HR^N Paper

Supporting employee financial wellbeing

IES Perspectives on HR 2017

Catherine Rickard, Senior Research Fellow

March 2017

Member Paper 131

institute for employment studies

Concern with individual's financial wellbeing seems to have become a hot topic, culminating in the launch of the UK's first Financial Capability Week in November 2016 by the government-backed Money Advice Service (MAS). This campaign saw organisations and policymakers staging events that explored various financial capability issues whilst raising awareness of the importance of financial capability. The driving force behind this campaign was evidence from the most recent UK Adult Financial Capability Survey conducted by MAS. The survey showed that financial capability among the UK population is worryingly poor, with a 'spend today, rather than save for tomorrow' culture (MAS, 2016). It revealed that millions of people are at risk of sleepwalking into a future of financial vulnerability, with broader research indicating that poor financial wellbeing is linked to an increased risk of experiencing ill health (Neyber, 2016; Taylor, Jenkins and Sacker, 2009; Evans, 2016).

Research shows that:

- Forty per cent of working-age people do not have good control of their money and do not manage it well, by, for example, keeping track of their spending, having a budget, or being able to meet current financial commitments without difficulty (MAS, 2015).
- Four in ten adults do not have a modest £500 savings buffer, for example, to replace a broken fridge or fix a car (MAS, 2016).
- Twelve million people are not saving enough for their retirement (DWP, 2014; cited in MAS, 2015a).
- Over half of the working population (55%) report that facing financial pressures affects their behaviour at work and ability to perform in their job (Neyber, 2016).
- Some 44 per cent of women and 34 per cent of men in the UK workforce have felt anxiety caused by financial stress (Neyber, 2016).
- Some 18 per cent of employees lose sleep worrying about their finances (Barclays, 2014).
- Seventy per cent of the UK workforce experiences the negative impact of financial worries - affecting their mental wellbeing, relationships, overall health, and productivity (Neyber, 2016).

How is financial wellbeing defined?

There are many different 'dimensions and concepts which describe individuals' financial state and financial behaviours' (Cox, Hooker and Markwick, 2009), for example: financial wellbeing, financial capability, and financial competence, with financial wellbeing thought to consist of both objective and subjective dimensions. Objective measures include factors such as earnings level and level of debt and subjective measures concern individuals' satisfaction with their current and future financial situation (Ibid.). Evidence from the Office for National Statistics national debate on 'Measuring national well-being' illustrated a subjective measure of financial wellbeing, with a highlighted response during the debate stating:

'It's not about having millions of pounds, but working and earning a good amount to keep myself and any future family I have safe and well'.

(Evans, 2011)

MAS also refers to a concept of 'financial capability', defined as:

'… a person's ability to manage money well, both day to day and through significant life events, and to handle periods of financial difficulty.

'It is driven by personal skills, knowledge, attitudes and motivations, and made possible by an inclusive financial system and supportive social environment. Financial capability helps people achieve the best possible financial well-being.'

(MAS, 2015)

The need to improve and support employee financial capability has become more pressing, with factors such as depressed wages since the financial crisis (OECD, 2015); rising housing and education costs; and challenges in building up satisfactory pension pots, affecting the financial wellbeing of millions.

Employers, among others such as government and financial services providers and regulators, have an important role to play in supporting employees' financial capability by ensuring appropriate financial guidance is available to help them. A combination of industry, voluntary sector and government departments currently provide sources of financial information. However, overall take-up of financial advice is low with many people feeling that financial advice is 'not for them' (HM Treasury, 2016). Likewise, many are unsure how to go about finding good financial advice, or are disengaged from financial planning altogether (Ibid.).

