

An aerial photograph of a stone staircase with a large, mature pine tree in the center. Several people are walking on the stairs. The scene is set outdoors, likely in a park or historical site. The text is overlaid on a white rectangular box in the upper left quadrant.

# Financial wellbeing

*How reducing workforce money worries  
can bolster your bottom line*

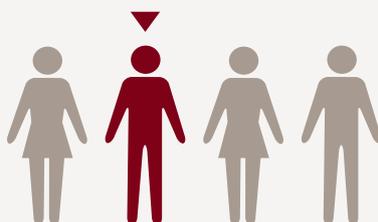
# Executive summary

## The business case

For every **£1 million** an organisation spends on **payroll**, there is an estimated **4% loss in productivity** due to poor employee financial wellbeing (Barclays 2014).



**One in four** employees say that **financial concerns** have affected their ability to do their job (CIPD 2017).



**70%** of the **UK workforce** admit to wasting a fifth of their time at work **worrying about their finances** (Neyber 2016).

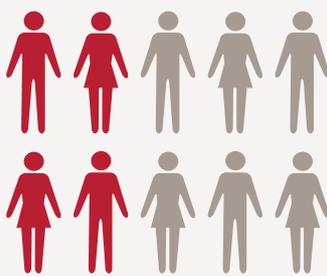


## Why you should be looking at this now

**Two fifths** of the working population have **less than £100 in savings** (Money Advice Service).



Research by Metlife suggests **40%** of **employees would move to a company that put their financial wellbeing as a priority**.



PwC's Precious Plastic study shows fastest paced consumer debt increase for four years – **£80m** a day increase **in consumer debt**.



