RESEARCH REPORT

Vital Signs of Financial Health

Why Financial Health Measures are the Key to Strategic Benefits Offerings

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Even

More and more employers want to offer benefits to improve employee financial wellness. But the lack of a reliable way to measure these benefits' effectiveness has made businesses slow to act.

By picking an established survey instrument to measure financial health, employers can get the reliable data they need to move forward with offering the right benefit for employees. After working with the Financial Health Network's financial health survey instrument, the FinHealth Score™, Even has concluded it's the right match for employers' need to evaluate and implement financial health benefits in a strategic way.

KEY CONCLUSIONS

1. Systematically measuring financial health lets employers learn how big their financial wellness problem is, as well as whether any benefit they offer to address it makes an impact.
2. It's crucial to pick a measurement tool that meets standards for reliability and validity.
3. The Financial Health Network's FinHealth Score stands out for being simple, actionable, and widely accepted.
4. Because the FinHealth Score's results reveal employer-specific patterns of employee financial health, it lets businesses tailor their benefit approach to their workforces in a strategic way.

Employees' financial health is worse than you may think

Employees are struggling

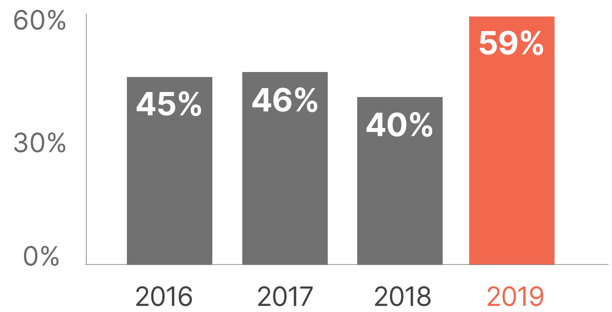
Half of Americans believe they will never have the things they want in life. For 51% of the population, their money situation makes the pursuit of happiness seem like a doomed enterprise. Not only is there a failure to thrive, but it's become difficult to *survive*. Sixty-one percent of Americans say that they're "just getting by" financially.[1] That's almost two-thirds of the population that's living on the margin, where a blown tire or a single visit to the emergency room might settle them squarely in the red.[2] A full 39% of Americans would be unable to deal with a $400 financial shock with their liquid, cash-equivalent assets.[3]

When we focus our attention on the labor force, the struggles intensify. Forty-nine percent of U.S. employees find it challenging to keep up with their monthly expenses.[4] Fifty-nine percent are carrying balances on credit cards—and of those, two thirds have a balance of over $2,500.[5]

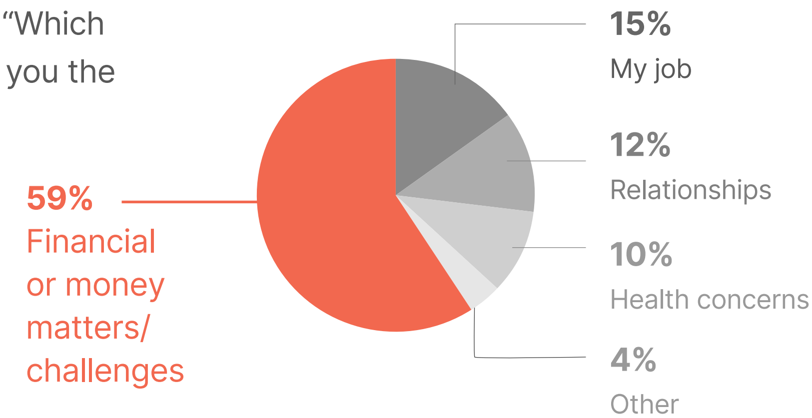
These survey findings paint a stressful picture of the lives of workers, much of it caused by finances. In fact, for 59% of employees, money matters are the leading cause of stress in their lives. The problem only promises to worsen with new entrants into the labor force: 67% of Millennial employees rank financial issues as their top stressor, versus 59% of Gen X, and 43% of Baby Boomers.[6]

Finances rank as chief stressor for employees

Percentage of employees who say finances are their #1 stressor in recent years



Employees' answers to "Which of the following causes you the most stress?"



