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Calculating ROI: Measuring the Benefits of Workplace Financial Wellness

By Gregory Ward

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As human resources executives and benefit-plan sponsors prepare their 2017 budgets, many will question the value of investing in a workplace financial wellness program. Determining the true value of such a program has proved to be elusive, but recent research from the Financial Finesse Financial Wellness Think Tank has introduced a viable way to forecast the potential return on investment (ROI) of the programs using data collected from actual clients. This model, as reported in a 2016 report,[1] provides results that indicate employers can find it beneficial to invest in a high-quality financial wellness program.

WORKPLACE FINANCIAL WELLNESS ROI PREDICTIVE MODEL

The predictive model is based on the observed improvements in employee financial behavior as it relates to wage garnishments, absenteeism, and utilization of flexible spending and health savings accounts. By evaluating the difference in each behavior at each level of financial wellness (as measured on a 0–10 financial wellness scale), the model measures the value of the improvements in the following three areas.

Garnishments

According to the findings, for every level of improvement in an employee's financial wellness score, there is a decrease in the likelihood of garnishments. For example, the likelihood of garnishment fell from 4.80 percent to 1.84 percent when moving from a financial wellness score of 4 to 6. For a 50,000-life employer, this decrease in the frequency of garnishments could save more than $440,000 a year in reduced garnishment processing costs (based on an average $300 annual cost to process garnishments).

Absenteeism

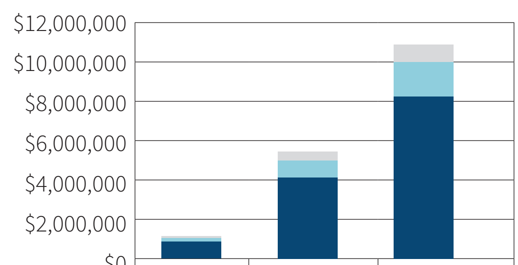
The study also found similar decreases in the average number of hours of unplanned absences as employee financial wellness improved. Specifically, the average number of hours of unplanned absences fell from 13.73 hours to 10.35 hours when moving from a financial wellness score of 4 to 6. Based on an average annual salary of $50,000, a 50,000-life employer could save upward of $4.2 million a year in unplanned absences.

FSA and HSA Participation

The study also observed steady increases in contributions to flexible spending and health savings accounts as employee financial wellness improved. The average combined contribution to a flexible spending and health savings account increased from $905.55 to $1,137.50 when moving from a financial wellness score of 4 to 6. Since contributions to flexible spending and health savings accounts are not subject to Federal Insurance Contributions Act (FICA) tax, an increase in participation could save a 50,000-life employer nearly $900,000 a year in reduced matching FICA tax payments.

Figure 1 shows the projected cost savings of an incremental shift in the median workforce financial wellness score from 4 to 6 using the ROI model for employers of various sizes.

Figure 1
Projected Cost Savings of Incremental Shift in Workforce Financial Wellness Score From 4 to 6 (by employer size)



	10,000	50,000	100,000
Garnishments	$88,683	$443,413	$886,827
Flex spending/ health savings	$177,446	$887,229	$1,774,457
Absenteeism	$852,879	$4,264,396	$8,528,793

IMPROVING THE ROI MODEL

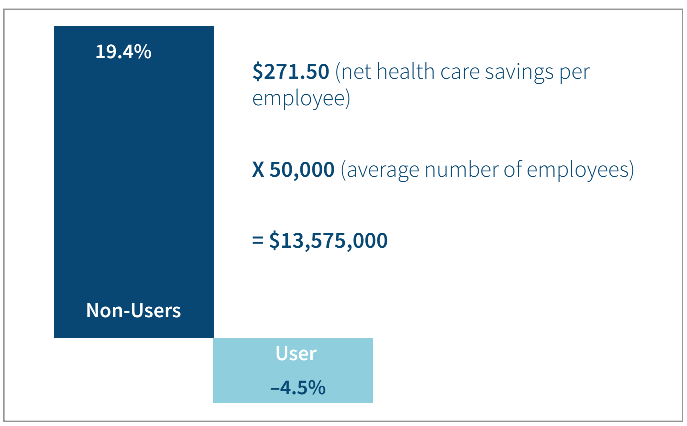
The cost savings illustrated are simply the tip of the iceberg. A much more in-depth analysis is needed to more accurately calculate the true financial impact of a financial wellness program. For example, previous studies suggest that a well-constructed financial wellness program may contribute to reductions in health care costs, costs associated with delayed retirement, and costs associated with recruiting, retaining and engaging employees.

