Enrich

CALCULATING THE ROI FOR Employee Financial Wellness

Calculating the ROI for Employee Financial Wellness

Workplace financial wellness programs continue to gain traction. Between 2015 and 2019, the number of companies providing this benefit more than doubled from 24 to 53 percent[1]. If this were just a fad, it would be going the way of on-site health screenings, incentive stock options and indemnity health plans[2]. Financial wellness programs, however, are more than just a craze. Instead, they provide both employers and employees enormous benefits.

Despite the growth of financial wellness programs, many companies only offer programs that focus almost exclusively on retirement planning. And, sometimes, even more narrowly on using company-sponsored retirement plans. Unfortunately, such education is not helping employees save for retirement. Currently, only 51 percent of private-sector employees participate in a workplace retirement plan[3], with 25 percent of Americans having no money in a retirement fund[4]. Of those nearing retirement, the average amount in their retirement savings is just $195,500[5].

However, employers with broader financial wellness programs see much better results. Such programs not only look at retirement but at all aspects of financial wellness, from budgeting to credit to home buying to identity theft. They have found that when they help their employees become more financially fit, these employees can then make wiser financial decisions. Doing so helps both the employer and the employee.

Why Adding Financial Wellness Benefits Makes Sense

If an employer could wave a magic wand, what would they wish for? In terms of their company, most would want to see an increase in yearly profits. In terms of employees, most would want employees that are happy, healthy, and dedicated to their work. Amazingly, providing a comprehensive financial wellness program can help companies achieve both.

Studies have shown that adding financial wellness provides the following benefits to employers:

INCREASED PRODUCTIVITY

47% of financially stressed employees and **10%** of non-stressed employees find finances to be a distraction at work[6].

REDUCED ABSENTEEISM

10% of employees state that they miss work due to financial worries[6].

FEWER 401(K) LOANS

20% of all 401(k) participants currently have an outstanding 401(k) loan[7].

INCREASED 401(K) PARTICIPATION

Only **65%** of employees are currently saving for retirement[6].

INCREASED USE OF PRE-TAX BENEFITS

thus reducing Social Security payroll taxes.

REDUCED PRESENTEEISM

1/2 of the stressed workers and **1/3** of non-stressed employees spend three or more work hours each week dealing with financial issues[6].

REDUCED STRESS-RELATED ILLNESSES

thus reducing health care premiums – **40%** of financially stressed employees and **18%** of non-stressed employees feel that financial issues have affected their health[6].

FEWER WORK-RELATED ACCIDENTS

Between **60%** and **80%** of accidents on the job are stress-related[8], and **69%** of employees have financial stress[9].

FEWER QUESTIONS AND CONCERNS

about employer-sponsored programs, thus reducing HR administrative costs.

REDUCED EMPLOYEE TURNOVER

78% of financially-stressed employees and **63%** of non-stressed employees would be attracted to another company that cares more about financial well-being[6].

INCREASED SATISFACTION

with current salaries/wages.

MORE EMPLOYEE LOYALTY TO THEIR EMPLOYER

Millennials (**46%**), Gen X (**44%**), and Baby Boomers (**30%**) say their commitment to their company is influenced by how much the company cares about their financial well-being[6].

REDUCED NUMBER OF DELAYED RETIREMENTS

42% of financially stressed and **15%** of non-stressed employees expect to spend the majority of time in retirement working because they'll need to financially[6].

Retirement Education Programs Are Not as Effective as Comprehensive Financial Wellness Programs

For many years, any financial education offered by employers focused on retirement education with an emphasis on increasing employee 401(k) participation. Nonetheless, companies often have a static participation rate, with 31 percent of those who have access to a 401(k) not participating[10].

Surprisingly, many employees do not take advantage of their employer's matching contribution program. They leave the free, tax-exempt money "on the table."

Why are these employees not contributing to their retirement or taking advantage of matching contributions? Although there are various reasons, the bulk of employees fall into one of two categories:

1. They are financially unwell and do not have the money to put toward retirement savings
2. They do not see the value in using an employer-sponsored retirement plan

Retirement education only addresses the second category. For those who feel unable to save for retirement, no amount of knowledge on retirement plan benefits will change their financial problems.

