Financial Wellness

Three action steps your credit union can take to improve employees' well-being.

By Paul Chong

Recent research shows an increase in American employers' commitment to do more to improve their employees' financial wellness, such as teaching basic money skills and providing better retirement saving tools.

The credit union movement grew out of employers trying to serve their employees' best financial interests, so we should be encouraged by these results. We should also help set the bar even higher by providing tools our own employees can use to make good financial decisions.

According to Aon Hewitt's "2016 Hot Topics in Retirement and Financial Well-Being," (*http://tinyurl.com/aonfinancial*) 56 percent of U.S. employers said they were "very likely to create or focus on the financial well-being of employees in ways that expand beyond retirement decisions."

In 2015, only 46 percent agreed with that statement, and in 2014 it was 40 percent.

Who is Affected?

The top reason for focusing on financial wellness was, "It's the right thing to do," chosen by 85 percent of the employers surveyed. The next three reasons were to:

- improve employee engagement (80 percent),
- improve retirement statistics (58 percent) and
- decrease employee time spent addressing financial issues (44 percent).

These are all good reasons to help employees get their financial houses in order. But employers may not understand how profoundly financial distress can affect productivity and customer service.

A relatively new area of research pioneered by Harvard economist Sendhil Mullainathan and Yale psychologist Eldar Shafir shows how people under financial stress can operate with tunnel vision and be less civil with others.

The concept is summarized in the 2013 book, *Scarcity: Why Having Too Little Means So Much* (*http://scholar.harvard.edu/sendhil/scarcity*). The effect of a "scarcity mentality" goes far beyond employees spending too much time addressing their own financial issues. It can actually sap their daily ability to make good decisions and control their impulses. (Read more in the sidebar, p. 34.)

Basic Tools

What can employers do to help employees cope with day-to-day financial pressures? Aon Hewitt asked employers whether they provide tools, services and/or communications relating to seven areas under the umbrella of "financial well-being":

1. debt management,
2. budgeting,
3. simple investment,
4. financial planning,
5. health care education,
6. savings and prioritization and
7. assistance with saving for specific life stages, including buying a home or paying for college.

If your CU already offers assistance to employees in more than one of these areas, you're doing better than more than half (55 percent) of the organizations surveyed.

The survey shows more promise for the immediate future, however. Almost a third of the respondents already offer assistance in at least four of these seven areas, and 46 percent say it is "very likely" they'll offer assistance in at least four by the end of 2016.

Action Steps

The survey respondents were asked about specific steps they are or would be taking to improve employees' financial well-being. Here are some action items adapted from the Aon Hewitt material, and from our own observations of effective credit union employee benefits programs.

1. Integrate financial planning, budgeting and health decisions.

- Communicate to employees that financial health can affect physical health and vice versa.
- Incorporate reminders about savings programs into your annual benefits enrollment materials.
- Provide access to tools and/or advisory services designed to help employees nearing retirement age understand their Medicare and other health insurance options.

2. Increase communication and education on basic money skills and about the tools employees can use to reduce debt and plan for retirement.

- Assess the level of automation,

self-service and Web access employees have to basic money skills resources, and to their retirement plan account.

- Choose a Web portal that allows employees to see their projected monthly retirement income at a glance. The portal should also allow them to adjust their contribution amounts and investment choices, and see how those changes would affect their projected retirement income.
- Target employees who are near retirement for extra information and professional advisory services that will help them make good decisions about debt management, Social Security and retirement account payout options at this critical stage.
- Work with your retirement plan provider to offer employees access to professional advisory services through multiple channels: face-to-face, online and phone. Ask providers to conduct retirement planning webinars and/or face-to-face training sessions for employees.

3. Try to minimize unnecessary loans from retirement accounts.

- Implement a waiting period between a loan payoff date and a new loan origination.
- Collect data on participants who take out loans. Study the demographics of these participants and the underlying reason for the loans. This can help you target education and financial advice services.
- Reduce the number of loans available.
- Communicate with employees who take out loans or who have loans outstanding.
- Offer debt counseling services.

In the credit union industry, part of our mission is to help members cope with financial hardship and prevent it. The best place to start fulfilling that mission is with our own employees.

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Resources

Also read "Retirement Plans: The Cobbler's Children Have No Shoes" at *cues.org/0316retirementplans* and "Are Boomers Ready to Retire?" at *cues.org/0716boomers.*

Financial Distress: The Hidden Tax on Employee Productivity and Service

If you don't know what it's like to struggle paycheck to paycheck—and especially if you do—read Neal Gabbler's article, "*The Secret Shame of Middle-Class Americans*," (*http://tinyurl.com/z4qcb5h*) in the May 2016 issue of *The Atlantic.*

Against the backdrop of Gabbler's wrenching confession about his own financial hardship, he cites broad research showing just how financially strapped Americans of virtually every income level are—and how terrified they are of others finding out about it.

One lesson for employers from Gabbler's piece: The need to provide financial wellness programs may not be apparent. Employees probably aren't likely to admit they need help. And even if you don't hear directly about your employees' financial distress, you may be seeing its effects.

'Scarcity Mentality' Can Make Us Less Intelligent and Less Civil

In their 2013 book, *Scarcity: Why Having Too Little Means so Much*, (*http://scholar.harvard.edu/sendhil/scarcity*) Harvard professor Sendhil Mullainathan and Yale professor Eldar Shafir describe how a perceived lack of sufficient money can consume a person's mind.

They present research showing how scarcity of money, time, food, etc. taxes a person's ability to think logically and make good long-term decisions. They call these effects the "tunnel tax" and the "bandwidth tax."

The authors cite an experiment in which subjects of different economic levels were asked a hypothetical question about how they'd decide whether to pay a $150 car repair bill or take a chance the car will keep running anyway. They were also asked whether this would be a difficult decision. Then the respondents were given a test that's a common component of IQ tests. Rich and poor respondents did equally well on these tests.

But another group of respondents was asked the same hypothetical question, except the repair amount was $1,500. After considering that scenario, poor respondents did significantly worse than rich respondents on their IQ tests.

By triggering thoughts about money problems, the scenario had apparently taxed the lower-income respondents' mental bandwidth.

By comparing other studies that used the same IQ test, the authors concluded that poor people in this study performed worse, on average, than people who took the test after being kept up all night.

They estimated the effect of thinking about money troubles was equivalent to 13 to 14 IQ points—that's enough to drop a person's overall score from the "superior" category to the "average" category, or from average down to "borderline deficient."

Other experiments demonstrated how bandwidth-taxed people tend to lose some of their self-control, such as their ability to remain polite in a stressful situation.

It isn't as simple as saying a financial wellness program can increase employees' IQ or improve their mood so they're more attentive and positive with members. But when you're considering whether financial wellness programs are worth the investment, take into account some less visible, but significant influences that financial stress can have on performance.