Source: "PwC's 8th annual Employee Financial Wellness Survey," PwC US, April 24, 2019.

Poor employee financial health causes lost productivity and increased turnover

Employees' financial struggles put businesses at risk

An overwhelming 79% of U.S. employers consider it advantageous to have a financially secure workforce.[7] A core reason for this consideration is that it's the right thing to do for employees[8]—but beyond the moral imperative is the practical matter of improving productivity and cutting turnover costs.

Lost productivity

On average, employees spend 13 hours per month thinking about or dealing with personal money matters while in the workplace.[9] For a midsize company of 500 employees each paid $12.50 an hour, that's $975,000 in lost productivity per year. For larger organizations, that figure begins to balloon. All told, an estimated 5% of total payroll is spent on workers worrying about their finances.[10]

Less easy to quantify are the subtle negative impacts that financial insecurity has on work life. Fifty-eight percent of struggling employees mention sleepless nights spent thinking about money.[11] Thirty-eight percent say they slip on daily tasks because of their worries, and 34% say the quality of their work is affected.[12]

Increased turnover

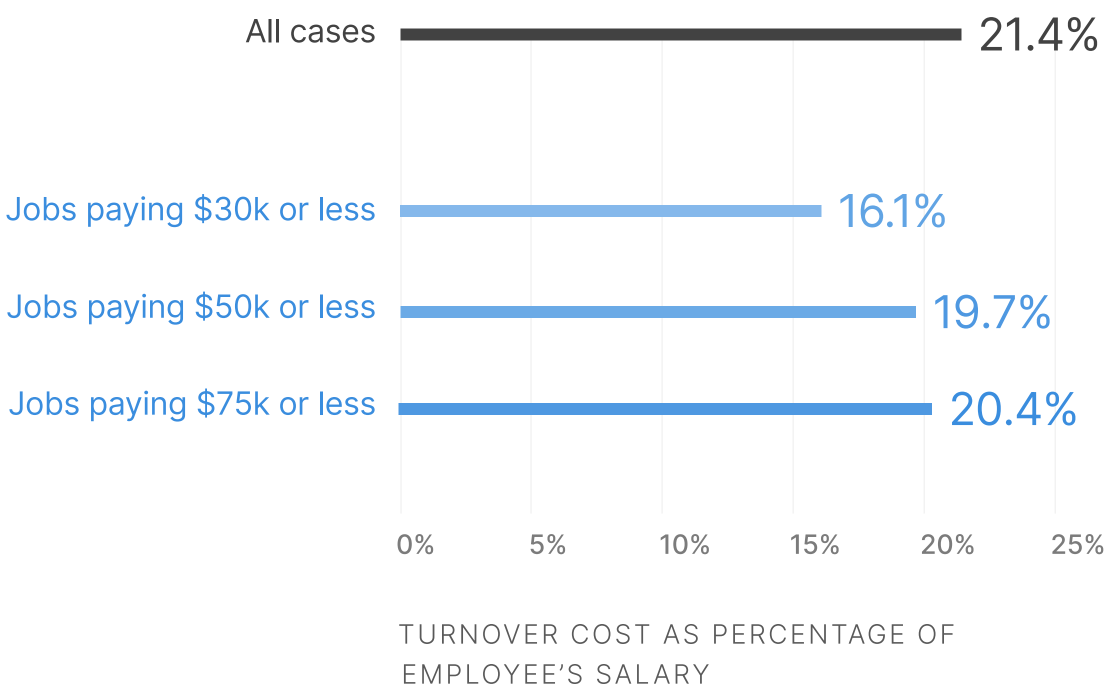
Financial insecurity can lead to both voluntary and involuntary separations from an employer. Involuntary separations might occur because of the productivity losses caused by financial stress, while voluntary separations may be a symptom of feeling abandoned or unsupported by an employer.

