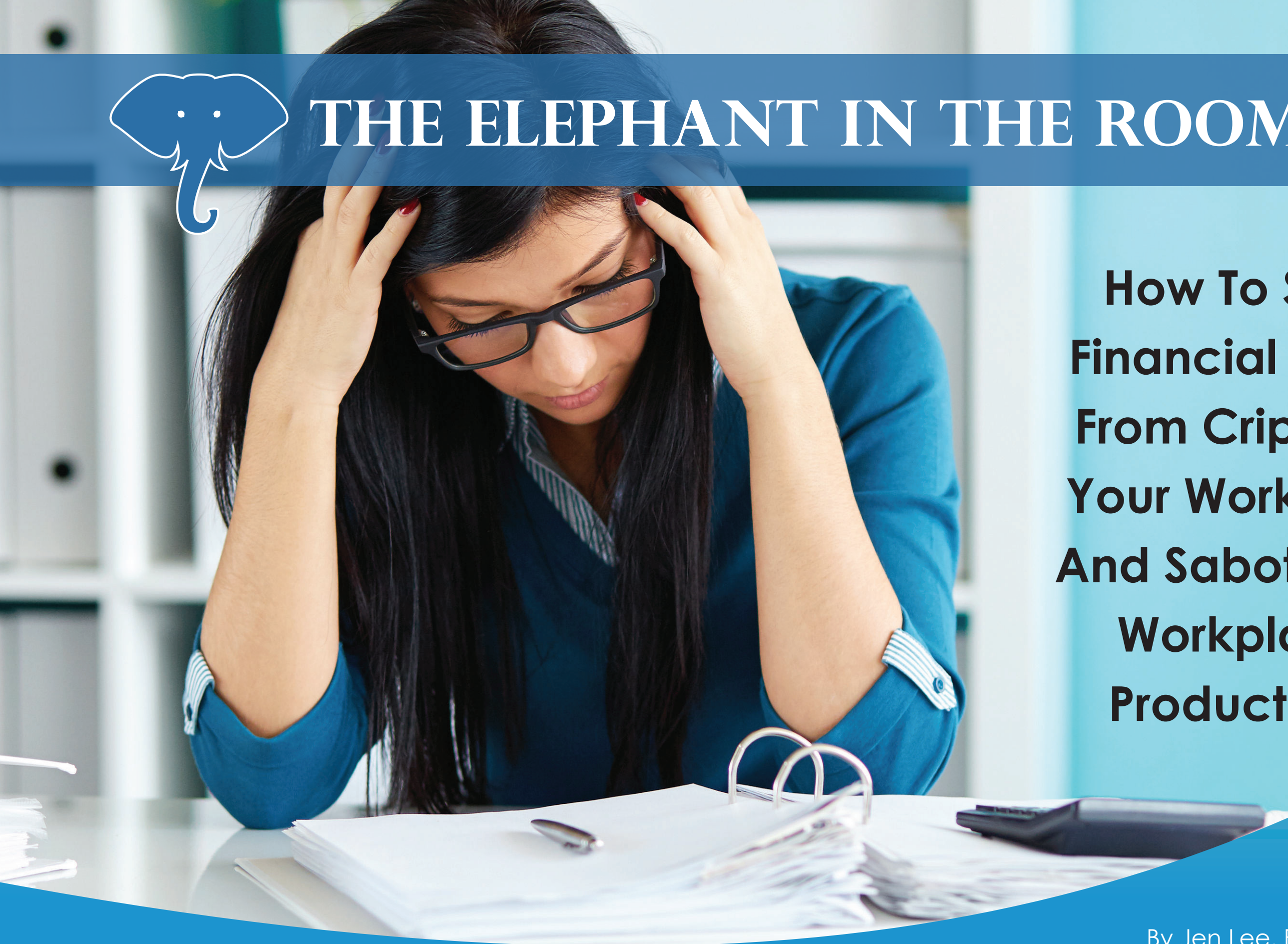

THE ELEPHANT IN THE ROOM:

How To Stop Financial Stress From Crippling Your Workforce And Sabotaging Workplace Productivity

By Jen Lee, Esq.