## 5 steps to success

**1**

**Review your current approach and objectives.**

**2**

**Profile the financial health of your workforce.**

**3**

**Develop your strategy, consider a mix of technology and people and determine your success criteria.**

**4**

**Build a business case and get stakeholder buy in.**

**5**

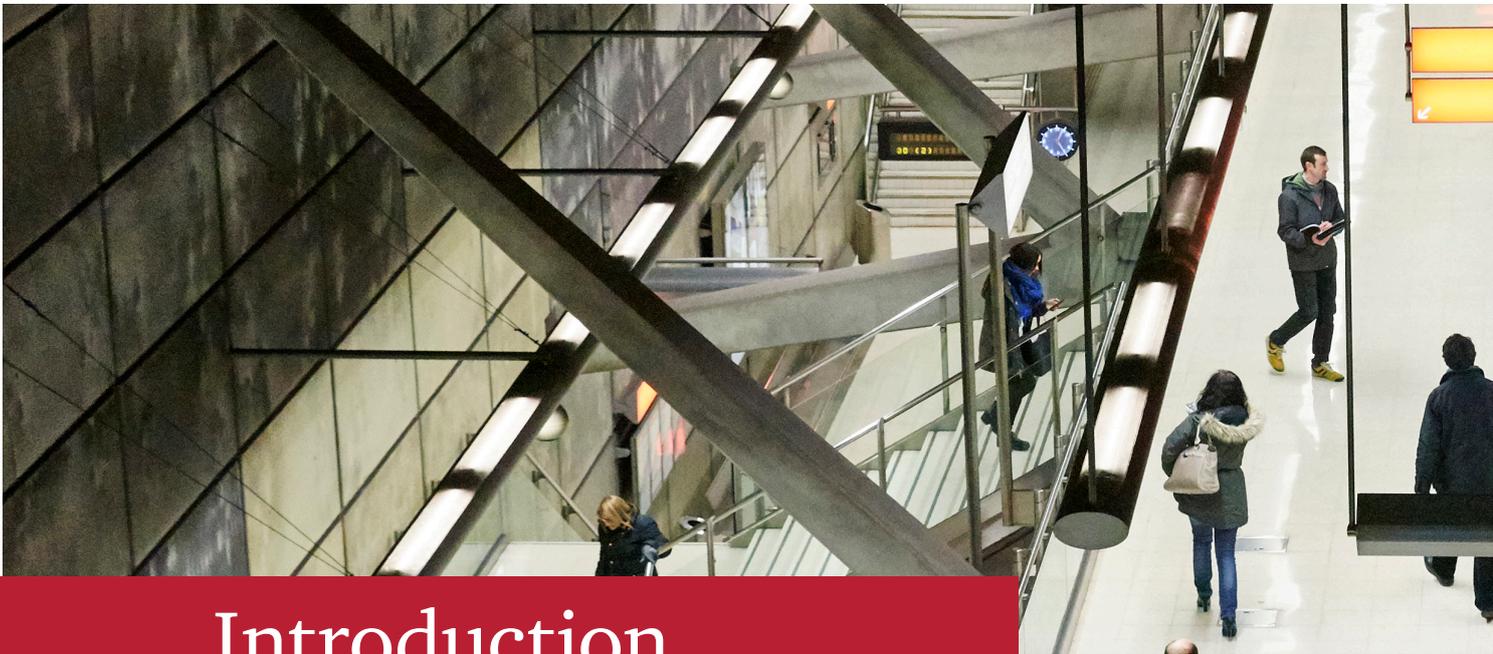
**Launch the programme & measure ROI.**



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# Introduction

*A clear correlation has been identified between financial health and overall wellbeing. There is evidence that poor financial health affects employees' physical, mental and social wellbeing, which can cause reduced effectiveness, productivity and absence from the workplace.*

In this report we look at why employers should care about financial wellbeing and show how they can make improvements for their employees.

In our report we set out:

- The business case for building a financial wellbeing programme;
- Why employers should be looking at this now; and
- 5 actions that you should take.

Research shows that for every £1 million an organisation spends on payroll, there is an estimated four per cent loss in productivity due to poor employee financial wellbeing.

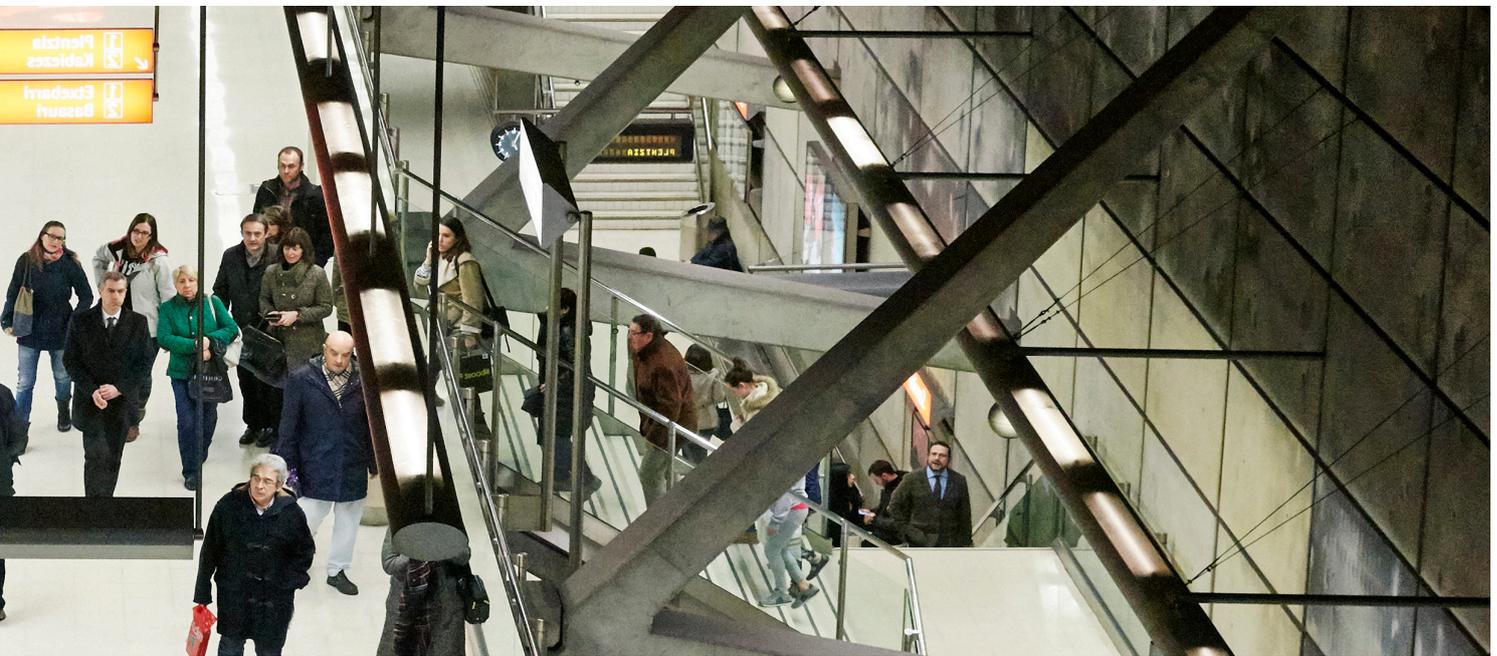
Employers consistently say that they need guidance and support to do something about it. This inertia is caused by a variety of factors including a perceived lack of resources, time and expertise.