A majority of employees feel financial stress

Employees Are Not Financially Well

Research shows that a majority of employees feel financial stress and 56 percent of employees consider themselves financially unwell[11]. Unwell employees exhibit the following financial behaviors:

- Cannot pay their bills
- Do not have an emergency savings account
- Have at least one significant financial problem
- Do not have any retirement savings
- Do not invest
- Cannot live more than three months on emergency savings

Financially unwell employees bring that stress to work, with a large percentage stating that they spend three or more hours each week dealing with their financial issues while on the job. Additionally, employees nearing retirement feel that they will need to continue working due to a lack of retirement savings.

" … service members' poor personal financial behaviors cost the Navy, an employer of 430,000, almost $300 million each year."

This is not a new problem. Back in 1997, the Military Family Institute found that service members' poor personal financial behaviors cost the Navy, an employer of 430,000, almost $300 million each year[12]. The Department of Defense, with 1.4 million employees at that time, spent nearly $1 billion annually.

Financial Wellness Programs Increase Employee Wellness

A comprehensive financial wellness program addresses all employees, regardless of their current financial health. Not only will it increase 401(k) participation among those who simply need to learn about the benefits of using the program, but it will also help those struggling in some financial area of their life.

Employees who participate in financial wellness programs note:

- Better financial health
- Lower debt
- Better feelings about work and their employer
- More satisfaction with employer benefits
- Increased ability to save for retirement
- Increased ability to save money (i.e., emergency fund, long-term savings, education, medical)

We took a look at the data for all Enrich users in 2019 and found the following results after using the financial wellness program for one year:

32% more employees increased their savings for specific goals.

Those with at least 3 months of emergency savings increased by **27%**.

Those contributing to the employer-sponsored retirement plan increased by **15%**.

Maximum contributions increased by **10%**.

28% more employees now pay off their credit cards each month.

Comprehensive financial wellness education

What Constitutes Comprehensive Financial Wellness Education?

Many factors determine whether a financial wellness program is comprehensive. In general, such a program should do the following four things:

1. Explain employer-sponsored retirement plans so employees can join the plan, contribute money, and take advantage of any employer match money.
2. Explain other employer benefits so employees can make the right financial choices for things such as medical, life, and disability insurance, health savings accounts, student loan repayment help, and more.
3. Educate about credit and money management to help employees understand where they are financially, and make appropriate financial choices that eventually lead to the ability to fund retirement.
4. Educate about consumer protection to help employees avoid fraud, rip-offs, and identity theft and know what to do in case they are caught in such a scenario.

> “Introspection is a key element - if not THE key element - to financial wellness engagement.”

How a financial wellness program achieves these goals is also important. Having the following elements in a financial wellness program is essential:

Interactive Budgeting Tool: Allows employees to know where they are spending their money and see how savings can grow as they reduce spending in specific areas. It can also help employees create goals, such as saving for college or starting an investment portfolio.

Student Loan Tool: Helps employees understand their student debt, how much they owe, and provides suggestions for repaying the loans. It can also help those going back to school or parents of students determine which loans make sense and how much money to borrow.

Gamification: Makes learning about financial topics fun and exciting, providing challenges, and rewards.

Financial Behavior Assessment: People get more engaged in financial wellness by understanding more about themselves and how they tend to make financial decisions. Introspection is a key element - if not THE key element - to financial wellness engagement.

Live Counselors: 27 percent of employees want access to unbiased counselors that provide information based on employee needs rather than advisor bias[6].

Cost of a Comprehensive Financial Wellness Program

The cost of adding a comprehensive financial wellness plan varies, depending on the scope of the program. A recent survey shows that 43 percent of employers spend less than $50 per employee per year; however, 21 percent spend more than $500[13].

Here are the factors that produce such a wide range of prices:

Company Size:

Most financial wellness programs cost less per employee as the number of employees rises because many administrative functions do not cost more as participation increases.