EXECUTIVE SUMMARY

Financial stress in the workplace is crippling employee productivity and directly affects the bottom line, whether employers want to know about it or not. Employers lose $7,000 per year per employee in productivity due to financial stress and are doing very little to effectively combat the problem. While financial literacy programs are becoming more popular, these financial programs do not address or solve the reason for the financial stress. There is a huge disconnect between financial literacy and actual financial crisis management. This white paper focuses on the issue of financial stress, how it affects employers, why employers need to care, why there is a disconnect with current programs offered, and presents solutions to developing a comprehensive program for dealing with financial stress in the workplace.

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INTRODUCTION

Employers are losing billions of dollars per year in employee productivity due to employee stress. Statistics show that the average employer loses $7,000 per employee per year due to financial issues in the workplace[1]. While many employers have implemented financial literacy programs, including financial advising, retirement advising, and investment options, 51% of employees are simply trying to figure out how to hold off wage garnishments, collection calls at work, and lawsuits. This disconnect between financial literacy and options, including legal options, is often misunderstood and something employers do not want to involve themselves in. However, there are solutions available that employers can implement that will help employees manage the financial stress and positively contribute to the employer's bottom line.

Statistics show that the average employer loses $7,000 per employee per year due to financial issues in the workplace

This white paper is about financial stress, starting with how common it is, who experiences it, and how to identify it. After the basics, the white paper moves into understanding the negative effects of financial stress in the workplace, illustrating the disconnect between current programs and the actual problems employees are facing, explaining options available to employers, and presenting a set of solutions for bridging the assistance gap between employer and employee. The elephant in the room is that no one wants to talk about financial stress, but a majority of Americans are facing debt, credit, and financial crisis issues on a daily basis.

[1] Estimate of time at work spent on personal financial problems by a financially distressed employee, Dr. Thomas Garman, Personal Finance Employee Education Foundation™, www.pfeef.org

EXPOSING THE PROBLEM

Employers are always focusing on the bottom-line and revenue generating activities that lead to a profitable and stable company. Employees are the number one factor in operating a successful company. Having employees who are financially stressed prevents the company from achieving the best possible results for profitability, productivity, and stability.

Some employers have identified the issues that financial stress or financial distress causes in the workplace, but have lacked tools to combat the problem. Other employers do not have a clear understanding of how the employee financial stress really becomes the employer's problem, whether the employer wants to be involved or not.

Specific problems that employers face include the need for solutions to help alleviate the loss in employee productivity due to financial stress, understanding the impact financial stress has in the workplace, getting over the "it's not my problem" mindset that many employers have, dealing with turnover and absenteeism due to financial stress, and helping employees overcome the feeling of helplessness and lack of options.

Addressing these specific problems will allow employers to have a direct impact to the bottom line through an increase in employee productivity, an improvement in employee morale, a decrease in absenteeism, an increase in employee loyalty, and a decrease in medical costs/insurance premiums.

EXPLAINING THE PROBLEM

What is financial stress?

According to the Journal of Stress Management, financial stress is essentially stress caused by one's finances. Stress is caused by being in debt, the inability to pay one's regularly monthly bills, and/or future uncertainty.[2] An argument can also be made that financial stress also results from poor credit scores, lack of knowledge of legal options, and embarrassment keeping one from asking for help.

The following real-life examples show a few of the ways employers can be negatively impacted when an employee is under financial stress:

1 An employee's human resources department receives a wage garnishment order for a collection lawsuit. The employee knew he was being sued, but did not know what his rights were, didn't know who to ask, and is now too embarrassed to discuss the situation with anyone. The employee is now using company time to call lawyers, beg with the creditor to stop the wage garnishment, and apply for second jobs to make ends meet.

2 An employee has been saving for a couple of years to buy a house. However, when she finally went to apply for the mortgage, she found out that her credit score was too low to qualify for a good rate. She does not know what she needs to do to even start fixing the situation and put the offer in on her dream house. In the meantime, her workplace productivity is suffering due to the time she is spending thinking about this problem, making calls to find out if there is anything she can do, and wondering where to turn for help.

