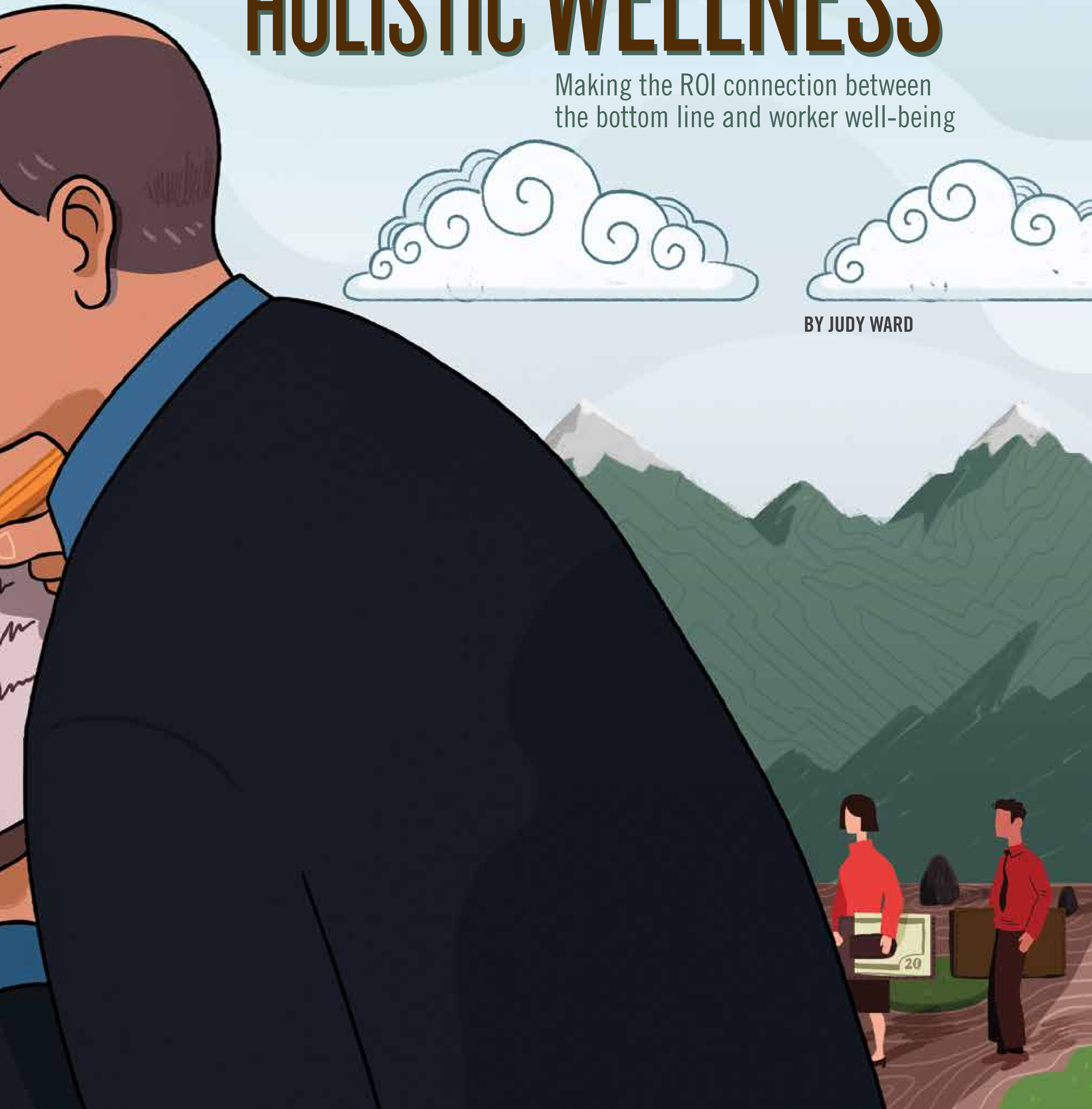
HOLISTIC WELLNESS

Making the ROI connection between the bottom line and worker well-being

BY JUDY WARD



Many employers that have already started workplace financial wellness programs chose to have employees opt in and pay for it themselves, advisor Jamie Greenleaf says. That eliminates the issue of an employer's financial burden, but employers increasingly realize that it also can limit a program's effectiveness, as fewer employees use it — particularly financially strained employees who need it most.