Employers are in a position of trust and are therefore perfectly placed to provide employees with the support needed to improve their financial wellbeing.

This type of support is commonly grouped under the banner of workplace wellbeing programmes. They typically look to improve mental and physical wellbeing, however research shows that these programmes often fail to address a key cause of employee stress: financial wellbeing.

The Chartered Institute of Personnel and Development (CIPD) believes that "the best way" to support employees' financial wellbeing is through a strategy that is aligned to both the needs of the organisation and its workers and is integrated across all people management activities rather than just focusing on pay and reward policies.<sup>1</sup>

Using a combination of new technologies, workshops and one-on-one support, employers can simultaneously improve business performance and their employees' financial wellbeing.



## What is financial wellbeing?

*There is no consistent definition of financial wellbeing:*



*Money Advice Service 2015*

*"...can be defined as a state of emotional and physical wellbeing, produced by a set of conditions and capabilities. It includes making the most of an adequate income to enjoy a reasonable quality of life and having the skills and capabilities to manage money well, both on a daily basis and for the future."*



*Barclays 2014*

*"Being and feeling financially healthy and secure, today and for the future."*



*MetLife 2017*

*"Control over day-to-day, month-to-month finances; capacity to absorb a financial shock; confidence that they're going to meet financial goals; and choices that allow them to enjoy life as they might reasonably expect."*

We believe that there is no perfect or common definition of financial wellbeing; it will differ for each employer and employee. A successful strategy to improve financial wellbeing must be built when this definition has been agreed. It must then be both flexible and tailored.

## The business case for a financial wellbeing revolution

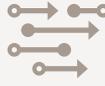
There are 3 main reasons that can be cited in a business case for improving financial wellbeing, and these are backed up by research:

# 1



Minimising people-related costs such as absence and healthcare.

# 2



Improving productivity.

# 3



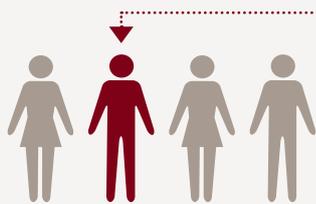
Being an employer of choice that addresses the needs of employees.

### The impact on the workplace

For every **£1 million** an organisation spends on payroll...



...there is an estimated **4% loss in productivity** due to poor employee financial wellbeing (Barclays 2014).



**One in four** employees say that **financial concerns** have affected their ability to do their job (CIPD 2017).

**25%**

This increases to **31%** for **18-24 year olds** and **32%** for employees in **London**.



**70%**

of the **UK workforce** admit to wasting a fifth of their time at work **worrying about their finances** (Neyber 2016).



**89%**

of employers agreed that **financial concerns** have an impact on employees' **workplace performance** (CIPD 2017).



Financial stress costs the UK economy **£120.7 billion** and **17.5 million hours** were lost due to absence from financial stress (Neyber 2016).



Employee productivity is directly affected by financial matters.

Common causes for this loss of productivity are:

- Stress and tiredness as a result of sleepless nights spent worrying about financial matters;
- Absence from work due to poor mental health to which financial stress is a key contributor;
- Managing finances during working hours; and
- Poor decision making brought about by financial worries.

In addition, as you will see on page nine, our recent US Financial Wellness Survey finds that 30% of employees were distracted by finances at work and 46% of the distracted employees spend three hours or more on their personal finances. It would not be unreasonable to assume the statistics would be similar in the UK.

#### **Who is affected by financial stress?**

It is a common misconception that only the young worry about their finances because they earn less than older generations. Financial comfort is more often determined by what an employee spends than what they earn.

Research shows that significant levels of financial stress exist across the demographic, industry, regional and earnings spectrums. The priorities of each group may shift from, for example, prioritising and being concerned by financing current living arrangements to saving for the future.



## Why should you be looking at this now?

In this section we look at the challenges currently being faced by both employers and employees.

### Challenges faced by employees

Employees are facing the perfect storm of trends, which create financial pressures, that have an impact on their ability to perform effectively.