3 Not knowing what his legal options were, an employee cashed out money from his 401(k) to pay some of his credit card debts. However, he did not have enough withheld from the withdrawal and is now facing a large tax bill. The IRS has sent him a notice to garnish his wages, which will likely send him back to using credit cards to make ends meet. His productivity at work has declined while he tries to figure out what to do by searching on the

[2] The Journal of Stress Management, What is Financial Stress? February 8, 2015. http://www.stresstips.com/what-is-financial-stress/

internet for resources and calling companies that he saw on late night TV. He doesn't know that there are legal strategies available to him to relieve some of the pressure and get back on the right track

4 A professional employee had to take out $200,000 in student loans to obtain her professional degree. The monthly payments are more than she can afford and she is in default. She is distracted at work and makes a costly error on an important client's project. The student loan lender is calling several times a day to get a payment out of her that she doesn't have and she is overwhelmed. She doesn't know that there are legal options to rehabilitate her student loans and that there are more than 50 federal repayment plans that she can use to make the financial stress go away.

5 An employee recently got married to the love of his life. He just found out that his new spouse owes $50,000 in credit card debt and he is now staying up all night worrying if he could be liable for her debts. He does not know who to ask or how to protect himself. The employee just had an accident at work because of his lack of sleep and it is resulting in a workers' compensation claim.

In each of these situations, financial stress is consuming the employees' lives and costing their employers' bottom line through lost productivity.

39% of employees say that they spend three hours or more per week thinking about or dealing with issues related to personal finances – that's over 150 hours a year

The numbers are unsettling. Twenty two percent of employees admit that they have taken unexpected time off in the past 12 months to deal with a financial issue and/or spent more time than they think they should at work on personal financial issues.[3]

Nearly one in four employees report that issues with personal finances have been a distraction at work. The same study showed that 39% of employees say that they spend three hours or more per week thinking about or dealing with issues related to personal finances.[4] At three hours per week, that's

[3] MetLife, Inc. 10th Annual Study of Employee Benefits Trends: Seeing Opportunity in Shifting Tides (2012), available at http://www.winoagency.com/img/~www.winoagency.com/10th annual met life study of ee benefits trends.pdf.
[4] PriceWaterhouseCoopers Employee Financial Wellness Survey (2014), available at http://www.pwc.com/us/en/private-company-services/publications/assets/pwc-employee-financial-wellness-survey-2014-results.pdf.

over 150 hours a year spent on personal finance issues during work time. This is an alarming statistic because it does not include other personal issues that may take away from the workday.

It's not just employees or individual contributors who need help managing financial stress. Managers also have to deal with managing their employees' stress, loss of productivity, and cost management. In a recent survey, 61% of human resources professionals say financial stress is having some impact on employee work performance in their departments and 22% of human resources professionals say worries over personal finances have a "large impact" on employee engagement in their workplaces.[5] Not only do employees need help, but managers and human resources professionals need options to assist employees.

40% of employees say that they want help achieving financial security

What are the types of programs currently available?

Some companies have identified that financial stress is a big issue affecting their workplace and have instituted various financial literacy programs to help employees cope with financial stress.

Examples of services offered by these financial literacy programs include:

- Financial Wellness Assessments
- Financial Learning Centers
- Financial Coaching
- Retirement Planning Resources
- Investment Advisors

Why do financial literacy programs fail at relieving financial stress?

Financial literacy programs focus on budgeting, saving for retirement, possibly paying off debt through budgeting. These programs do not advise employees on their legal rights associated with the actual stressors that are happening right now in their lives. Employees feel overwhelmed by advice on their 401(k) investment options when they are facing much more severe issues and cannot even afford to contribute to a 401(k) (or do not believe they can afford to).