"So we're starting to see a shift to, 'No, everybody is going to be covered under this' and the employer pays," says Greenleaf, principal and lead consultant at Red Bank, New Jersey-based Cafaro Greenleaf. That shift has prompted more employer questions about these programs' costs and tangible results. "CFOs are getting much more involved, and they're saying, 'If we spend X dollars, what is that getting me? Is this just a 'nice extra'? If it is, I don't have that kind of money laying around.'" As an advisor, she says, "You have to be able to show them that it's beneficial."

As a former executive at Principal Financial Group and MassMutual Financial Group, Hugh O'Toole recalls having plenty of challenging conversations with client and prospect senior executives about the payback from employee financial education. "Financial wellness is a great solution set, the Holy Grail of creating outcomes," he says. "Why can't we really get a CFO engaged, even when HR fully engages in financial wellness?" Having recently founded and become president of the Hartford, Conn.-based Viability Advisory Group, he's spoken to a lot of CFOs about their decision process on spending money for things that improve employees' financial outlook. "What they tell me that they really struggle with is this: 'How does employees' financial success tie into my financial statements?'" he says.

A Real Need, a Crowded Market

The need for these programs is real. Compass Financial Partners, LLC (an LPL Financial firm) aims to aggressively expand the firm's financial wellness capabilities, and in August 2014 it announced a partnership with workplace financial wellness provider Financial Finesse, Inc. to offer comprehensive programs to its clients' participants. "We're seeing more clients open to implementing best-practice plan design," says Kathleen Kelly, a Compass managing partner in Greensboro, North Carolina. But even at these employers, Compass sometimes also sees troubling data such as more participants taking loans. "The best plan design in the world can fall short if participants are not able to address their short-term needs," she says, meaning things like emergency cash demands, debt management, and budget crunches.

Compass wants to help participants understand how "their long-term goals can coexist with their short-term realities," Kelly says. Its wellness programs focus on defining success not only by the short-term steps an employee is able to take, but also in terms of helping participants' long-term retirement outcomes, specifically looking for increased deferrals from program participants over time, along with better investing behavior and less plan leakage.

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What content the crowded field of providers now promoting their financial wellness programs offer, and what they seek to accomplish, varies a lot. "You have so many different organizations promoting themselves as 'financial wellness' providers. It's an extremely overused term at this point," says Liz Davidson, CEO of El Segundo, California-based Financial Finesse. "It's a very nebulous term at this point. It needs a lot more definition and clarity."

As Greenleaf says, "The question is: What is 'financial wellness'? Because every-

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body defines it differently." Currently, she says, many companies offer off-the-shelf financial wellness programs that may or may not help a particular employer's workforce. "The problem today is there are providers trying to 'package' a program that really has to be customized to the client," she says. "I wonder sometimes if the industry is making financial wellness a marketable piece, but it's really not solving the problem."

A best-practice financial wellness program begins with recognizing that different groups of workers have different needs, says Annamaria Lusardi, academic director of the Global Financial Literacy Excellence Center at The George Washington University School of Business in Washington, D.C. "Design targeted programs for employees that start with listening to employees about their needs," she says. "It is very important to have a holistic approach." A superficial program "might be the equivalent to giving aspirin to somebody who has pneumonia," she says.

With so many financial wellness providers promoting themselves to employers, and the content and quality of their programs ranging widely, the cost to employers also varies widely. What specific employers need also can influence the cost a lot. "It's a huge difference" in these programs' cost, Davidson says.

"On the small-company side, the cost can be $50 per plan participant — whether participants use it or not — all the way to hundreds of dollars," Davidson says. If an employer wants to do a pared-down program such as one or two group workshops, the cost can run less. If an employer wants to have one-on-one educational meetings for each employee, it could cost substantially more. The cost range widens even more at larger employers, she says, depending on factors such as how many locations an employer has.

