FINANCIAL WELLBEING REPORT

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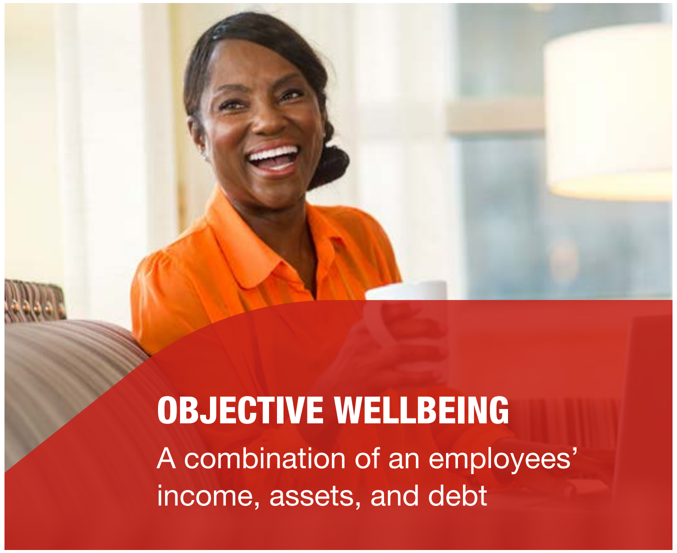
WHAT IS FINANCIAL WELLBEING?

Financial wellbeing encompasses objective and subjective elements. Good employer financial support addresses each of them to provide employees with a roadmap for achieving a higher status in both[1].

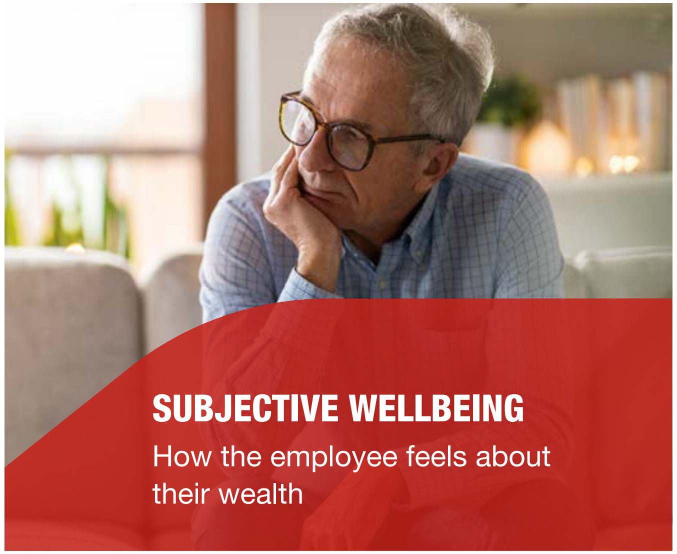
KEY INSIGHT

The sense of control that an individual feels over their personal finances (subjective wellbeing) can be more important than the objective wealth an individual has. Therefore, financial wellbeing strategies should aim to support the development of employees attitudes and behaviours, as well as the development of objective financial wealth.



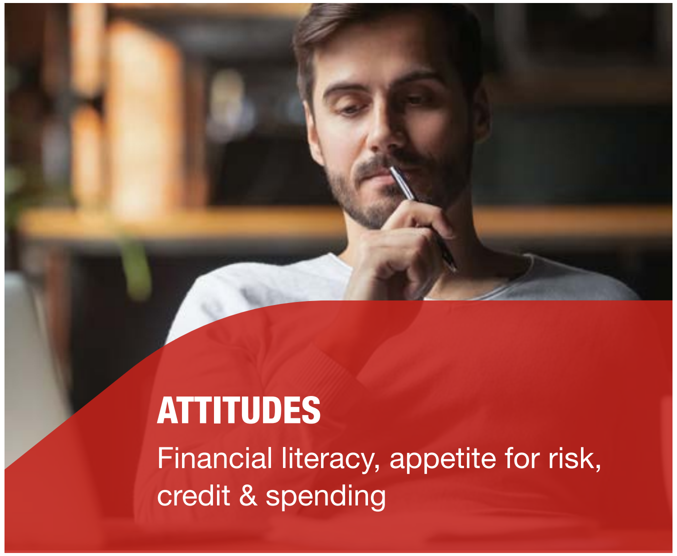
OBJECTIVE WELLBEING

A combination of an employees' income, assets, and debt



SUBJECTIVE WELLBEING

How the employee feels about their wealth



ATTITUDES

Financial literacy, appetite for risk, credit & spending

BEHAVIOURS

Actions taken including budgeting, savings, debt & protection

THE CAUSES AND OUTCOMES OF FINANCIAL STRESS

Although the physical health risk of covid-19 has abated, the social and economic impact is still being experienced. Rising inflation, hikes in living expenses and changes in employee priorities present new challenges for employers. As widespread voluntary resignations continue to place great strain on businesses, those who listen to employee concerns are recognising the **importance of a robust financial wellbeing programme** to attract, retain and care for their most valuable assets in this turbulent time. The studies included in this review provide insight into employee needs to help employers develop robust responses.