The lack of people seeking and/or receiving financial advice in the UK may be reflected in the poor understanding of financial products available (MAS, 2015). For example, over a third of people cannot perform a relatively simple interest calculation on a savings balance (Ibid.) and over a fifth of the adult population are not able read a bank statement (Ibid.). Likewise, over a fifth of people aged over 50 do not fully understand cash ISAs; 41 per cent do not understand stocks and shares ISAs (HM Treasury, 2016), and over half of people think pensions are difficult to understand – including, rather surprisingly, the Bank of England's Chief Economist Andy Haldane, who admitted last year:

'I consider myself moderately financially literate…..Yet I confess to not being able to make the remotest sense of pensions'

(Haldane A, cited in Osborne, 2016)

Throughout 2016, IES worked with the Chartered Institute of Personnel and Development (CIPD) to produce guidance for employers on how they can support their employees' financial wellbeing. We drew on evidence gathered from a review of the financial wellbeing literature, using insights from economics, individual/organisational psychology, health and behavioural science literature and workshops conducted with experts in financial wellbeing. The research shows that individuals at risk of poor financial wellbeing include not only those on low incomes with few assets but also those with high earnings and high spending (Cox et al, 2017). Both groups often face barriers to seeking advice, including a lack of trust in financial services; overconfidence in their own decisions; a lack of understanding of the benefits of financial advice; and feelings of powerlessness around issues related to their finances (PPI, 2015).

Research also suggests that an employee's wider financial situation is relevant to their behaviour and performance at work. As previously mentioned, poor financial wellbeing impacts on health in terms of poor psychological wellbeing; higher stress and anxiety levels; and lower levels of good health (Neyber, 2016; Taylor, Jenkins and Sacker, 2009; Evans, 2016). This in turn impacts productivity through poorer job performance, reduced concentration, and absenteeism. For example:

- For every £1 million an organisation spends on payroll, there is an estimated four per cent loss in productivity due to poor employee financial wellbeing (Barclays, 2014).
- Financial stress costs the UK economy £120.7 billion and 17.5 million hours were lost due to absence from financial stress (Neyber, 2016).
- Seventy per cent of the UK workforce admit to wasting a fifth of their time at work worrying about their finances (Neyber, 2016).

Research suggests that more employees than ever before are interested in obtaining advice and guidance from their employers about financial issues (Willis Towers Watson, 2016). Current employer trends in financial wellbeing suggest the numbers of larger employers offering financial wellbeing programmes to employees is increasing, with most citing their reason for expanding such wellbeing initiatives as 'it is the right thing to do' (85%) and 'to help improve employee engagement' (80%) (Aon Hewitt, 2015).

So what can employers do?

Our research this year highlighted the need for employers to take action to support their employees' financial wellbeing; to identify the need for support among their workforces; and to offer staff access and to signpost them to sources of advice to make good financial choices. Stakeholders involved in the government's Financial Advice Market Review (HM Treasury, 2016) suggested that concerns about regulation and potential liability deter some employers from offering financial support to their employees. However, there is lots of help that employers can offer without legal exposure (HM Treasury, 2016).

Actions that organisations can take to improve their employees' financial wellbeing are highly varied and depend on a number of factors, including organisational size and sector; the profile and needs of the workforce; the level of priority and resources available; and the organisation's existing approach to staff wellbeing. However, a good starting point – identified in the IES/CIPD practical guidance - is to identify employee need; the key challenges they are facing; and the kind of support they require (Rickard et al, 2017). Also, by segmenting the workforce generationally (Barclays, 2014) or by income bracket, relevant financial information can be targeted to employees based on likely financial pressures. Providing communications on the current reward and benefits package and reviewing whether the benefits on offer meet employees' needs and financial goals or appeal to the differing priorities of all employee groups, eg young workers or older workers, would also be valuable steps to supporting employee financial wellbeing.

Overall, the IES/CIPD research highlighted that employers cannot just leave the current (poor) state of financial wellbeing in the UK to Government to solve, nor can they assume that it is employees' personal responsibility alone to address (Cox et al, 2017). The evidence suggests that there are clear benefits for all in supporting employee financial wellbeing and making it an integral part of creating a healthy workplace.

