

# Employee Financial Crisis

WHAT IS IT COSTING YOUR COMPANY?????



## EMPLOYEE FINANCIAL CRISIS: WHAT IS IT COSTING YOUR COMPANY?

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When first reported in 1979, 10% of working adults said that they routinely experience personal financial difficulties; today that number is up to 25% and growing. *USA Today* finds that the #1 cause of stress in the workplace is personal finances. According to the Personal Finance Employee Education Foundation, 30 million American workers (or 1 in 4 working adults) report they are seriously financially distressed and dissatisfied with their personal finances.

And it's growing. The American Psychological Association's 2008 Stress Survey states that financial stress is on the rise in light of recent economic conditions.

Money troubles follow employees to work: According to a Virginia Tech study, the typical employee uses up to 27 work hours a month to do their personal banking, pay bills, handle phone calls from creditors and collectors, and calculate financial scenarios in anticipation of payday. Although it is the employee's debt, it has become the employer's problem as well.

Here are just a few of the ways to calculate the cost of financial stress in the workplace.

### **Absenteeism**

The cost of absent employees adds up quickly. When employees miss work, your business loses the contribution and productivity of each absent employee, which negatively affects goals, revenue projections and profits. Research shows that unscheduled absences cost companies more than \$700 per employee each year.

### **Presenteeism**

"Presenteeism" is another serious concern for business. When an employee is present for work but physically, mentally or emotionally distracted, their job performance and productivity suffer. Studies by industry experts put the impact of financial stress on productivity in real tangible dollars. A study by "The Money Coach" says 25% of an organization's employees are impacted by financial stress. Assuming that the financial stress of those 1 in 4 employees reduces their productivity by a mere 10% (in other words, each affected employee spends about four hours each week distracted by money), the end result is a quantifiable cost to the organization's bottom line.

Using that formula, a company with 100 employees earning \$30,000 annually on average, will spend nearly \$3,000,000 each year on payroll for its employees. According to the conservative calculations above, the impact of its employees' financial issues will result in a cost of nearly **\$75,000** annually\* – and that is in lost productivity alone!

### **Workplace Accidents:**

Distracted employees are a danger to company property and equipment. Many worker compensation claims are tied directly to employee inattentiveness. Research by The Herman Group proved that 60 – 80% of on-the-job accidents are stress related. In 2001, it cost employers **\$29,000** per work place accident due to lost productivity, uninsured costs, accident investigation, production slowdowns and new employee training.

### **Retention:**

Most employees in financial distress believe that they can 'earn' their way out of the problem by changing jobs to make more money. Unfortunately, without changing the behaviors that caused the stress, most employees simply exacerbate their financial issues after securing a higher rate of pay. Instead of resolving financial problems, they create new ones to outspend the new wages.

For employers who lose employees regularly due to job hopping in search of a bigger paycheck, the costs can be significant. Industry studies show that it can cost an employer \$3,000 to \$13,000 to replace and retrain an employee. Let's assume that your organization has very little turnover, just 10% of your workforce. Out of 100 employees, you will spend at least \$30,000 in replacing and retraining.

In addition, providing employees with financial literacy training is a benefit that will significantly improve their personal lives. There's value added to the relationship between an employer and its employees when the workers realize that the organization cares about their personal well-being. The loyalty created by offering a benefit that impacts an employee's personal life can significantly reduce an employer's retention numbers.

**Human Resource Department Distractions:**

Normally, the HR Department feels the impact of financial stress the most. Fielding calls from creditors, processing wage garnishments and advanced wage payments, processing 401(k) loans, and other time wasters are a distraction to the functions of HR. Up to 10% of the department's payroll budget can be impacted by these types of activities.

**Retirement Plan Contributions:**

Employee participation in employer-sponsored retirement savings plans, such as 401(k) s and 403(b) s, can also be negatively impacted. When most employees don't know how to do basic budgeting, they're not likely to find money to set aside for their retirement, which puts their financial future in jeopardy and can limit executives' contributions to the plan. Take a look at your contribution rates. Can they improve? Financial education is not a substitute for the open enrollment education that you get from your 401k provider. It should complement those efforts.

**Retirement Plan Withdrawals:**

Do you have an increasing number of withdrawal requests, specifically hardship requests? This is a quantifiable number for your organization and a sign that the workforce is in crisis mode.

**Health Care Costs:**

Employees that are stressed over money also experience health and welfare issues. These problems—hypertension, insomnia, depression, fatigue, and increased drug and alcohol abuse—increase an employer's health care costs.

Absenteeism	\$70,000	\$700 per employee x 100 employees
Reduced employee productivity	\$75,000	Annually based on 100 employees
Workplace accidents	\$29,000	Per workplace accident
Health and welfare issues		Up to 30% of healthcare costs due to stress
Employee turnover	\$30,000	Per year replacement costs
HR Department Distractions	\$300,000	Represents 10% Of overall budget
401(k) Participation	unknown	

## **Conclusion:**

**Financial education can have a significant impact on a company's bottom line. It should be viewed as necessary as other benefit tools in training and developing well-rounded and productive employees. Not to mention, that financial education can strongly increase employee morale.**

## **About Essential Knowledge:**

Essential Knowledge is an education company independent of any financial institution or lender. The organization has created online courses that include video, e-books, hands on activities, and other tools in order to master material in a fun way. Most noted for their surveys of students before and after the course, Essential Knowledge is known for the results that it produces for employers and learners alike. The company has been featured in Chief Learning Officer magazine, Fortune, Yahoo Finance and many other publications.

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