

Employee Financial Stress is Costing Your Company a Bundle-- And How You Can Stop It Now!

Synopsis: There is a silent epidemic that afflicts 30 million workers in the US—a quarter of the American workforce—and it could cost your businesses up to \$15,000 per year per affected employee. In this report, you'll learn the true impact of employee financial stress, and five ways to combat it.

A free report from Financial Literacy Partners, LLC

Copyright 2005

Employee Financial Stress Is Costing Your Company a Bundle— And How You Can Stop It Now!

There is a silent epidemic that afflicts 30 million workers in the US—a quarter of the American workforce—and is costing businesses \$15,000 per year per affected employee. Over 25 years ago, it was reported that an employee's personal finance problems had a direct negative affect on their employer's profitability. When first reported in 1979, 10% of working adults reported that they routinely experience personal financial difficulties; today that number is up to 25%. Financial stress is frequently listed as the top source of all the stress experienced by employees.

The Problem - "It's their debt, but it's your problem!"

Following are five ways your financially stressed employees are costing your business huge losses every month of every year. Unless your workforce is unique, at least 25% of your employees--regardless of their position or salary--are affected.

1. Reduced Employee Productivity – 20 hours per-month/per-employee ¹

That's how much time on-the-job a financially stressed employee spends distracted by their personal financial difficulty. This distraction takes them mentally away from the work you pay them for. If that estimate seems high, then ask yourself if the following scenarios sound familiar: Employees spend time dealing with calls from creditors; arranging debt consolidation loans; worrying about how bills are going to get paid; worrying about having enough money to pay for medical bills, college tuition, and retirement; day dreaming about what a life without financial stress would be like; or dealing with banks about bounced checks.

Employer Cost: \$7,000 per-employee/per-year in lost productivity alone!

2. Workplace accidents - 60% to 80% of on-the-job accidents are stress related ^{2,3}

The distractions and inattentiveness caused by personal financial stress are significant contributing factors to the level of workplace accidents. Stressed employees can physically injure themselves and co-workers. Distracted employees are a danger to the company's property and equipment. Distracted employees are more likely to damage manufacturing equipment or other equipment than employees who are fully focused on their work. In the medical field, inattentiveness can literally be a "life and death" situation. Many worker compensation claims and medical malpractice claims are tied directly to employee inattentiveness or distractions caused by personal financial stress. In many cases, the actual malpractice claim and the cost paid for the claim will occur long after the financially stressed employee has left the company.

Employer Cost: In 2001, it cost employers \$29,000 per work place accident in lost productivity, uninsured costs, accident investigation, production slowdowns, and new employee training. In 2005, these costs are expected to be significantly higher.

3. Health and welfare issues - 75% to 90% of all doctor visits are stress related ^{4,5}

Hypertension, insomnia, tension, anxiety, depression, headaches, abdominal and digestive problems, ulcers, eating disorders, fatigue, and drug and alcohol abuse. Do any of your employees suffer from these stress-related illnesses? What about psychological and marital counseling? How many marriages are strained as a result of financial stress? These stress related problems are costing your business a bundle in increased employer healthcare costs and in absences caused by these illnesses. On any given day, over 1,000,000 employees are on sick-leave as a result of stress related issues.

Employer Cost: \$300 per day/per employee in lost productivity for each day an employee is absent. This does not include lost revenue or increased healthcare cost. \$11,000 to \$13,000 per-year for each drug user in the workplace. Alcohol and drug abuse may cost employers up to 10% of their total payroll costs.

4. Employee turnover - 40% of employee turnover is due to stress ³

Financially stressed employees believe they can “earn” their way out of their financial problems. Financially stressed employees often change jobs just to earn more short-term income which they mentally commit to use to pay off outstanding debts. Unfortunately, without learning new money management skills, these employees only expand their lifestyle to fit their new salary. Rather than resolve the old financial problems, these employees often create new and bigger financial problems to be resolved at a later date.

Employer Cost: It costs an employer between \$3,000 and \$13,000 to replace the average employee.