Customization:

Plans that offer different branding options, different launch options, various incentives, and customizable assessments cost more than a generic program.

Account Management:

How is data compiled? Is it a computer, a team, or a dedicated person who works with your employees? The more personalized the account management, the higher the cost of the program.

Access to Certified Financial Planners:

Plans that offer individualized counseling cost more money than those that do not. How the counseling is delivered (in person, by phone, or online) also affects the cost.

Keeping these factors in mind can help companies determine which financial wellness program will work best for your employee's needs.

Hypothetical Examples of Employees Using Financial Wellness Programs

One of the goals of financial wellness programs is to help employees 'find' money in their current budget. This money can be used to:

- Create an emergency savings
- Save for education
- Reduce debt
- Fund retirement savings

When an employee learns the basics of financial management, the average employee can find additional funds by making a few simple changes.

For example, employee Joe Smith is 40 years old, married, and has two children in high school. He is behind saving for retirement and does not have enough in savings to help fund college for either child. His wife works outside the home and makes 65 percent of his annual earnings. By using an employer financial wellness program, he can 'find' an extra $300 per month, which he splits between these two financial goals.

- $200/month by choosing to use the HSA and changing to an employer-sponsored life insurance plan
- $80/month through budgeting, paying down debt, and learning to pay off credit cards each month to avoid interest charges
- $20/month when he discovered a recurring bill on a credit card for a product he had not authorized

Employers can help their employees achieve financial wellness

Two Things Employers Can Do to Help Employees' Financial Wellness

There are two critical things employers can do to help their employees achieve financial wellness. The first is to determine what their employees need in a financial wellness program, and not all employees need or want the same information. Additionally, employees seek out financial guidance at different points in their life[6]:

- 35 percent - When making an important financial decision
- 26 percent - When facing a financial crisis
- 10 percent - When experiencing a life event

That is why companies need to perform a financial wellness survey – a set of questions that identify employee needs – before choosing a program. Conducting such a survey will help you know their specific challenges and allow you to spend your time and money on financial benefits that interest your employees.

The second thing employers need to do is find a financial wellness program that fits those needs and helps employees resolve current financial issues and challenges. To find the best financial wellness program for your company, look for one that:

- Meets the needs of employees as well as the employer
- Focuses on short-term and long-term needs, not just retirement
- Offers concrete financial assistance
- Is flexible
- Is individualized
- Provides privacy to individuals, so they feel comfortable sharing money concerns and issues
- Self-paced

An Example ROI Calculation for a Holistic Financial Wellness Program

Pinning down an exact ROI is difficult since there are so many variables to consider. However, the return on investment for comprehensive financial wellness programs is always positive. Here's an example, along with the calculations, that show a program providing a 15:1 ROI for the employer. Keep in mind that this ROI calculation is based on hypothetical information and is being used to show potential, not actual, return on investment.

Company	ACME Corporation
Number of Employees	1,000
Average Salary	$48,000 or $23.08/hour
401(k) participation rate	65 percent
Employer match	None
HSA participation rate	20 percent
Employees financially unwell	28 percent
Cost of a comprehensive financial wellness program	$50/employee or $50,000/ year

Due to the financial wellness program, the following occurs:

RESULTS OF FINANCIAL WELLNESS PROGRAM	ANNUAL SAVINGS
Increased Productivity of Financially Unwell Employees	$240,032
Decreased Absenteeism	$184,640
Reduced HR Administrative Costs	$72,000
Reduced Payroll Taxes	$18,600
Increased 401(k) Participation	$11,935
Reduced Health-Care Premiums	$7,000
Reduced Accidents	$50,000
Reduced Turnover	$41,290
Increased on-time retirement	$150,000
Total Savings	$775,497

Presenteeism of Financially Unwell Employees: Of the 280 unwell workers, 100 resolve their most pressing financial issues. This increases their productivity so that they now only spend one hour per week, rather than three hours per week dealing with financial matters at work. That saves the company $23.08 x 2 hours x 52 weeks x 100 employees = $240,032 yearly.

