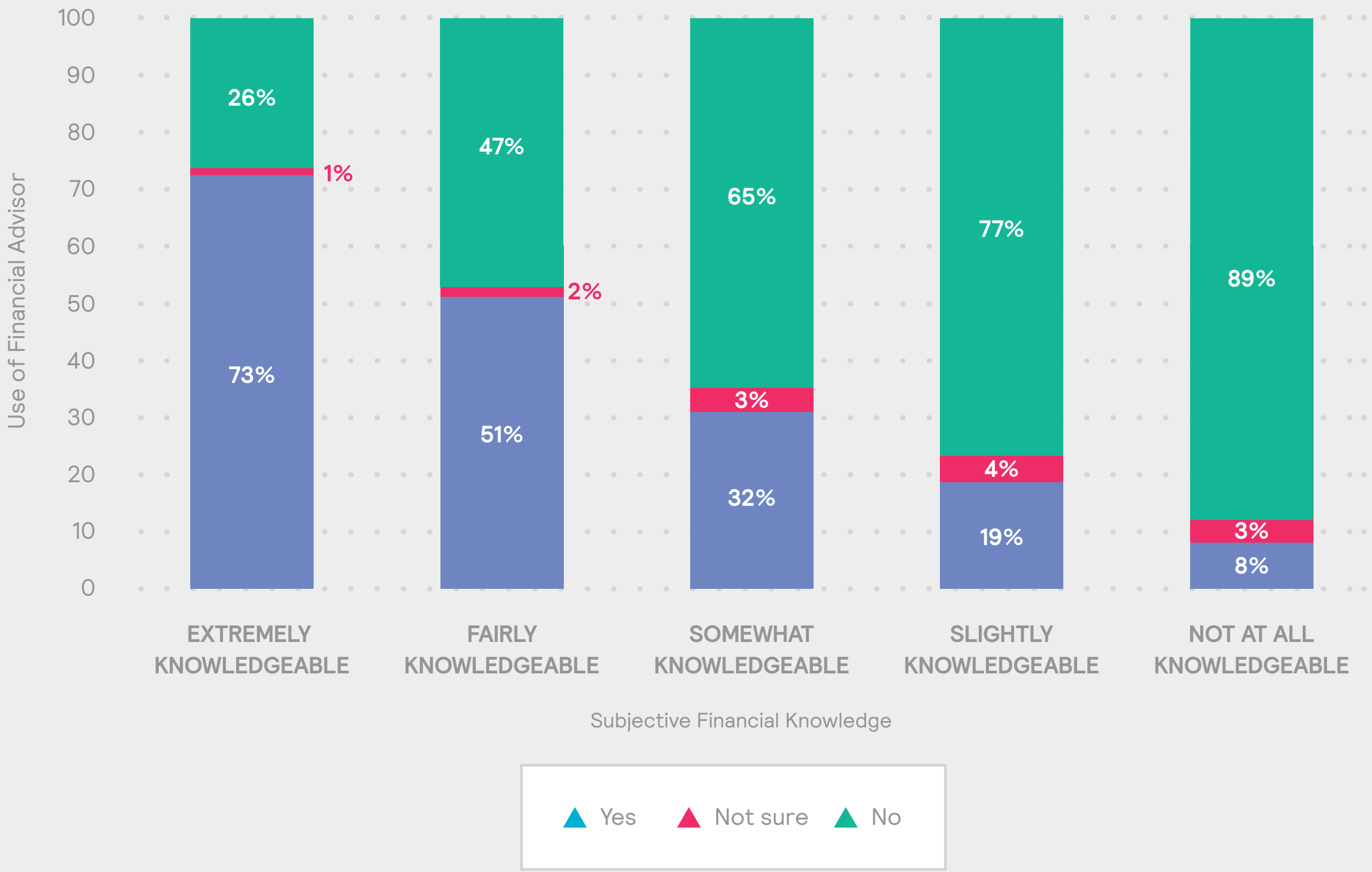
4.

HIGHER SELF-RATINGS OF FINANCIAL KNOWLEDGE DRIVE HIGHER LEVELS OF ADVISOR UTILIZATION

Mercer's survey found that, irrespective of objective financial knowledge (employees' actual level of financial knowledge), perceived financial literacy (employees' subjective assessment of their financial knowledge) 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.

Those employees with a more favorable self-rating of their financial knowledge were more likely to engage with a financial advisor and seek guidance in improving their financial well-being. Confidence, therefore, likely has more bearing than actual financial acumen on a worker's ability to improve his or her financial situation.