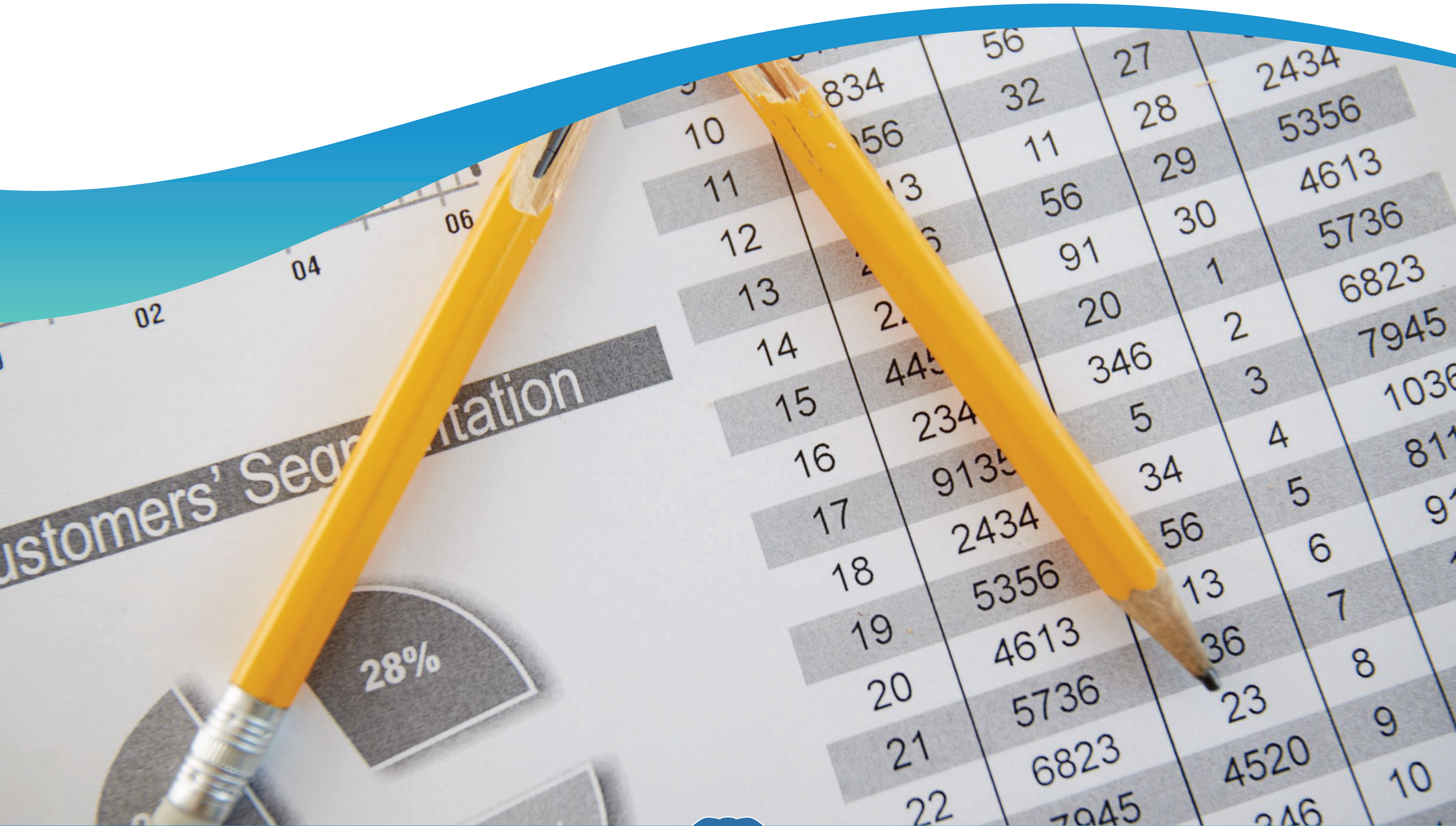
Many of the financial literacy, financial wellness, and financial coaching programs have classroom components, seminars, etc. However, the employees who are struggling with severe financial stress are embarrassed and unlikely to want to face a room full of

[5] Society for Human Resource Management, SHRM Research Spotlight: Financial Education Initatives in the Workplace (2012), available at http://www.shrm.org/Research/SurveyFindings/Articles/Documents/Financial_Education_Flier_FINAL.PDF.

people, even if the others are in the same situation. Finally, these types of resources do not tailor the advice to the specific employee's situation. Each employee is different and there are often unique solutions that can be implemented for an employee that would not work in other situations.

Forty percent of employees say that they want help achieving financial security. That number goes up to 81% for employees saying financial problems have affected their productivity.[6] Without a discussion of legal strategy, employees are not getting all the information they need to make informed decisions about these financial stresses. Financial management and education are only part of the solution.