The role of the pandemic on financial wellbeing

63% of full-time employees say financial stress has increased since the start of the pandemic[2].

The primary reasons are:

✓ a decrease in household income

✓ difficulty meeting household expenses on time each month

This resulted in financial behaviours that impacted on individuals' financial wellbeing[2]

Raided savings to cover day-to-day spending

More likely to have used a payday loan or advance

US employees reduced savings contributions or loan payments[3]

The outlook in the pandemic recovery period

The financial impact on individuals may not disappear as new threats to financial wellness emerge. Globally energy prices are rising alongside inflation, tax hikes, food prices and the loss of pandemic-related subsidies. As a result most employees are effectively looking at a big pay cut.

KEY INSIGHT

Today's financial wellbeing programmes need to help employees manage their day-to-day finances and rebuild financial resilience, whilst also preventing erosion of long term savings where possible.

Short term coping strategies threaten long term security

Whilst employees focus is appropriately and necessarily directed towards short term financial management, this exposes them to long term financial risk which can place additional strain on current circumstances.

Ninety-five percent of employees say that *being financially comfortable in retirement* is a long-term financial goal[7], yet 28% of people globally are not confident they will achieve their goal[7].

Global Retirement Savings Guidelines recommend a total savings rate spanning between at least 13% and 21% of annual income (before tax) each year depending on the region. However, data shows that many workers are missing this mark, some by a significant margin[2]. To give a sense of the scale of this problem, among employees who say that their financial worries have had a severe or major negative impact on their productivity at work, one in four have saved less than $1,000 for retirement, and more than half plan to postpone their retirement[2].

For 51% people globally, the prospect of not having a large enough retirement fund is causing them stress[7] and yet it is a growing risk faced by employees worldwide. Not only are employees set-back by the economic impact of the pandemic, but retirement ages have been gradually increasing, historically generous retirement benefits such as 'final salary pensions' have been removed and social security plans no longer cover the financial needs of adults in retirement.

KEY INSIGHT

Financial wellbeing is the least common area included in HR strategies[1]. This is despite:

- ✓ lockdown seriously affecting financial security more often than it did mental health[1],
- ✓ money worries affecting just under 50% of the workforce[1]
- ✓ 87% of employees reporting that they want help with their personal finances[4]

THE CALL FOR EMPLOYER-DRIVEN FINANICIAL WELLBEING INITIATIVES

In response to the need outlined in the previous pages, 61% of employees are now paying more attention to their financial benefits than they were 12 months ago[3] and 91% of employees say they would feel more invested in staying with an employer if the employer offered financial benefits that met their needs[3].

Employees are calling on their employers to offer financial wellbeing benefits, with one-third of employees ranking financial wellness as the employer benefit that they'd most like to see added at their organization[2].

This is reflected in utilisation data, with 88% of people having used a financial wellness service where it was made available to them[4].

THE COSTS OF NOT TAKING ACTION

Turnover

72% of employees whose financial stress increased due to the pandemic would be attracted to another company that cares more about financial wellbeing than their current company[4] and among the 29% of employees currently looking for a new job, 65% cite money as their primary reason[2]. HR professionals cite similar concerns, with 79% reporting that their employees will leave for another job if their company does not offer financial benefits[3].

Productivity

While statistics vary, all studies indicate that financial stress impacts productivity

- ✓ Morgan Stanley reported that 64% of people report that financial stress is negatively affecting their work and personal life[3].
- ✓ PWC identified that more than half of financially-stressed employees who are distracted by their finances at work spend three hours or more each week dealing with personal money issues during work time[2]

Absenteeism

A UK study reported that employees with money worries take on average, one sick day per year to deal with their financial issues. Based on the statistic that 36% of all UK workers are worried about money, they estimate that employers would lose 30 working days per month, per 1000 employees[12] The CIPD data indicates that this figure could be an underestimation, citing a study which found that personal reasons typically caused two days' absence per year, with workers experiencing higher financial stress levels reporting even more days absent[1].