Employees who aren't offered financial wellness benefits are half as likely to report being "very satisfied" with their job, and 50% less likely to trust their employer to do what's right.[13] Among Millennial employees, 46% are more likely to be loyal to an employer that demonstrates that they care about their employees' financial well-being.[14]

Whatever the reasons, struggling employees are about 2.2 times more likely to be searching for a new job.[15] This could pose a mortal risk: Turnover is enormously costly for businesses. A meta-analysis of 30 employer case studies revealed that turnover costs per employee are generally 20% of their annual salary.[16] A simple application of this rate on a retailer such as Target (circa 2017) results in a conservative turnover cost estimate of $567 million per year, or about 4% of total Selling, General, & Administrative expenses.[17]

Replacing employees is costly for companies' bottom lines

An analysis across 30 case studies showed an average turnover cost of 21.4% of an employee's annual salary.



Source: Heather Boushey and Sarah Jane Glynn, "There Are Significant Business Costs to Replacing Employees," Center for American Progress, November 16, 2012 https://www.scribd.com/document/112707536/There-Are-Significant-Business-Costs-to-Replacing-Employees,

Measuring financial health lets you size the problem and evaluate your solution

Financial health measurement is the first step to financial wellness

Before solving the problem of financial insecurity, employers need to precisely understand their employees' financial health. That means performing some form of measurement, which accomplishes two things:

1. It allows decision makers to accurately size the issue. If leaders can say, "Sixty-one percent of employees are struggling" that's clear impetus to deliver a solution. If only 2% of employees face financial struggles, it may not be as urgent as other pressing risks to the business.

2. Quantifying the extent of the problem allows employers to try solutions and evaluate the results. Without verifying that solutions are functioning well, businesses run the risk of wasting valuable resources.

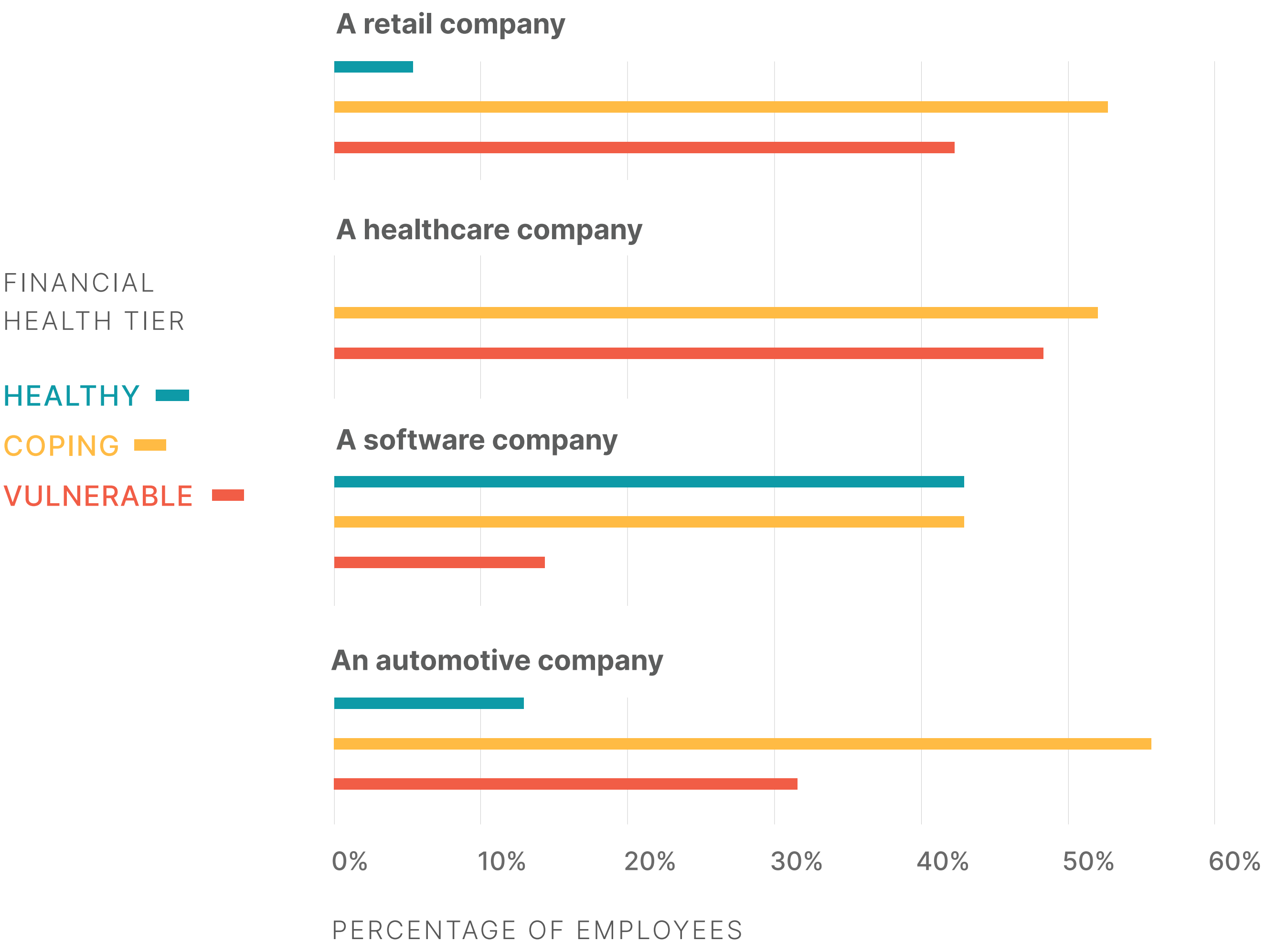
Most employers deploy metrics such as employee satisfaction, increased productivity, increased retirement participation, and program adoption to vet their financial wellness initiatives.[18] These are important and useful metrics, but less direct than measuring financial health itself. For example, though increased participation in a 401(k) seems like progress on its face, this metric ignores that