References

Aon Hewitt (2015), *2016 Hot topics in retirement and financial wellbeing*, Aon Hewitt

Barclays (2014), 'Financial well-being: the last taboo in the workplace?', *Barclays* [Online]. Available at: https://wealth.barclays.com/global-stock-and-rewards/en_gb/home/research-centre/financial-wellbeing.html [Accessed: 22 November 2016]

Cox A, Hooker H, Markwick C (2009), *Financial well-being in the workplace*, Report 464, Institute for Employment Studies

Cox A, Rickard C, Spiegelhalter K, Brown D (2017), *Employee financial well-being: why it's important*, Chartered Institute of Personnel and Development

Evans J (2011), *Findings from the National Well-being Debate*, Office for National Statistics

Evans K (2016), *Working well: how employers can improve the wellbeing and productivity of their workforce*, Social Market Foundation

HM Treasury/Financial Conduct Authority (2016), *Financial advice market review: final report*, Financial Conduct Authority

MAS (2015), *Financial capability in the UK 2015: initial results from the 2015 UK financial capability survey*, Money Advice Service

MAS (2015a), *Managing money well day to day*, Money Advice Service

MAS (2016), 'Introduction to Financial Capability Week', *Money Advice Service* [Online]. Available at: http://www.fincap.org.uk/fincap-week [Accessed: 22 November 2016]

Neyber (2016), *The DNA of financial wellbeing: summary report*, Neyber

Organisation For Economic Co-operation and Development (2015), 'OECD economic surveys: United Kingdom February 2015 overview' *OECD* [Online]. Available at: http://www.oecd.org/eco/surveys/UK-Overview-2015.pdf [Accessed 6 September 2016]

Osborne H (2016), 'Why are UK pensions so complicated?', *The Guardian* [Online]. Available at: https://www.theguardian.com/money/2016/may/19/uk-pensions-complicated-rule-changes [Accessed: 4 January 2017]

PPI (2015), *Financial education and retirement: international examples*, Briefing Note Number 76, Pensions Policy Institute

Rickard C, Spiegelhalter K, Cox A, Brown D (2017), *Employee financial wellbeing: practical guidance*, Chartered Institute of Personnel and Development

Taylor M, Jenkins S, Sacker A (2009), *Financial capability and wellbeing: evidence from the BHPS*, FSA Occasional Paper, No 34, Financial Services Authority

Willis Towers Watson (2016), '2015/2016 Global attitudes survey', *Willis Towers Watson* [Online]. Available at: https://www.willistowerswatson.com/en/insights/2016/02/global-benefit-attitudes-survey-2015-16 [Accessed: 22 November 2016]

More on this topic

For further information on supporting employee financial wellbeing, read the recent IES-authored reports for CIPD:

- Employee financial well-being: why it's important - a policy paper on supporting employee financial wellbeing, informed by a literature review of academic and policy work and workshops with experts in financial wellbeing.
- Employee financial wellbeing: practical guidance - for practical advice on supporting employee financial wellbeing.
- Employee financial well-being: Behavioural insights - for advice drawn from behavioural insights on how to engage with different sections of the workforce concerning financial wellbeing.

IES is working with CIPD and the Money Advice Service in 2017 to develop and pilot a more detailed employer toolkit on employee financial wellbeing.

The three IES-authored reports for CIPD were published in January 2017 by CIPD. Find out more about these reports on the IES website: http://www.employment-studies.co.uk/pubs

To learn more about IES work in this area, or to discuss the concepts raised in this chapter, please contact Catherine Rickard, Senior Research Fellow: catherine.rickard@employment-studies.co.uk

This article is from IES report: Tamkin P (ed) (2017), *Darkening skies? IES Perspectives on HR 2017*, Report 510, Institute for Employment Studies.

The full report is available online at: http://www.employment-studies.co.uk/hr2017

About IES

IES is widely respected for its knowledge, insight and practical support in HR, OD, L&D and people management issues. The Institute combines expertise in research with its practical application through our consultancy work. Our approach is based on:

- building, exploiting and sharing the evidence base
- independence, objectivity and rigour
- considering the whole people system, not just the individual parts
- delivering practical, sustainable business benefits
- building our clients' capabilities rather than their dependence.

Whatever your professional and HR needs, get in touch:

T: 01273 763400
E: penny.tamkin@employment-studies.co.uk