#### Where employees need help: debt rises as savings fall



Consumer debt is at near-record levels. Borrowing for most is the **biggest cause** of concern/stress (PwC's Precious Plastic Study 2017)

PwC's Precious Plastic study shows the fastest paced consumer debt increase for four years

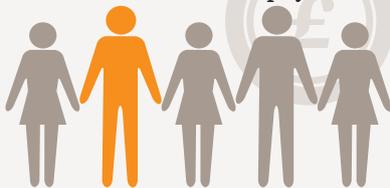


**147%** is the ratio of total **household debt**



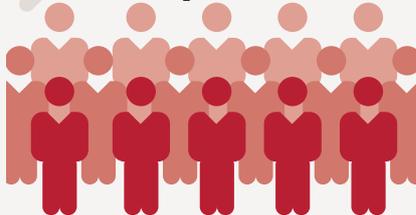
to **disposable income**

**18%** of Britons are concerned about their ability to make future debt repayments



That's almost **one in five** (PwC's Precious Plastic Study 2017)

Citizens Advice deals with more than **2,000** people a day seeking help with debt



The UK's **savings ratio** now stands at a record low according to the ONS



**Two in five** of the working population have less than



in savings (Money Advice Service)

**24%** of UK adults have **little or no confidence** in managing their money



**46%** of all UK adults report **low knowledge** about financial matters (FCA's Financial Lives survey)

## Debt looms large

The issue of consumer debt looms large in the UK, with PwC research suggesting that the typical household debt now stands at 147% of its disposable income.

The same research shows that almost one in five Britons are worried about their ability to keep up with debt repayments. It is likely that very large numbers of employers will have employees with significant anxiety in this area.

### *Short of savings*

Many Britons are struggling to make even the most meagre provision for the future, saving less than at any time on record.

For example, many people have no cash set aside for emergencies, with two in five Britons having less than £100 in savings.

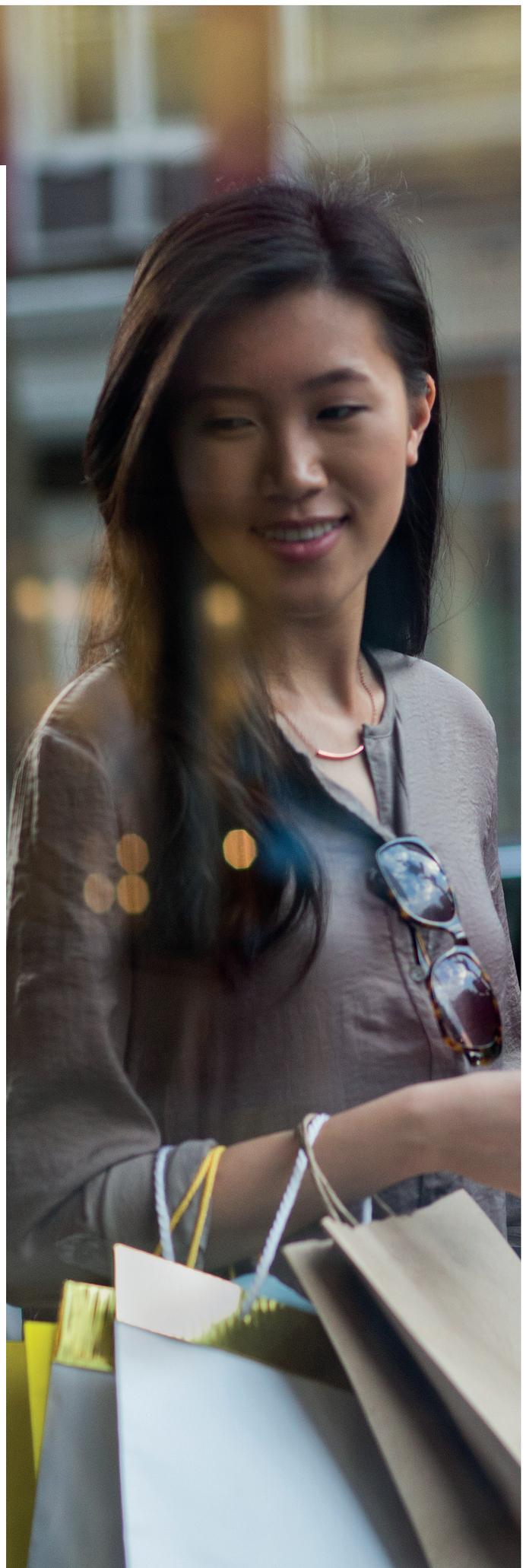
Large numbers are also struggling to plan for their retirement: research published by the insurance company Aviva suggests just 43% of people over the age of 45 currently feel financially fit for retirement<sup>3</sup>.