29% of Americans take out loans against their retirement accounts (as estimated in 2014).[19] Similarly, employee satisfaction is crucial for ensuring that employees use a helpful program, but it doesn't tell us whether a program *is* helpful.

Employees’ financial health challenges vary across industries

Financial health distributions (quantified using the Financial Health Network’s survey instrument) can be significantly[20] different across corporations or industries. Solutions for one company may not work for others, and decisions should be tailored to the facts of an organization.

Financial health looks different across industries



Source: Even internal data analysis.

A good measurement tool is both reliable and valid

Getting started with measurement

Financial health isn't directly observable. Just like "health" in the medical sense, financial health is a concept used to describe a constellation of symptoms. In medicine we attempt to get a picture of a person's total health by checking their vital signs: heart rate, blood pressure, respiration rate, etc. Vitals can't tell us everything going on inside a human body, but they are *indicators* of that underlying thing we want to know about: health.

So it goes with financial health. We need to develop a set of indicators that point at the same underlying concept. While we can attempt to measure financial health by counting overdrafts, payday loans, credit card balances, and the like, it turns out that the simplest way to measure the financial health of an employee is to just ask them. This is in part because it's difficult to obtain the data to make a good estimate of health, but also because a major component of financial well-being is one's own feelings about their situation.[20] Self evaluations tend to correlate well with objective measures of employees' financial circumstances, in any case.[21]

The challenge in "just asking" employees, of course, is finding the right questions to ask. A survey instrument must be rigorously proven as both *reliable* and *valid* before it can be used to make any real assessments.[22]

Reliability is achieved when the answers to survey questions are stable over time. If the same survey delivers the identical financial health measures every time you serve it—assuming nothing has fundamentally changed—it has reliable performance. A survey is also said to be reliable if there's internal coherence. That is, all questions that try to measure the same concept (for example, the good management of credit card debt) should have results that correlate well with each other.