5. HR Department Distractions. ⁶

In most cases, your HR Department bears the brunt of the employee financial stress related issues. Most HR Departments are not staffed to handle the variety of issues that arise related to employee financial stress. Handling calls from bill collectors, helping employees file bankruptcy claims, processing 401(k) loans, calls from ex-spouses concerning past due child support payments, processing wage garnishments and processing advanced wage payments are only a few of the distractions that financially stressed employees create for your HR Department. Financially stressed employees not only experience personal loss of productivity, but can also serve as a distraction to fellow employees.

Employer Cost: Up to 10% of your Human Resource Department payroll budget.

Summary of Financial Stress Costs to Company

Reduced Employee Productivity	\$7,000	Per Employee Per Year
Workplace Accidents	\$29,000	Per Workplace Accident
Health and Welfare Issues	\$300	Per Day Per Employee
	\$13,000	Per Year Per Drug User
Employee Turnover	\$8,000	Average Cost To Replace Employee
HR Department Distractions	10%	of HR Dept Payroll Budget

The Solution – “What’s good for your employees is good for your business!”

Like other personnel problems, you can either treat the symptoms of financial stress or you can treat the cause of financial stress. Treating the symptoms through stress reduction techniques and stress counseling only teaches employees how to deal with the stress; it does not prevent the stress from recurring nor eliminate it.

To increase productivity and profits, employers must treat the cause of the stress; employers must take the lead in teaching their employees how to manage their own money and how to reduce their debt levels. As basic as that sounds, over 98% of the workforce has had no education in managing their money. Employer sponsored financial education is fast becoming a “best practice” among industry leaders who want a productive and profitable workforce.

5 Components of an Effective Employee Financial Education Program

1. Unbiased Information

To be most effective, employee financial education must be presented by professionals who are unbiased in their recommendations. Employees want solid and unbiased information and do not want to workshops that are merely sales presentations for insurance or investment programs. Effective employee financial education workshops should be “self-contained” and should not require the purchase of any supplemental material such as books, tapes, videos, or CDs.

2. Money Management and Investing Education

Effective employee financial education should first teach employees how to manage their money, reduce their debts, and ease financial stress before teaching them how to invest for retirement. Financial stress usually arises from employees who are unable to meet their monthly obligations and not from the feeling they are investing too little into their 401(k).

3. Face-to-Face Presentation

Effective employee financial education should be offered in small workshops where

employees play an active part in learning the tools and techniques. Distance learning is not an effective way to teach money management skills. Employees need the opportunity to ask questions and share their opinions in an open and inviting forum

4. Teach Easy-To-Use Money Management Tools

Effective employee financial education empowers employees to take control of their personal financial well-being. Effective workshops teach employees the tools and techniques they can use to immediately begin stretching their paychecks and get out of debt. Employees want to be better managers of their money...what they lack are the tools to do it.

5. Ongoing Support

The most effective financial education programs allow employees to obtain information and assistance after the workshop is complete. This is most effectively done through confidential e-mail correspondence between the employee and the workshop provider. This follow up information is not “advice” but “education.” The purpose of employee financial education is to empower employees for the long term to take control of their finances.

Conclusion

Employers who stay ahead of the curve will reap the benefits of more profits through better employee productivity, lower absenteeism, less work time wasted dealing with financial concerns, lower turnover and better employee health. As the financial realm gets more confusing and volatile, it is more imperative than ever to put in place a financial education system that will benefit employees and the employer alike.

Ned Lenhart is President of Financial Literacy Partners, a firm focused on providing quality financial education for employees. Based in Atlanta, Ned holds both a CPA and an MBA.

For more information, go to www.LifetimeFinancialLiteracy.com

Footnotes

¹ “The Importance of Workplace Financial Education to Employers” by Dr. E. Thomas Garman, published in the American Express Guide to Workplace Financial Education and Advice, 2004.

² The Herman Trend Alert, May 2003, The Herman Group

³. www.stress.org/job.htm

⁴ www.ncaddcnms.org/workplace.html

⁵. www.occupationalhazards.com/safety_zones/53/article.php?id=12257

⁶ Based on informal discussion by the author with numerous HR professionals