[6] MetLife supra 2



THE DISCONNECT

There has been a lot of research regarding financial stress and companies have started implementing financial literacy programs to combat the severe effects that financial stress has in the workplace. While these programs are very useful for helping with budgeting, investment advice, possibly insurance options, etc., these programs fail to advise employees who are in crisis about their legal rights and options available.

This disconnect between financial coaching and rights under the law can create more financial stress for the employee who does not understand that there may be multiple options for significantly helping their financial situation.

While financial literacy programs are very much needed in the workplace, the ones that exist mostly fall short at crisis management. Financial stress situations are better served by introducing a legal component combined with financial literacy.

What are the obstacles standing in the way of successful financial stress relief programs and how can they be overcome?

1 Many organizations do not want to get involved.

Employers believe that employee wellbeing is not or should not be any of their business.[7] This viewpoint is fairly short-sighted, as employees spend many hours each week working for their employer and personal issues are always going to affect performance. The average sick day costs a business about $348 in lost productivity, according to the Bureau of Labor Statistics and a study published in 2003 in the Journal of Occupational and Environmental Medicine.[8] People with less stress get sick less often and cost their organizations less.

2 The cost of successful programs.

Some of the employers contacted by the Consumer Protection Financial Bureau (CPFB) indicated the need to find low-cost or

[7] The Business Case for Wellbeing, Gallup Business Journal (June 9, 2010), available at http://businessjournal.gallup.com/content/139373/Business-Case-Wellbeing.aspx-3
[8] Id.
[9] President's Advisory Council on Financial Capability Partnerships Committee, Workplace Financial Capability Framework – Summary of Comments (2012), available at http://www.treasury.gov/resource-center/financial-education/Documents/PACFC Financial Capability at Work.pdf

no-cost solutions to workplace financial education. Employers may be reluctant to increase expenses, even in cases where a strong benefit is likely.[9] Wanting this significant problem to be solved with a no-cost solution is again short-sighted on the employer's part. When an employer is losing $7,000 per year per employee in productivity due to financial stress, finding a cost-effective solution should be a high priority.

3 Employee privacy issues.

Employers may feel as is if they are being put in an uncomfortable position of making value judgments about employee financial situations, depending on how the program is structured. It is important for any program to ensure confidentiality and procedures that allow for employees to get relief without anyone else, including the employer, knowing about the exact issue. This could be analogous to medical insurance, where the employer contributes to the premium, but has no knowledge or right to know the actual discussions with medical providers.

4 The potential for legal liability.

Some employers are concerned that they could be held legally liable for endorsing or partnering with programs that offer financial education.[10] For example, if the partner gave incorrect advice or the employee just was not satisfied with the service received, there is the fear that the employer could be held liable. There are ways to structure a program that would protect the employer. For example, as mentioned in the privacy issues section, the employer could simply contribute to the "premium" and it would be up to the employee to choose the services he wants to use or not use, with all confidentiality being between the employee and service provider.

5 Limited data available on effectiveness of programs.

There is limited amount of reliable research on effectiveness, cost-savings, and productivity impacts from such programs.[11] Before spending money, employers want to see fully developed studies on how effective a program is. At this time, there is a significant amount of research on the issue of financial stress in the workplace and its large impact on the employer's bottom line. However, there is not a lot of data available for programs, especially programs based on the legalities of debt and credit because, up until now, these programs have not existed.

As a comparison, there are some statistics for financial literacy programs showing the impact on health care costs after implementation. One report shows that one large employer found health care costs fell by 4.5% for participants in a financial wellness program compared to a 19.5% increase in costs for non-participants.[12] Finding a program that the employer is willing to invest in can have a huge impact to the bottom line, including productivity numbers, health care costs, and employee morale.

[10] Id. at 2.
[11] CFPB Financial Wellness at Work Report 22
[12] Financial Finesse, Inc., Actual Results from Company's Financial Wellness Program (2012), available at http://www.financialfinesse.com/wp-content/uploads/2014/07/ROI-Case-Study-08012013.pdf.

SOLVING THE PROBLEM

The following possible solutions are components of a fully developed financial stress management plan that employers can use to increase productivity, morale, and loyalty, while decreasing absenteeism, distractions, and turnover.