"It is not uncommon to see programs in the marketplace that cost from $10,000 up to multiples of that, as it relates to the depth and the breadth of what the clients are looking for and the size of the population," Kelly says. "It's not a one-size-fits-all approach. And often it is something clients enter into one step at a time. Then we look at the results, and we go from there."

The Return on Investment

Can an employer calculate an actual ROI (return on investment) from spending money on a financial wellness program? The Franklin, Tennessee-based Personal Finance

DISTRACTED 'DRIVERS'

For one in five working Americans, issues with personal finances have become a distraction at work, particularly for Gen X and Gen Y employees.

A full 37% say they spend three hours or more thinking about or dealing with issues related to their personal finances while at work.

Weighing heaviest on workers' minds: having enough emergency savings for unexpected expenses (51%) and being able to retire when they want (40%), according to PwC US's *2015 Employee Financial Wellness Survey.* Gen Y employees appear more concerned about current expenses (61%), while Baby Boomers (53%) cite retiring as their top financial concerns.

Employee financial stress is again down slightly this year, although nearly half of all employees (45%) find dealing with their financial situation stressful (48% in 2014, 52% in 2013, and 61% in 2012). A third (35%) report that their stress level related to financial issues increased over the last 12 months, though that was down from 38% in 2014, 45% in 2013 and 56% in 2012.

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Employee Education Foundation (PFEEF) has estimated that for every $1 an employer spends on a comprehensive financial education program, it could gain $3 in value as a result.

Many American workers have financial stress that also impacts their employers, PFEEF founder E. Thomas Garman says. If people worry about money, he says, "Then the question is, what happens when they go to work? They have trouble concentrating," he says. "How much time a day are they giving up focusing on their financial problems instead: 5 minutes? 15 minutes? That starts to multiply out in the workplace, and then you have lower productivity." He says these stressed employees also generally have more health issues and more frequently change jobs, costing their employer money in finding replacements.

Financial Finesse also has worked on pinning down these programs' tangible cost savings. A 2012 case study it did focused on a *Fortune* 500 company that worked with the education provider and did a large-scale program for five years that it offered to all employees. Employees who utilized the program had a 4.5% decrease in health care costs from 2010 to 2012, while non-users saw a 19.4% cost increase in those two years. That resulted in an annual savings of nearly $2.5 million for the employer. Absenteeism declined, too, as education-program users missed an average of 10.8 hours of work in 2012 versus 14.79 hours for non-users. Financial Finesse multiplied that 3.99-hour decreased absence by the 9,083 program users and the company's $25.24 median hourly salary, and found $914,727.13 in employer costs averted.

Still, Davidson says it's tough to determine the direct financial benefit to employers in some areas such as increased productivity for workers no longer stressed about money. "The problem is quantifying, how does that performance increase impact the bottom line?" she says. "That's what's challenging: You're not going to see a line on the income statement of a company that says, 'Here's the savings.'"

Trying to monetize the benefit of a wellness program has proven difficult, Lusardi says. "You're not investing in a financial asset, where there is a market and you get a clear return on your investment. Now you are investing in human capital, so it's harder to calculate that return," she says. "In health wellness as well, we are not really able to monetize this. But I think we have a pretty good sense that prevention now is better than cutting someone's legs off later. That, to me, is what financial wellness is about: prevention."

Rather than the near-term employer savings from doing a financial wellness program, Davidson says, the tangible benefit for employers stems more from avoiding the long-term expenses of having financially unprepared older employees who remain in their jobs. "It's really switching the paradigm to, what is the cost of not doing it? What is it going to cost the employer if 20% to 30% of employees have to delay their retirement?" she says. "That number is typically much, much higher than what it would cost to do a financial wellness program."

Advisor Barbara Delaney finds it hard to quantify the employer benefits into an ROI based on near-term savings, but the longer-term framing of the issue resonates with her. "We are looking at a demographic, which I call the 'Silver Tsunami,' that is approaching us," says Delaney, a principal at Pearl River, New York-based StoneStreet Advisor Group, LLC. Already "it is starting to cost companies real money" when older workers remain, she says, in areas such as higher health care expenses. "I call it the 'unfunded cost' of the DC plan," she says.