BENEFICIERIES OF FINANCIAL WELLBEING INITIATIVES

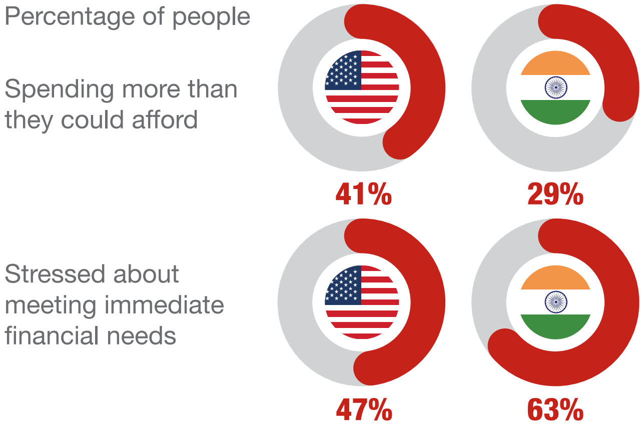
Data from the UK suggests that employers vastly underestimate the amount of people affected by financial stress. Employers estimated that only 2% of team members worry about money every day, whereas the employees themselves reveal the proportion is closer to 24% that worry about money every day[6].

It is the case that financial stress disproportionately affects employees with low household incomes, however the studies included in this review provide many insights into the breadth of the issue across employee segments.

The global workforce

Globally, 28% of people are spending more than they can afford and 44% are stressed about meeting immediate financial needs[7].

This is not isolated to particular cultures or regions, for example:



There are regional variances in the data, but these are marginal. Fidelity International found that whilst most countries scored fairly consistently on a global financial wellbeing index, China faired slightly better and the United Kingdom faired slightly worse, however both are indexed as having 'Good' financial wellbeing[8].

Employees in Europe may be less prone to financial concerns than those in the US and Canada. There are various considerations ranging from cultural and economic to explain this variance including variances in taxation and the cost of living. Most significantly, the richer social welfare policies in areas such as health and education are likely to benefit European employees' financial wellbeing[1].

Professional scenarios

In 2018, the Chartered Institute of Personnel and Development (CIPD) found that one in five workers in manual and low-skilled jobs (21%) were constantly struggling or falling behind with bills, which was more than double the proportion of senior professionals (9%)[1].

However, whilst statistically more average earners worry about money (55%) than top earners (33%)[9], high earners are not immune to financial distress.

52% OF TOP EARNERS SAY THAT THEIR FINANCES CAUSE THEM STRESS[11]

Top earners are likely to have larger debts[9] and monthly expenses. Both Mercer[10] and Morgan Stanley (2019 data)[11] cite that even those with household incomes above US$100,000 report financial stress, with similar trends being reported in the UK[12].

KEY INSIGHT

Regardless of household income, employees need a trusted source of guidance customized for individuals at both ends of the spectrum—those who are saving more and those grappling with serious financial issues

The female workforce

Women report higher levels of financial distress and, relatedly, absenteeism and presenteeism than men[1,12,4].

The **gender pay gap** remains a top priority but there is a risk when employers only compare pay disparity at single moments in time. Employers need to consider that the gender pay gap accumulates and compounds over a women's life.

For example, women continue to take the lion's share of caring responsibilities.

- ✓ Mothers of children under six dedicate nearly twice the amount of time per day dedicated to childcare as fathers, including when both parents work[19]
- ✓ Two-thirds of care provided to older adults is done by women[19]

These caring responsibilities either reduce women's ability to participate in full time work, or the time they have available for financial management, planning, saving and investing. This results in short and long-term financial pressure. To illustrate this, a UK report examined employees who utilise parental leave,[12] finding that:

- ✓ 40% struggled to pay bills
- ✓ 29% took on additional debt
- ✓ 67% did not continue their pension contributions

Although caring responsibilities may be temporary these gaps in employment become relatively impossible to make up and reach parity with men who do not take time away from the workforce to provide care[19]. Even after returning to work women experience a decrease in income:

- ✓ 61% of mothers who return to work after children opt for part-time, earning 30% per hour less than full-time women[13]
- ✓ 21% of mothers say they were paid less for the same work they did previously[19]
- ✓ Women aged 25 taking a five year career break will accumulate a pension pot 33% smaller than their male counterparts[13]