1 Financial Partnerships

Financial partnerships can occur between the employer and pretty much any financial institution to offer special bank account rates, mortgage rates, insurance products, and other types of credit lines. The purpose of these types of partnerships is to offer options and possibilities to employees.

For example, an employer can partner with a local bank to offer employees no-fee deposit accounts. An employee who has access to these types of financial products is better equipped to handle and take control of their finances.

2 Financial Education

Financial education is similar to the financial literacy programs described above, which many companies have already worked on implementing. Offering classes, webinars, downloads, and other general education for finances can be good tools for proactive employees who are looking for resources.

There are often financial education opportunities available at various times of the year. For example, open enrollment for benefits during the fall may be a good time to promote financial education opportunities. Tax season is also a time of year when employees need assistance understanding general finances and could use resources to get that understanding.

3 Financial Legal Counseling

Financial legal counseling gets to the heart of the problem presented as the disconnect between financial literacy and understanding legal rights. There are some employee assistance type programs (often called EAPs) that will refer to a resource list, but the idea behind this solution is much more comprehensive where the employee actually has the ability to get direct legal advice on their situation without the possible stigma attached to the employer or other co-workers knowing about the issue.

With financial legal counseling, the employee is able to receive an action plan designed specifically for their situation and make long-term financial plans based on this advice. For example, an employee who is considering taking funds out of a 401(k) to try and consolidate debt may not understand their legal rights associated with the debt, in addition to the long-term tax and retirement consequences that come with cashing out a 401(k).

4 Retirement/Savings Opportunities

Retirement and savings opportunities have been widely established at many employers. The employer should stay on top of changes in the market and with any new laws that come out that may present an opportunity for employees to take advantage of tax-deferred savings. Encouraging employees to utilize retirement and savings accounts is also a big part of a comprehensive plan.

Some employers have gone to automatic enrollment in retirement plans, such as 401(k)s and 403(b)s. At that point, it's up to the employee to opt out instead of having to opt in. According to a study done by the Center for Retirement Research at Boston College, participation in plans with auto-enrollment are ten percentage points higher than those without auto-enrollment.[13] Employers can positively impact their employees' financial success through robust retirement plans and options for enrollment.

[13] How Does 401(k) Auto-Enrollment Relate to the Employer Match and Total Compensation (October 2013), available at http://crr.bc.edu/wp-content/uploads/2013/10/IB_13-14-508x.pdf

5 Aging Population Resources

While not directly discussed as part of financial literacy, the disconnect with legal rights, and health care costs, the reality is that the population is aging and there is financial stress related to that trend. The employee may have an elderly parent who is struggling or the employee himself may be reaching an age where resources may be needed. An employer who can brand itself as a resource to employees will also encourage loyalty and boost morale, which increases productivity.

The employee may not be the one necessarily experiencing financial distress, but having an aging parent with financial difficulties with health care and living expenses may significantly impact the productivity of the employee. The employee spends hours trying to figure out how to make everything work, often on the clock. Employees may not understand the resources available, including the impact that a family member's expenses may have on them in the future, such as medical debts.

CONCLUSION

There is not a single elephant in the room. There is a whole herd of elephants stampeding through the workplace while everyone looks the other way and pretends the herd doesn't exist. Looking at the financial stress statistics, combined with the loss of employee productivity, financial stress is a significant workplace problem that employers can no longer ignore.

Employers that are able to get ahead of the problem, offer innovative solutions, and improve the disconnect between financial literacy and legal options will find that productivity increases, absenteeism decreases, and a whole host of other benefits that come from having a loyal and well-informed workforce. Employees are appreciating assets with the proper programs and solutions

ABOUT JEN LEE

Jen Lee is the managing attorney at Jen Lee Law in San Ramon, CA. She focuses her practice on helping individuals and business owners come up with effective legal and financial strategies to deal with debt and credit issues. She is the co-author of Preventing Credit Card Fraud: A Complete Guide for Everyone from Merchants to Consumers, published by Rowman & Littlefield in March of 2017.

Jen is also the founder of Employees Are Assets, an innovative solution for business owners and human resources professionals to combat the widespread effects of financial stress in the workplace. Through her program, employers take a proactive approach to employee productivity and employees take control of their financial situations, including understanding debt, credit, student loan options, identity theft issues, and other common financial stressors.

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