"There is an unfunded cost of not having employees in a place where they can retire," Delaney continues. For that to improve, she says, employees need help. Many average American workers can't realistically turn to financial planners, who prefer dealing with higher-net-worth clients, she says.

By not giving employees the help they need to get their finances in good shape and retire on time, Greenleaf says, employers simply have shifted the nature of their retirement plan liabilities. "DB plans put the liability on the organization, and when they switched to DC plans, they removed that liability off their books," she says. "Now, if they don't get DC participants to be successful in retiring on time, their unfunded liability is in an aging workforce with higher future health care costs

ERR RESPONSIBLE?

The vast majority of companies (83%) today feel a sense of responsibility for the financial wellness of their employees, impacting the benefits, resources and financial education they offer, according to a Bank of America Merrill Lynch Workplace Benefits Report.

Nearly three-quarters of plan sponsors surveyed, including 90% of large companies (defined as those with $100 million or more in 401(k) plan assets), believe that financial wellness solutions will be standard elements of benefits packages in the future.

About half (48%) of large employers have financial wellness strategies in place, with another 19% planning to have one within two years. However, just 23% of small employers do currently, and only 7% plan to within two years. However, nearly three-quarters of respondents anticipate that financial wellness programs will be standard elements of benefits packages in 10 years.

HEALTH 'CARES'

Health care continues to fuel anxiety, as 32% consider health care costs in retirement as contributing to their worries about exiting the workforce. Indeed, the need to keep current health care coverage ranked among survey respondents as the third most popular reason to delay retirement (19%). As for other reasons for delaying retirement, 51% say they haven't saved enough to retire, compared with 60% in 2012. That said, the next most common response, cited by 28%, was that they didn't want to retire yet.

That was the case for just 13% in the 2012 survey, when "my retirement investments have declined in value" (34%) was the second most common response. By generation: Baby Boomers (84%), Gen X (77%) and Gen Y (66%) are currently saving for retirement.

Among the other findings of the survey:

- 72% say they have a good understanding of their employer benefit and savings plans and the role they play in their overall financial wellbeing (roughly the same as the 73% in 2014 and 72% in 2013).
- 84% of Baby Boomers, 72% of Gen X, but just 57% of Gen Y say they have a good understanding of their employer benefit and savings plans and the role they play in their overall financial wellbeing.
- 30% say their employer offers services to assist them with their personal finances (34% in both 2014 and 2013) and half (49%) say they've used the services (52% in 2014 and 49% in 2013).
- 53% of Baby Boomers, 47% of Gen X and 47% of Gen Y say they've used the services their employer provides to assist them with their personal finances.

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and higher wages for older employees, who tend to be in senior positions."

At Viability Advisory Group, O'Toole has focused on developing a model that produces customized reports forecasting an employer's potential liability from workers who don't retire on time. Starting with a retirement readiness report on an employer's workforce, Viability projects the distribution of expected retirement ages for that workforce. Then it estimates the marginal cost to an employer of higher health care and wage expenses (and other variables, if the employer wants to include them) of the company's older workforce projected to remain past normal retirement age.

Viability calculates an employer's marginal cost of delayed retirements as the difference between the average wage and health care costs of the employee group expected to remain past normal retirement age and the comparable costs for a suitable replacement. It estimates the potential liability in five-year time bands for the next 25 years, and also can project the improvement if employers take steps to help participant outcomes such as making plan design changes.

"CFOs don't believe in theory. You have to use real numbers," O'Toole says. "You have to communicate in a language of what HR wants to accomplish and also how the CFO looks at data. What we are trying to solve for is, 'Why would I care as an employer?'" about delayed retirements. "The answer is that if you don't care, it's eventually going to hit your financial statements."

Of course, workers may delay retirement for many reasons, and not just because they lacked a workplace financial wellness program. To convince CFOs, O'Toole says, the industry needs to demonstrate a concrete connection between these programs and more employees prepared to retire on time — and how that will help specific employers' future financial statements. For now, he says, "It may just be that HR realizes that this is the right thing to do for their population. Then it just gets to, what is the balance of power in the organization? If HR is powerful, they can do it just because it is the right thing to do for employees."

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