Figure 5. Subjective Financial Knowledge Versus Financial Advisor Usage

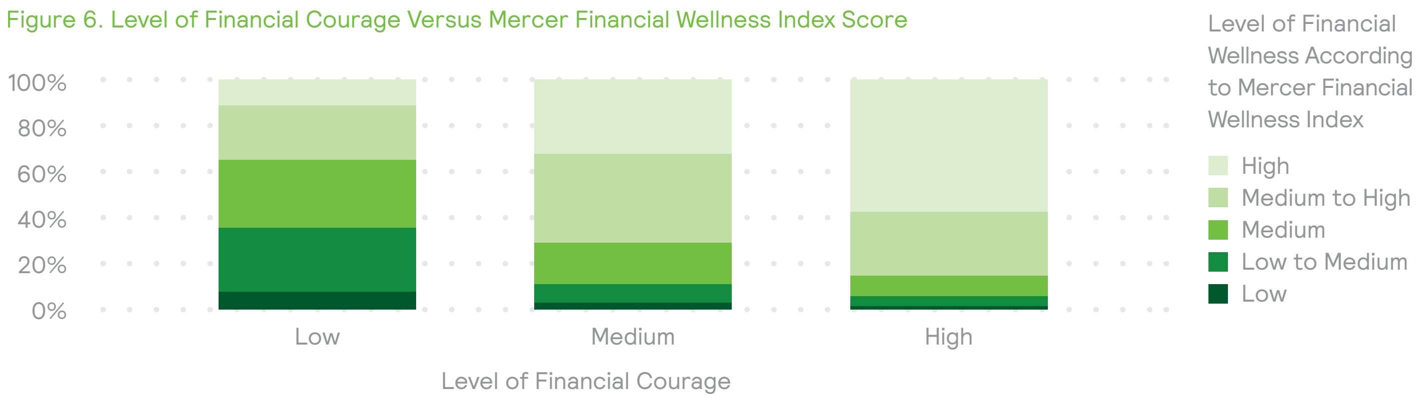


THE ROLE OF FINANCIAL COURAGE AND THE MERCER FINANCIAL COURAGE INDEX

Our findings strongly suggest that employees' perceptions of their financial literacy are more important than their actual levels of financial literacy in achieving financial wellness. Therefore, tools and strategies that focus on building financial courage — an employee's confidence in his or her ability to engage in financial transactions — will be key for employers.

Employees who aren't confident tend to default to employer provisions, which work on the average but may not be right for all individuals. Employees who lack confidence may be paralyzed by inertia and may fail to take even simple actions that could help. And individuals with low financial courage are likely to avoid financial discussions, particularly group discussions (since they're not in their comfort zone), to avert potential embarrassment.

Figure 6. Level of Financial Courage Versus Mercer Financial Wellness Index Score



Our survey results reinforce that individuals with strong financial courage are far more likely to take advantage of financial wellness support, which then leads to an improvement in their financial wellness. This, in turn, leads to increased financial courage, establishing a virtuous circle. The corollary is also true — individuals with low financial courage are unlikely to engage with financial wellness support initiatives, and therefore their financial wellness may never improve, creating a vicious cycle.

As a result of our research, we developed the Mercer Financial Courage Index to help employers measure the financial courage of their employees by evaluating:

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

THE PATH TO FINANCIAL WELLNESS

Our study confirms that financial wellness (or more specifically, a lack of financial wellness) is a concern that affects employers and can impact productivity, absenteeism and healthcare costs. However, it's also apparent that when it comes to achieving financial wellness, employees face diverse challenges and financial issues can impact them in many ways. Consequently, employers will have different experiences depending on their employees' individual concerns and the nature of the relationship employers have with their employees.

Change is most likely to occur through small steps — that is, by making small financial decisions and building courage gradually. 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 employees with tools that enable them to make good decisions and take action — on their own — without needing a high degree of financial literacy. Effective approaches might include personalized, curated communication that points 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, non-retirement savings vehicles and income protection, can help employees manage their finances more holistically.

Employers confirm our research findings that show that there is a significant return on investment to be gained from helping employees manage their financial stress. However, many employers are struggling with where to start and how to measure whether or not programs are working. The Mercer Financial Wellness Index and Mercer Financial Courage Index can be used to benchmark an employee population and help inform an employer strategy and roadmap to ensure that employees receive help in an actionable way. With information gathered from their employees, employers can provide options for the best outcomes. Employees choose from these options, see the results and gain confidence. Over time, the indices can be used to measure improvements in workforce Financial Wellness and Financial Courage to confirm the return on investment in financial wellness programs. If you would like to consider an assessment of your employees' Financial Wellness or Financial Courage and to compare your organization's scores against our survey data, please contact your local Mercer consultant.

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