Validity is achieved when the results of a survey gives us information about something real. A survey must be validated by showing it correlates to some ground-truth measure of an idea. In the case of financial health, this might be the probability of financial hardship, bank account balances, savings frequency, or some other piece of hard evidence.

Getting a survey instrument right isn't an easy task. We recommend that employers select an established survey that has already been validated by experts in the field.

The Financial Health Network's survey is simple, actionable, and widely accepted

Choosing an established survey instrument

Financial health measurement is not a new idea. The first instrument to quantify a subjective sense of financial health was the InCharge Financial Distress/Financial Well-Being scale, developed to boil down 58 financial health concepts from 12 studies into a set of just eight questions.[23] Survey items were pruned to establish reliability and the final questions were tested for validity on a national sample of 1,687 people.

Since that original work in 2006, the Consumer Financial Protection Bureau (CFPB) did their own studies to establish a scale for the financial well-being of the American consumer. In their efforts to establish reliability and validity, they conducted open-ended interviews with 4,500 people, fielded 44 survey questions to 7,899 participants, and tested the final set of 10 items on two groups of 1,000 people to evaluate reliability in both self-administered and proctored contexts.[24] Survey results predict for material differences in financial circumstances: The lower your score, the higher the chance of experiencing hardship.[25]

The Financial Health Network built on the CFPB's work in formulating the logic of its own survey, also drawing inspiration from the Federal Reserve's Survey of Consumer Finances, the Report on the Economic Well-Being of U.S. Households, and a number of other instruments.[26] The survey has shown to discriminate well between different cohorts' coping strategies, bill payment behavior, deployment of tax refunds, and frequency of long-term savings contributions, as well as a host of specially-selected validation metrics.[27] In Even's own data, we see results from the Financial Health Network's survey correlate well with our informal measure of week-to-week financial stress, week-to-week financial stress (see special section, "Established financial health measures correlate with other important metrics").

Ultimately, the choice of survey is subject to priorities of the business performing the measurement. However we recommend the Financial Health Network's instrument for a few reasons:

1. It's simple. The final output of the survey is a classification of an employee as being "Vulnerable," "Coping," or "Healthy." These are natural clusters of financial health which allow you to pose questions like, "What percentage of this department is Vulnerable?" or, "How many employees are Coping in total?"

VULNERABLE	COPING	HEALTHY
These individuals are struggling with all, or nearly all, aspects of their financial lives.	These individuals are struggling with some, but not necessarily all, aspects of their financial lives.	These individuals are spending, saving, borrowing, and planning in a way that will allow them to be resilient and pursue opportunities over time.

Source: Thea Garon et al, "U.S. Financial Health Pulse: 2018 Baseline Survey Results," Financial Health Network, November 1, 2018, https://finhealthnetwork.org/research/u-s-financial-health-pulse-2018-baseline-survey-results/

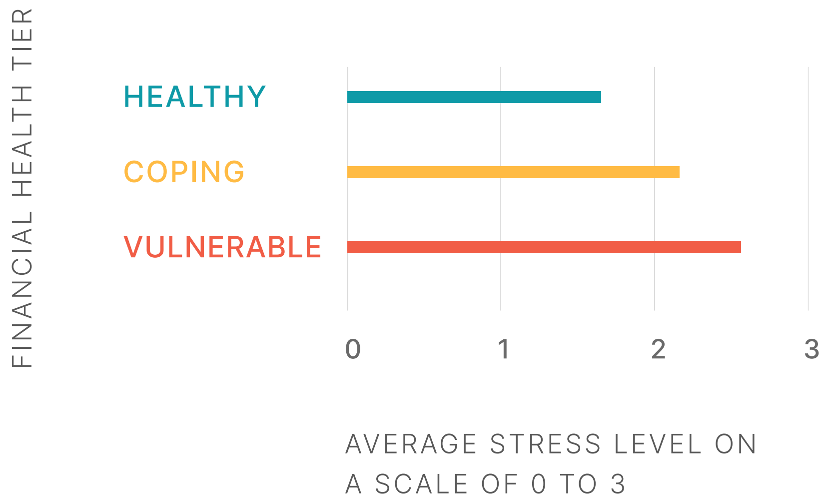
2. It's actionable. Other financial wellness surveys focus on general feelings of financial distress, but the Financial Health Network focuses on self evaluations in four domains: Spending, Saving, Borrowing, and Planning. This helps businesses pin down which finer-grained component(s) of financial health they want to solve for.