Long term retirement savings are a key topic of concern for women. In the absence of effective interventions, young women's pensions are expected to continue to fall behind men's and they risk having insufficient provision for later life, as evidenced in UK data:

- ✓ The average pension pot for a 65 year old woman in the U.K. is just £35,800, one fifth of that of the average man of similar age[13]
- ✓ Men under 35 received an average of £217 a year more in employer contributions towards retirement than their female counterparts[13]
- ✓ 55% of UK women are not confident that they will be 'financially comfortable in retirement' compared to 26% of men[7]

An inclusive programme that prepares women for a financially healthy future must review all elements of its design. Wealth planning models have defaulted to men's salaries, career paths, family roles, life spans and preferences. As an example, retirement calculators do not allow for planned or unplanned breaks from the workforce to raise children or care for aging family members[19].

KEY INSIGHT

Empowering women with tools, employment policies and benefits that respect their life journeys, play a key part in achieving gender parity.

Younger segments of the workforce

There are more generations in the workforce at any one time than we have ever seen before. With different objective financial status, attitudes, behaviours and life stages, 'age' becomes a key variable to consider in a workplace financial wellbeing strategy. In the past 24 months, younger people were most exposed to financial stress, with up to 78% of those in their twenties 'raiding their savings'[14]. This not only points to the need for equity but also segmentation of the information provided to ensure that younger workers are supported with their short term goals, as well as their long-term goals.

DEVELOPING A FINANCIAL WELLNESS STRATEGY

Our analysis identified several strategic recommendations as well as tactical initiatives and tools that can be used to deliver well executed strategies with robust and measurable impacts. Some of the overarching and common themes have been summarised.

Integration with other wellbeing initiatives

In 2021 Willis Towers Watson identified that amongst employers looking to implement a financial wellbeing strategy, 88% are doing so to support broader wellbeing initiatives[15].

One of the greatest areas of overlap between financial wellbeing and other pillars of employee wellbeing, is the bi-directional relationship between financial wellbeing and mental wellbeing, where one without the other creates exposure to risk:

- ✓ Employees who are struggling financially are 3-4 times more likely to be suffering with mental health concerns[2,12].
- ✓ Meanwhile poor mental health makes it harder to work and mental health related absence may result in the loss of income, creating a perpetual cycle[1].

Despite this, only 11% of employers with a financial wellbeing policy are actively focusing on it as part of their overall HR and wellbeing strategy compared with 57% that actively focus on mental wellbeing[1].

KEY INSIGHTS

- Use your mental health resources to support your financial wellbeing strategy. Your EAP (Employee Assistance Programme) should offer financial advisory services, they may even have online financial wellbeing assessments.
- Use the links with general mental wellbeing, exhaustion, sickness absence, presenteeism and productivity to make the case for and promote a financial wellbeing strategy.

Data driven strategies

There is a disconnect between what employees need and what employers currently offer. In addition, one size does not fit all. Employee needs are highly individual and cannot be generalised across income, gender, age, or geography.

Mercer reports that eighty-six percent of organisations have not yet carried out "real" data-driven listening to better understand their employees' financial wellbeing needs[18].

To address this, employee financial assessments can pinpoint where people are struggling and enable organizations to focus and personalize resources for their populations.

In addition to using financial assessments to pinpoint interventions, it is best to collect data before interventions to establish a baseline. This will help you to identify which groups of employees are struggling with financial wellbeing and to evaluate the impact of interventions you subsequently implement.

Employers wishing to utilise data collection may wish to consider several points raised in the analysis:

1. A global tool can be most useful for multinational organisations who want to analyse and report on initiatives with globally consistent data. This enables analysis of both global and local trends, and supports tailored programmes in each geographical entity.
2. Because financial wellbeing is multifaceted and people react differently to financial situations, most researchers recommend using a mix of questions that collect information on both objective and subjective measures of financial wellness[1].
3. Employees may be guarded about what information their employer can see. Data collection tools should provide aggregated, deidentified data and employers should communicate that the information provided by employees is anonymous.

Relevance to current needs

Multiple studies cite that the most common types of benefits offered by employers, do not address many of the financial challenges that employees face.

- ✓ 56% of people who have not taken up new employer benefits, say this is because their employer has not offered them any suitable packages[7]
- ✓ Only 28% of people around the world who receive employer support feel that this support is adequate[16].