Health Care Cost Savings

A *2014 study from the American Psychological Association*[2] reports that 64 percent of those surveyed cited money as a significant source of stress, and that Americans are paying for this stress with their health.[3] Financial stress has been attributed to decreased employee productivity,[4] increased absenteeism and increased employer health care costs.

Financial wellness programs are correlated with lower health care costs. A study[5] of a Fortune 100 health care company found that employer health care costs associated with employees who used the company's financial wellness program actually decreased by 4.5 percent, while the costs associated with employees who never used the program increased by 19.4 percent. This equated to a cost savings of $271.50 per employee. If a 50,000-life employer experienced the same cost savings by offering a comprehensive workplace financial wellness program, it could save the employer more than $13.5 million a year, as shown in Figure 2.

Figure 2
Potential Annual Health Care Cost Savings

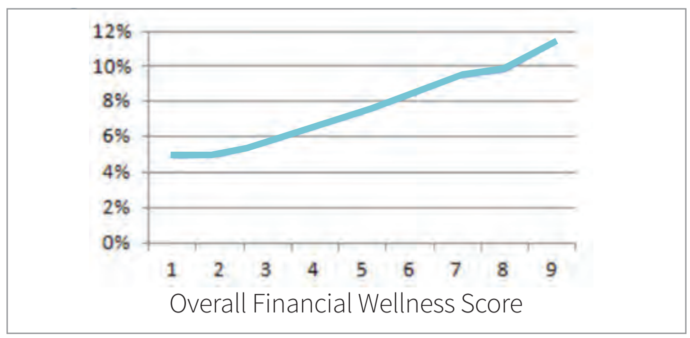


Reducing Costs of Delayed Retirement

Employees today are woefully underprepared for retirement, with only 21 percent indicating they are on track to achieve their income goals in retirement, according to recent research from Financial Finesse.[6] As employees progress through the late career cycle, those who are underprepared may have to delay their retirement for financial reasons. This has repercussions throughout the workforce. According to the Transamerica Center for Retirement Studies,[7] 65 percent of baby boomers either plan to work past age 65 or do not plan to retire at all. For every year an employee who would like to retire delays retirement for financial reasons, the employer faces estimated additional costs between $10,000 and $50,000.

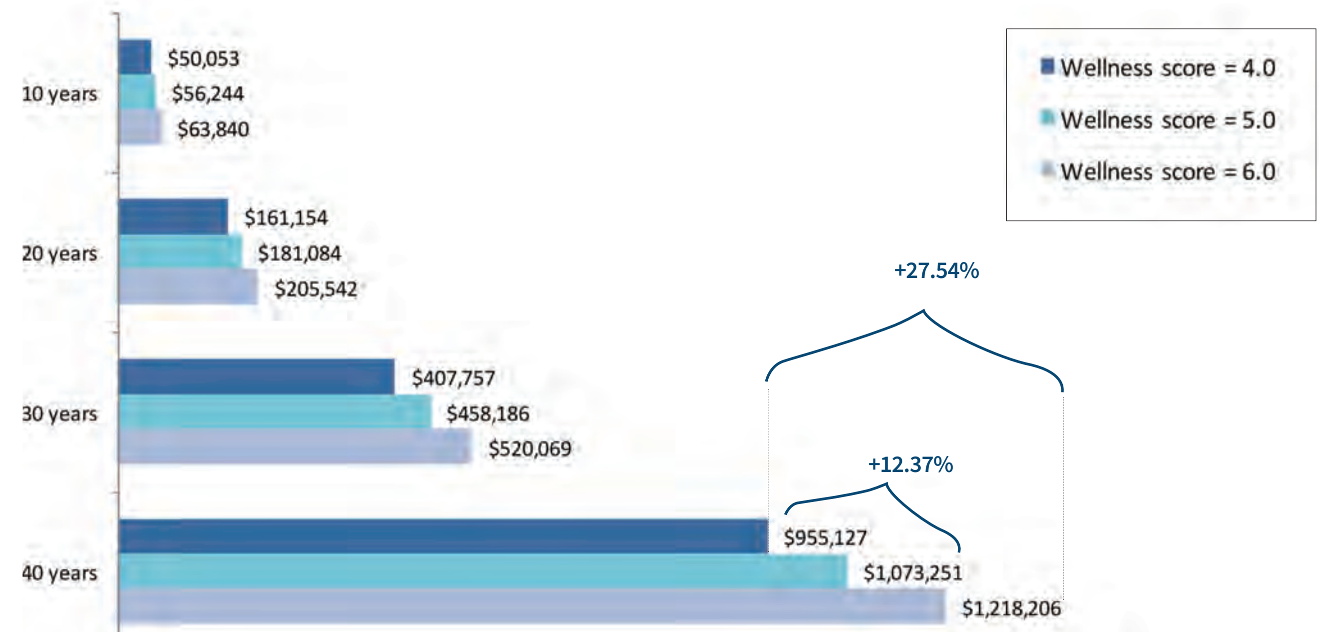
Figure 3 shows that as employees' overall financial wellness levels increased, so did contribution rates to employer-sponsored retirement plans. Higher contribution rates reduce the likelihood of delayed retirement since employees are more financially prepared.