### *Knowledge, knowledge, knowledge*

A quarter of adults in the UK have little or no confidence in their ability to manage their own financial affairs according to research published by the Financial Conduct Authority, while almost half do not believe they have a good level of knowledge about financial matters. Nor is it easy to remedy this problem: the FCA's own work has highlighted an "advice gap", with many people believing the cost of securing good-quality financial advice to be prohibitive.

<sup>3</sup> Mid-life savings crisis, Aviva, December 2017.

[https://www.aviva.com/newsroom/news-releases/2017/12/mid-life\\_crisis\\_millions\\_unable\\_to\\_save/](https://www.aviva.com/newsroom/news-releases/2017/12/mid-life_crisis_millions_unable_to_save/)





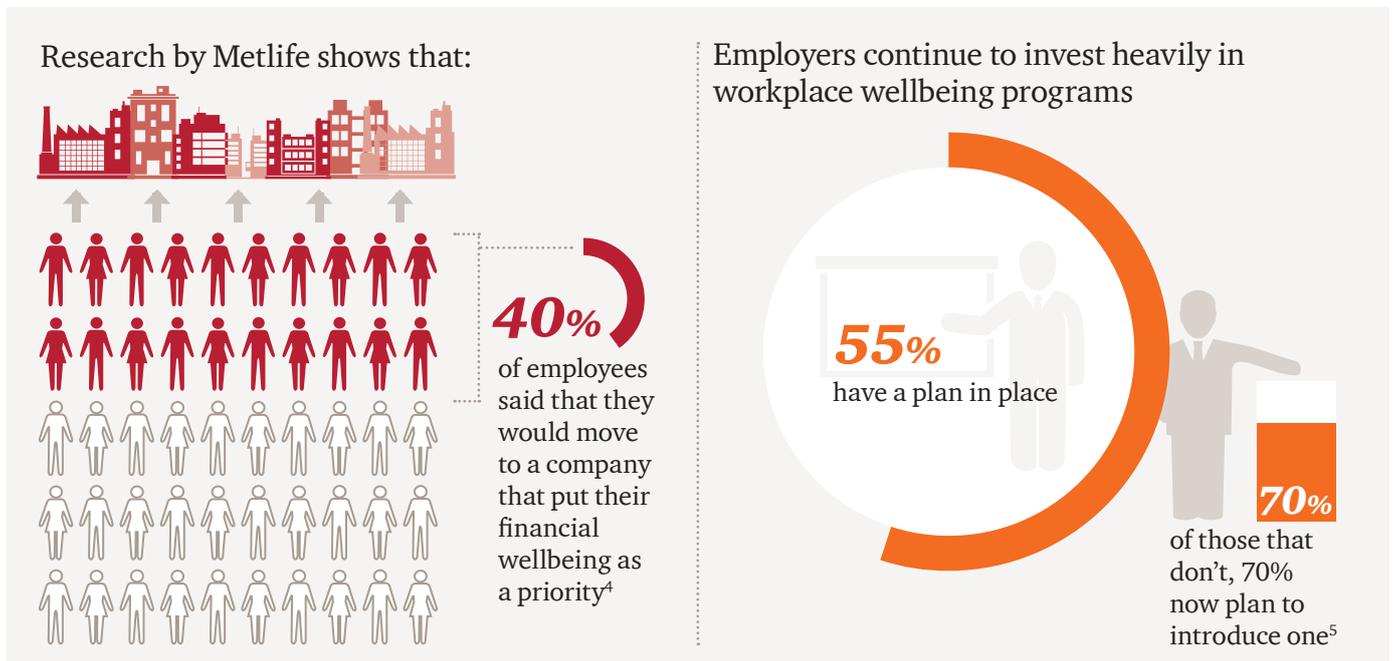
## Challenges faced by employers

Many employers are now facing a period of rapid change brought about by demographic shifts, advances in technology and an increasingly global workforce.

### Recruit and retain

Significant numbers of employers believe cultural change and demographic shifts require them to take a more paternalistic approach to the workforce if they are to compete for the best people.

In an era where many employers are deeply worried about talent management and skills shortages, the ability to attract and retain talent may be the biggest people risk of all.



Such initiatives must reflect the realities of modern life, including the impact of financial pressures on many employees' stress levels. Employers that do not meet this demand will find it increasingly difficult to build positive engagement with both new and existing staff members.