Employers are focused on long term savings (savings for retirement remain a top priority for 79% of employers[15]) and whilst this is also a goal for over half of employees (53% of employees report needing help with retirement savings[17]), there's a more immediate need for help with short-term goals, including:

- ✓ Managing bills and spending (47%[3])
- ✓ Managing debt (42%[3])
- ✓ Rebuilding emergency savings (30% in US[3] – 61% in UK[6]).

As we look towards a hardening economy, there is a strong case for building short term financial wellbeing for the benefit of longer term employee resilience.

Despite this clear and compelling need, Mercer[18] found that 57% of employers do not offer any form of savings vehicle and 50% of employers claim not to be interested in supporting employees with debt. Willis Towers Watson reported consistent findings, with less than 50% of employers thinking to add new workplace savings options[15].

Whilst long term savings interventions should remain a priority, in today's climate, these initiatives fail to address the top causes of financial stress which relate more closely to day-to-day finances. In addition, they fail to build people's resilience for unexpected events. With less than a third of employees surveyed by Morgan Stanley reporting that they had access to benefits that could help them with their everyday finance[11], it is a significant area of opportunity for change.

Morgan Stanley[17] found that low-cost personal loans repaid via payroll (one of the least offered employee benefits) is the second highest benefit to be utilised (after 401(k)* and other retirement plans), when offered.

However, in addition to the pragmatic and practical relevance of initiatives that reduce short-term financial strain, there is a strategic reason to support these needs too. A 2021 year-end review of the Mental Health Index reports by LifeWorks found that during the pandemic, employees without emergency savings were among those whose mental health has shown the greatest decline[5].

KEY INSIGHT

Day-to-day financial support is the least prevalent benefit and therefore the biggest area of opportunity for change.

* A 401(k) plan is an employer-sponsored retirement savings plan applicable in the United States of America.

Nearly one-in-five employees will wait until they experience a crisis before they seek financial guidance[1]. Employers can support employees to regain control in these moments of crisis through various initiatives including debt counselling, hardship loans and earned salary access.

Prevention

Focusing on initiatives to manage a crisis does not address the cause of the problems, or help to prevent them in future. In addition, with 41% of financially-stressed employees feeling embarrassed to seek guidance on their finances[2] and 27% of financially stressed employees citing that 'finances are a private matter' as a reason for not seeking help[2], there is an evident stigma that calls into question whether these services will be utilised and therefore how effective they are when implemented in isolation.

It goes without saying that the starting point in any preventative strategy is to ensure workers are paid a liveable wage. With that basic need met, interventions that help employees avoid financial stress in future include benefits that reduce living costs, support savings or give financial protection.

One of the most commonly cited interventions underpinning all initiatives is the provision of 'Financial Education', with Mercer identifying that 85% of organisations have an opportunity to increase education around budgeting and debt[18].

In addition to the practical benefits of developing financial literacy to help employees navigate the benefits available to them, financial education that focuses on the 'soft skills' of attitude, judgements and behaviour is believed to make people more inclined to plan or save for the future[1].

As a result, financial education could play a key role in building a sense of control, which is an important component of subjective financial wellbeing. In fact, the importance of this was illustrated in one UK study of young workers and families with young children, which found that having control over their finances was even more important for financial wellbeing than the amount of money they had (objective financial wellbeing)[1].

Financial education may also begin to bridge some of the gaps between male and female financial wellness. Merryll Lynch found that whilst women reported the same levels of confidence as men when it comes to paying bills and budgeting, men are more confident when it comes to managing investments[19].

When women were asked about the barriers to investing, the number one barrier reported by 60% of women was not having the knowledge to invest'[19]. This is worse for younger generations with only 46% of Millennial women feeling confident in investing compared to older generations[19]. As we've already described in this analysis, women are disadvantaged when it comes to long term savings potential. Investments provide the opportunity for women to grow their wealth in ways that income alone does not and it seems that education could be a key to unlocking this potential particularly for younger women.

When it comes to financial literacy there are a few key points for success, including:

1. Financial education that develops 'soft skills' of attitude, judgements and behaviour are more important to emphasise than technical financial knowledge – for example of bonds, interest or pensions[1].
2. Consider using just-in-time or on-demand learning linked to particular financial decisions meaning you might promote your financial education resources at relevant times for different segments of your workforce[1].

However, it's important to recognise that financial wellbeing will depend on both the individual's ability to meet day-to-day expenditure now, as well as having a clear plan for the future. So for employees who are low paid or struggling to make ends meet today, financial literacy cannot be the only answer.