Figure 3
Deferral Election Percent



For younger employees, the research suggests that increases in contribution rates due to improved financial wellness could increase lifetime retirement savings by as much as 12 to 28 percent, as shown in Figure 4.

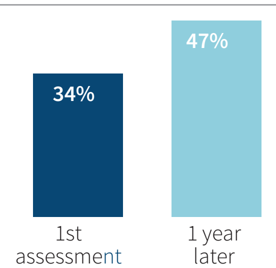
Figure 4
Potential Improvement in Retirement Plan Balance for an Employee Making $50,000 a Year



Based on an annualized 8% return on investment .

In addition, research found that employees who engaged repeatedly in their employer's financial wellness program increased their likelihood of being on track for retirement—from 34 percent to 47 percent.[8] Figure 5 shows that for a 50,000-life employer, this 13-point improvement could equate to nearly a $2.0 million annual cost reduction related to delayed retirement.

Figure 5
Potential Cost Savings for Helping Employees Retire on Time



13% (improvement in employees on track to retire)

X 3% (estimated % of workforce retiring annually)

X $10,000 (estimated annual cost per employee for delayed retirement)

X 50,000 (average number of employees)

= $1,950,000

Recruit, Retain and Engage Top Talent

According to the 2016 Deloitte Millennial Survey,[9] two-thirds of younger employees plan to leave their current job by 2020, with 25 percent saying they plan to leave in less than a year. Turnovers cost companies money. Citing the research of W. F. Cascio, a SHRM Foundation's report[10] indicates that "direct replacement costs can reach as high as 50% to 60% of an employee's annual salary, with total costs associated with turnover ranging from 90% to 200% of annual salary." That puts costs anywhere between $45,000 and $100,000 when replacing an employee making $50,000 a year. A 2016 Paychex survey[11] found that approximately 70 percent of employees cited low pay as a reason they have left or would leave a job, and 45 percent said they have or would leave due to a lack of benefits.

Most employees are dissatisfied with their pay and benefits because they haven't fully maximized the value of what their company offers. By not taking full advantage of employer-provided benefits such as company matching programs, discounted voluntary benefits, and health and wellness benefits, employees potentially leave thousands of dollars on the table every year. The money they are forgoing could be the difference between sinking deeper into debt and proactively saving toward key financial goals.

If a 50,000-life company with a 10 percent turnover rate initiates a comprehensive workforce financial wellness program that results in 50 fewer employees leaving the company (i.e., a 1 percent reduction in the turnover rate), it could equate to more than $2.2 million in annual savings, as shown in Figure 6.

Figure 6
Potential Cost Savings by Reducing Turnover

1% (projected reduction in employee turnover)
X 10% (turnover rate of employees)
X $45,000 (estimated net cost to replace employee)
X 50,000 (average number of employees)
= $2,250,000

MEASURING AN ORGANIZATION'S ROI

Using actual, quantifiable data, Financial Finesse has developed an ROI model that can help employers project potential cost savings when implementing a financial wellness program. Based on this model, a large employer can potentially save millions of dollars every year when factoring costs such as wage garnishments, absenteeism, and utilization of flexible spending and health savings accounts. That number gets even greater when taking into account reductions in health care costs, delayed retirement and turnover. Table 1 shows the total a company could save across all categories.

Table 1
Projected Annual Savings for Company With Increased Financial Wellness

Garnishments	$443,413
FSA/HSA contributions payroll taxes	$887,229
Absenteeism	$4,264,396
Health care	$13,575,000
Delayed retirement	$1,950,000
Turnover	$2,250,000
Estimated Total	**$23,370,038**

While far from perfect, this model paves the way for measuring the effectiveness of corporate-sponsored workplace financial wellness programs. It will also serve as a catalyst for further development of the financial wellness industry. ■

Gregory Ward, CFP, is director of Financial Finesse's Financial Wellness Think Tank. He can be reached at *Greg.ward@financialfinesse.com*.

ENDNOTES

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