<sup>4</sup> [https://www.metlife.co.uk/content/dam/metlifecom/uk/homepage/Campaign/EBTS-2017/EBTS\\_Quick\\_Guide\\_To\\_Financial\\_Wellbeing.PDF](https://www.metlife.co.uk/content/dam/metlifecom/uk/homepage/Campaign/EBTS-2017/EBTS_Quick_Guide_To_Financial_Wellbeing.PDF)

<sup>5</sup> Employee Wellbeing Research 2017, REBA. [http://www.pshp.co.uk/wp-content/uploads/2017/03/REBA-Employee-Wellbeing-Research-2017\\_web.pdf](http://www.pshp.co.uk/wp-content/uploads/2017/03/REBA-Employee-Wellbeing-Research-2017_web.pdf)

## Managing your workforce

It is also important to recognise that every part of the workforce potentially faces financial pressures that could inhibit wellbeing. Such difficulties may impact employers in a variety of different ways.

For example, official statistics now show that the number of people working past state retirement age stands at almost

**1.2 million**<sup>6</sup> 

While many of these workers may be enjoying a fulfilling retirement, some may not be able to retire because they cannot afford to.

At the other end of the workforce, the supply of young people entering the employment market exceeds current demand, with youth unemployment rates running well ahead of the general population<sup>7</sup>.

As a result employers may struggle to engage the workforce agility needed for the evolving marketplaces in which they compete.



<sup>6</sup> UK labour market February 2018, Office for National Statistics. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest#employment>

<sup>7</sup> Youth unemployment statistics, February 2018, House of Commons Library. <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05871>

## What do financial distractions mean for productivity?

Our 2017 US Employee Financial Wellness Survey found that 30% of employees are distracted by money worries at work and 46% of these employees say they spend three hours or more at work each week dealing with issues related to their personal finances.

### Productivity cost

We've estimated the productivity cost impact of those distractions at £2.2m per year for an employer with 10,000 workers.

### Absenteeism cost

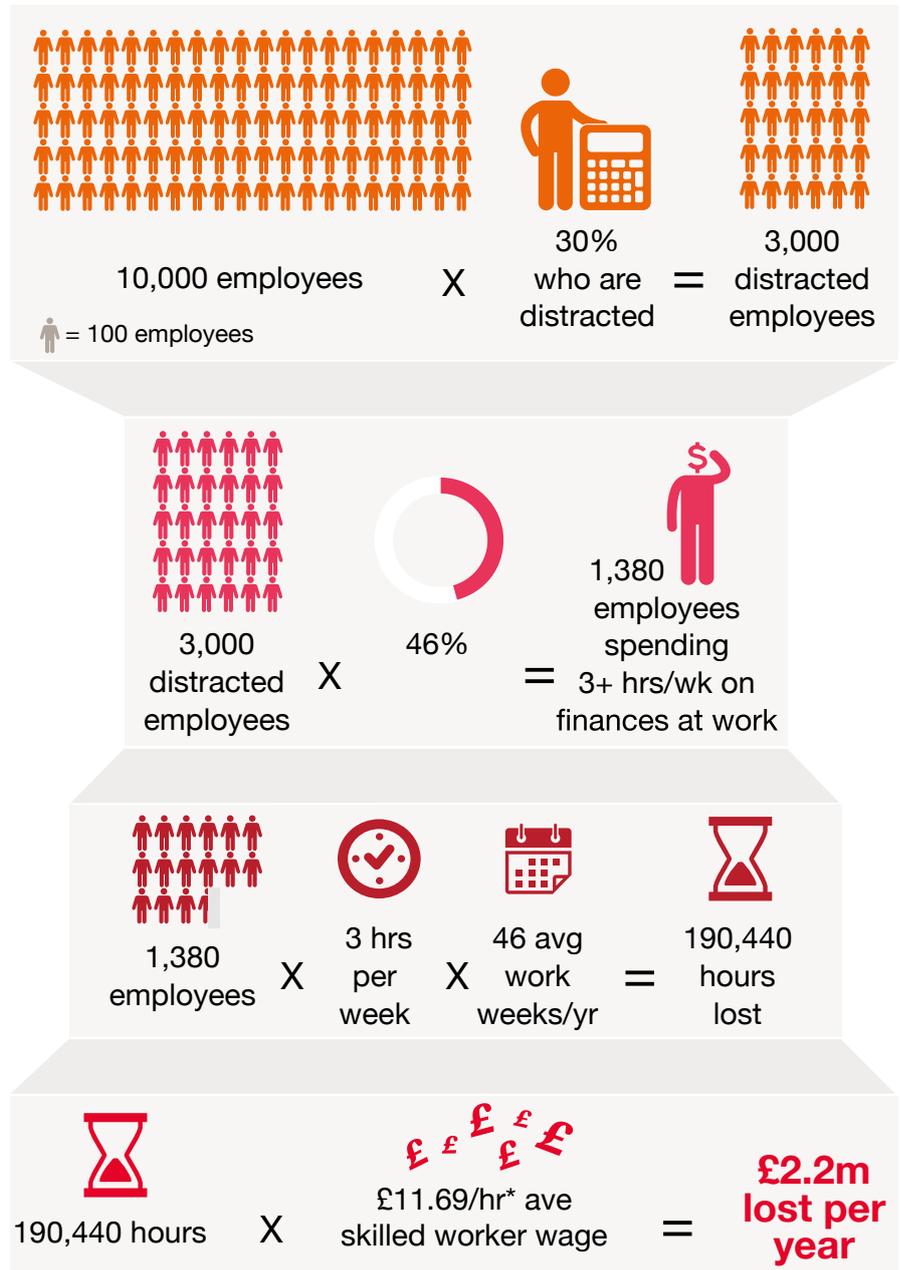
Employers may also incur costs from lost productivity due to absenteeism. 12% of employees in the US survey admit to missing work occasionally due to financial worries.