Preparation and planning for the future

Willis Towers Watson[15] and Mercer[18] both report that saving for retirement remains a focus for organisations. However, despite these efforts, employees feel unprepared.

Across the regions surveyed in Fidelity's 2021 Global financial wellbeing survey, a high number of workers think retirement planning is too complicated to do on their own (59% in HK, 61% in UK, 63% in Japan, 77% in Germany)[8].

The largest hurdle to retirement readiness is insufficient savings rates and knowledge of how much should be saved to meet expenses in retirement[8]. This lack of knowledge early in careers can place people close to retirement in difficult situations. This is evidenced by UK data showing that the average amount saved by 55-64 year olds in long term saving pots (employer pensions, other pensions, stocks and shares etc) was just over £125,000, which is below the roughly £303,900 they would need to afford the lifestyle of someone who earned £27,000 when they were working[9].

Many people also fail to consider the potential impact of health concerns, which may force an earlier than planned retirement and require a higher savings rate[8]. The need for education about preparing for retirement emerged as a consistent theme.

However, lack of financial knowledge and not knowing where to start with retirement preparations comes after 'not earning enough' and 'paying down debt' when looking at the 'barriers to being on track with retirement savings'[8]. This reinforces the message that financial education and planning is only effective if employees are on top of their daily expenses, today.

If employees are in a position to plan ahead and begin saving, one practical recommendation was the opportunity for better visibility and transparency when it comes to pensions. Fidelity found that thirty- eight percent of younger German employees want their employers to make all workplace, state and private pension details easily accessible and thirty- six percent would like to track their workplace pension savings on their pay slips[8].

Communication

Nearly half (42%) of employees say that they do not feel adequately informed about the benefits and programs their employer offers[11] and 87% of US employees say that their employers must help them understand how to maximise their employer-provided financial benefits[3].

Effective communication about the benefits available can dramatically impact how likely employees are to use them. Data released by Willis Towers Watson in 2021 found that employers have taken note of this, with 67% of employers reporting that the primary area of support will be 'Enhanced communication and decision support around financial wellbeing'[15].

This recommendation is important to consider right at the start of your strategic planning. As Mercer point out, "most organisations already offer benefits that support their employees' financial wellbeing — they just haven't marketed them that way"[18]. So before adding new benefits, they point to traditional protection products such as life assurance and income protection as two examples that can be repackaged and communicated as part of a financial wellbeing programme.

Another commonly underutilised resource is an employer's EAP (Employee Assistance Programme). EAP providers offer free one-on-one guidance with a financial advisor, which is a valuable resource and should be clearly communicated to your employees.

LifeWorks

EAP SUPPORT

Our global EAP provider, LifeWorks, offers calls with local financial advisors, financial health assessments & financial education at preferential rates via GEB

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Specific recommendations related to communications:

1. communicate about financial wellbeing regularly through a range of channels[1]
2. communicate about financial wellbeing as an integrated proposition alongside other wellbeing benefits, particularly mental health.
3. review existing benefits that offer financial support and consider repackaging and promoting these first[18].
4. use communications about financial wellbeing benefits to encourage discussion about financial issues[1].

Remember, even employers with a limited budget can do their bit with a simple policy that lets their workforce know where and how to get help[1].

For more information about Generali Employee Benefits Pension solutions and Financial Wellbeing solutions, available at preferential rates, contact your Service Team or write to partnerships@geb.com.

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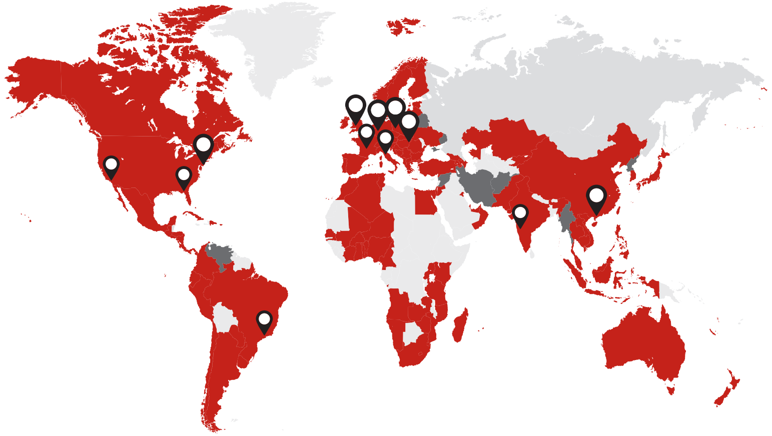

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