3. It has wide acceptance. Over 100 companies are members of the Financial Health Network, including Capital One, Bank of America, and JPMorgan Chase & Co., as well as fintech companies such as Intuit, Plaid, and Yodlee. Many already use the survey instrument in their operations, and several have committed to continuing research to improve the instrument and inferences we can make with it.

Established financial health measures correlate with other important metrics

In Even's own survey data, we see that results from fielding the Financial Health Network's FinHealth Score™ correlate well with our informal measure of week-to-week financial stress, suggesting that it captures psychological state as well as objective financial circumstances. Though our short-term financial stress measure hasn't been rigorously validated, it's encouraging to know that the FinHealth Score instrument can imply it just as well as it implies particular financial behaviors in a population.

FinHealth scores scale with short-term financial stress



Source: Even internal data analysis.

FinHealth Scores imply facts not included in the survey instrument itself

The FinHealth Score's financial health tiers imply specific financial facts about employees. For instance, in the data below, employees scoring Healthy are more likely to have six months or more of living expenses saved than those scoring Coping and Vulnerable. These facts are actionable: We might intuit that employees who score Healthy on the survey could benefit from a 401(k) long-term savings solution, but that those who score Vulnerable might need shorter time-course solutions.

Covering living expenses with liquid savings by financial health tier

SURVEY QUESTION

"At your current level of spending, how long could you and your household afford to cover expenses, if you had to live only off the money you have readily available, without withdrawing money from retirement accounts or borrowing?"

RESPONSES	FINANCIAL HEALTH CLASSIFICATION		
	HEALTHY	COPING	VULNERABLE
6 months or more	78%	25%	3%
3-5 months	17%	23%	5%
1-2 months	4%	31%	13%
1-3 weeks	1%	16%	34%
Less than 1 week	0%	5%	45%
	100%	100%	100%

Source: Thea Garon et al., "U.S. Financial Health Pulse: 2018 Baseline Survey Results," Financial Health Network, November 1, 2018 https://finhealthnetwork.org/research/u-s-financial-health-pulse-2018-baseline-survey-results/ p. 24.

To get more useful results, guarantee employees anonymity

Delivering the survey

Employees don't want employers directly involved with their finances.[28] Even in the most agreeable cohort of employees surveyed by Mercer, 20% of employees still mentioned being either "somewhat uncomfortable" or "very uncomfortable" with their employer collecting basic financial information from them. In the least-comfortable cohort, that number was 30%. This is backed up by our own survey data (see special section on following page). We saw that there was a large, statistically-significant difference in the answer to a sensitive financial question when prefaced with a guarantee of anonymity from the employer vs. without that explicit preface.

Involvement of an employer-sponsored source in personal finances, however, seems to be valuable.[29] Hiring a third-party service to deliver the survey may be the best way to collect a representative sample of responses.