### Millennial impact

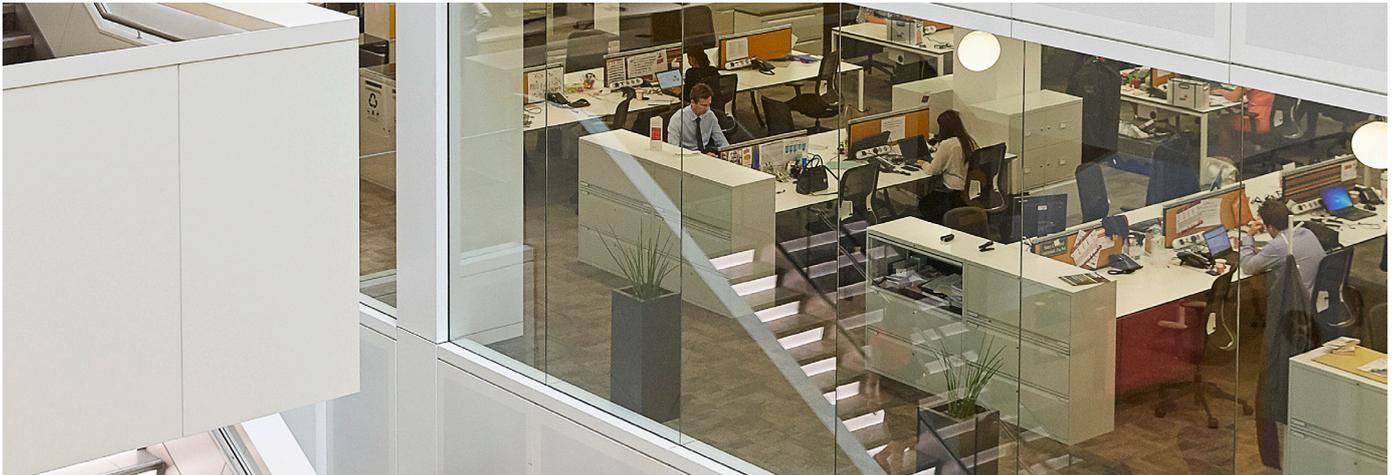
If you employ a large number of millennials, the numbers may be even more dramatic.

37% of millennials say their finances have been a distraction at work and of those, 49% admit to spending three hours or more at work each week dealing with personal finance issues.

### Estimate of productivity cost due to financial distractions



## What should employers do to improve financial wellbeing?



While the exact components of any wellbeing strategy will be tailored to the organisation and its employees, there are some common elements to most programmes.

There are 2 simple steps that you can take.

### Step 1 – Understand the financial needs of your employees

Employers looking to put in place a financial wellbeing programme should tailor their support as precisely as possible to the needs of their workforce, so understanding these needs is paramount.

New technologies can help here. For example, **PwC's Savings Lab** includes tools that can help employers build a detailed financial profile of their workforce.