On average, poor financial wellness will cost a 1,000-employee company $240,032 in productivity per year.

- **Absenteeism:** These same 100 workers no longer require 10 sick days per year to deal with their financial issues or stress-related illnesses. That saves the company $184.64 x 10 sick days per year x 100 employees = $184,640 yearly.

- **Reduced HR Administrative Costs:** These 100 workers no longer ask for 401(k) loans or payroll advances. HR is also no longer dealing with wage garnishments. Conservatively, we will put the cost at $10 per employee per month for a total savings of $10 x 12 months x 100 workers - $12,000 yearly. Additionally, half of the employees no longer go to HR to ask questions about employee benefits at a savings of $10 per month x 12 months x 500 employees = $60,000 yearly.

- **Reduced Payroll Taxes:** Three hundred financially unwell employees now use HSA or other pre-tax health benefits, dependent care benefits, and/or 401(k) benefits averaging $1,000/contribution. 6.2 percent of social security payroll tax x $1,000 x 300 employees = $18,600 yearly.

- **Increased 401(k) Participation:** 100 employees without financial issues learned the value of the employer-sponsored plan. Ninety-five employees contributed an average of $1000. Five employees maxed their contribution at $19,500. Tax savings equals 6.2 percent x [(95 employees x $1000)+(5 employees x $19500)] = $11,935 yearly.

- **Reduced Health-Care Premiums:** Due to less financial stress and fewer illnesses, 350 employees see their premiums reduced by $20 per year, for a company savings of $7,000 yearly.

- **Reduced Accidents:** Approximately 70 percent of accidents on the job are stress-related[8]. One study found that 69 percent of employees have financial stress[9]. On average, there are 28 accidents per 1000 employees[14]. This means that 13 accidents could be due to financial stress each year (70 percent of 28 x 69 percent of employees). OSHA states that the average accident costs $10,000 per incident[15]. Reduced financial stress leads to 5 fewer accidents, thus saving the company $50,000 yearly.

- **Reduced turnover:** It costs an average of $4,129 to recruit a new employee. Due to the financial wellness program, 10 employees stayed with the company, saving $41,290 yearly.

- **Increased on-time retirement:** It costs companies $50,000 per year for employees to delay retirement[16]. Three employees can retire on time due to financial education for a total of $150,000 yearly. Keep in mind that employees who delay retirement over three years cost the company 60 percent more, or $80,000 each year, due to higher health insurance costs and other benefits.

The total company savings for this hypothetical scenario would be $775,497, which is a 1,551 percent ROI, meaning that for every dollar spent on a financial wellness program, the company received $15.51.

Financial Wellness ROI is Better Than an Employer Match

Let's assume Acme Corporation was trying to determine if they should provide an employee match or a financial wellness program. The average employee match in 2019 was 4.7 percent of salary, which, in this case, would be $2,256 per employee. Although offering an employer match is thought to increase participation rates, studies show that simply adding a match does not increase participation rates without a financial education program.

> "… 34% of employees that used Enrich started or increased their 401(k) contribution within the first 60 days of the financial wellness program launch."

We will assume that participation increases by 5 percent, so this initiative will cost the company $1,466,400 to implement.

On the other hand, the financial wellness initiative only costs the employer $50,000 but helps increase participation rates as well as improves employee financial health for a much higher ROI. At the University of Kentucky, an Enrich client, 34% of employees that used Enrich started or increased their 401(k) contribution within the first 60 days of the financial wellness program launch.

Why Using Enrich Makes the Most Sense

Enrich offers a comprehensive, holistic program at a cost much lower than the $50 per employee in the hypothetical situation. This is due to our ability to leverage technology.

Due to the lower cost, the Enrich Financial Wellness Program's ROI is substantially higher than using the hypothetical program. At a cost of $20,000, the ROI goes up to 3,877 percent. Even if you count nothing more than reduced payroll taxes due to increased use of all benefits, the ROI is positive.

With employees seeking financial wellness benefits, and employers getting a positive ROI, using Enrich is a win-win situation.

For more information:

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