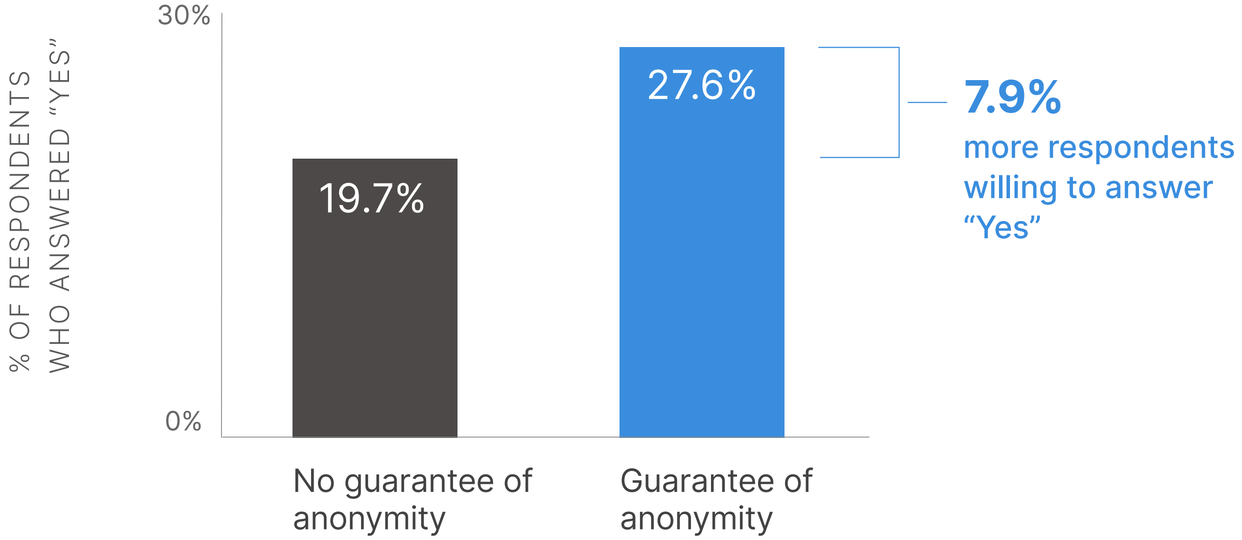
Guaranteeing anonymity will likely get you more useful data

Without a disclaimer that their answers are anonymous, many respondents aren't willing to answer sensitive financial questions. Even found that when we added a disclaimer saying that answers are anonymous and confidential, a statistically higher proportion of respondents were willing to indicate they currently had student loans.

Employees may be uncomfortable divulging financial info

SURVEY QUESTION

"Do you currently have any student loans?"



Source: Even internal data analysis.

To maximize ROI, use survey results to tailor financial wellness benefit offerings

Solving the problem with strategic benefits offerings

Thirty-two percent of total compensation costs are spent on employee benefits, and 85% of human resources professionals say that their organization uses benefits as a strategic tool to affect recruitment and retention.[30] It's vitally important, then, to maximize the return on investment given the fixed pool of benefits dollars.

Financial health measures are a data point employers should use to make these optimization decisions. Depending on the mix of health measures in the workforce, some benefits will have far higher leverage than others.

Let's revisit the case of 401(k) programs. In a population of mostly struggling employees, we'll likely see low participation rate in a program, and low savings balances. Even worse, we may anticipate a higher-than-baseline rate of 401(k) loans. For this employee base, a more appropriate tool than 401(k) might be something that allows them to manage monthly bills, or build up a short-term financial cushion.[31]

If we the employer end up using an instrument like the Financial Health Network's, we can be even more granular with our decisions. For example, if we see that a high percentage of employees score as being Vulnerable in the “Borrowing’” component of financial health (which has to do with debt and creditworthiness), we may want to offer solutions to build healthy credit, or offer a way to pay down high-interest loans. Using fine-grained data helps employers allocate their dollars to where they’re effective, and ultimately solves the problems their employees are actually grappling with.

Conclusion

In summary, this look into methods for measuring employee financial health has shown that:

- American employees are worse off financially than you might think.
- Employee financial stress leads to lower productivity and higher turnover for employers.
- The first step toward improving employee financial wellness is picking a reliable, valid tool for measuring it.
- Even recommends the Financial Health Network's FinHealth Score because it's simple, actionable, and widely accepted.
- A guarantee of employee anonymity is key to getting back the most useful results from your survey.
- Employee financial health differs from company to company; each employer should use its workforce's unique pattern of results to select the right financial health benefits for them.

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