The tool maps the financial characteristics and behaviours of the entire workforce.<sup>1</sup> This makes it possible to create a targeted programme of financial wellbeing support without having to ask any individuals about their personal finances.

This is really important when it comes to building a wellbeing programme because many people are reticent about telling their employer about their finances. A technology-led approach can give you a far richer and more accurate answer.

The granular understanding of the financial circumstances of their employees, gathered by using new technology, allows employers to anticipate potential problems and flashpoints.

Providing targeted support is crucial, since generalised financial information won't provide sufficient support to individual employees – and therefore won't provide the returns on investment hoped for.



## Tailoring support to your workforce demographic

Comparison of **age groups** in the last 6 months using credit for **essential items**



Aged 25-34



Aged over 55



£10k - £20k



£50k+

Comparison of **income groups** in the last 6 months using credit for **essential items**

Comparison of the **average unsecured debt** to income ratio by age groups



Aged 25-34



Aged over 55



£10k - £20k



£50k+

Comparison of the **average unsecured debt** to income ratio by income groups

(PwC's Precious Plastic Study 2017)

A 25 year-old with a payday loan problem, for example, will need very different help to a 50 year-old worrying about retirement savings.

Our Precious Plastic study 2017\* research reveals that the financial exposures of different members of the workforce are completely different; many people need help at every stage of their lives, but the nature of that help will vary enormously.

This is why many generic programmes are unlikely to meet the needs of employees.

\*<https://www.pwc.co.uk/industries/financial-services/insights/precious-plastic.html>

## Step 2 – Provide targeted financial education and guidance

Once you understand the financial characteristics of your workforce, you can then move on to building a programme to address the issues that have been identified.

A targeted programme of financial education designed according to the particular needs of the workforce is highly effective in enhancing financial wellbeing.

New technologies, sitting alongside more traditional face-to-face support, allow financial education to be rolled out quickly and at scale.

These tools provide a means to connect quickly and meaningfully with the workforce, delivering information and guidance in real time.

Technology provides employers with a cost-effective way of delivering the support that their staff are looking for, potentially while also managing the challenges posed by a more fluid and agile workforce.

Innovation in the financial services sector also has a role to play. Automated services such as “robo advisers” can be used to provide access to financial advice services without the need to offer costly full-scale personalised independent financial advice, for example.

### Potential ways you can target financial wellbeing most effectively.

These might include:



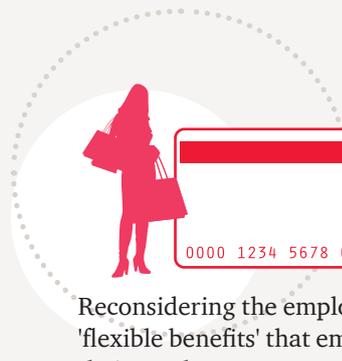
Face-to-face sessions via financial seminars, workshops and engagement exercises



Offering access to financial counsellors to enable your workforce to get help with their basic finances



Exploiting new technologies to make financial information and education more widely and continuously available



Reconsidering the employee benefit mix, potentially using 'flexible benefits' that employees can tailor according to their needs

# 5 steps to success

The "what"

The "why"

1

*Review your current approach and objectives.*

This will help you see where the gaps may be.

2

*Profile the financial health of your workforce.*

This will help you understand the different issues that your employees are facing, and which groups they affect.

3

*Develop your strategy, consider a mix of technology and people and determine your success criteria.*

This will help you clearly define what you are looking to achieve and the ROI.

4

*Build a business case and get stakeholder buy in.*

This will help ensure that there is support for the programme across the organisation.

5

*Launch the programme & measure ROI.*

This final step will let you kick start the programme and measure the success of the support you put in place.

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## Conclusion

High levels of debt can often be associated with mental health problems. According to the Money and Mental Health Policy Institute, people with mental health problems are three times as likely to be in problem debt.

Employers are well placed to offer support. The business case for doing so is clear: financial wellbeing programmes can help employers reduce people risk, manage workplace costs and improve productivity.

Harnessing emerging technologies enables employers to understand the needs of their workforce in more detail than ever before. This allows them to tailor delivery of support and can make a substantial difference to their employees, to the benefit of all.

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## How we can help

*We are working with a number of our clients to design and deliver financial wellness programmes, from helping to build a business case right through to implementation and launch.*

We would be happy to share what other employers are doing in this area. Contact details can be found below.

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# Notes

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Design Services 31390 (05/18).