The Impacts of Financial Stress on Your Employees

How does an employer know its workers may need a financial well-being program? This article, excerpted from an upcoming International Foundation report, provides many of the signs.

benefits
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People confront an array of challenges in achieving and maintaining financial security. Financial decisions surrounding retirement planning, financial markets and investing are complex, and options for credit cards, mortgages and other credit vehicles have multiplied.

Unfortunately, too many people are not equipped to handle money matters. Research consistently shows many people—young and old, male and female, rich and poor—lack the knowledge, skills and other traits required to manage their money effectively.

Add recent economic conditions such as high unemployment and pay stagnation, and it should not be surprising that an alarming number of people are living paycheck to paycheck, saddled with debt, not saving for the future and feeling financially vulnerable.[1] See the sidebar, "Signs of Financial Distress," for additional indicators.

Financial distress takes its toll both mentally and physically—affecting the quality of both an individual's personal life and work. Increasingly, employers and labor organizations are recognizing that the financial problems of workers and the accompanying stress are having a negative impact on worker behavior, productivity, benefit plan costs and profit. Employers and benefit plan administrators are seeing the financial well-being of employees and plan participants as an important component of workplace wellness programs.

The Impact of Financial Distress

The American Psychological Association (APA) has identified money and financial issues as the No. 1 cause of stress in the United States in each of the past eight years.[2] In the 2015 APA study, 72% of U.S. adults reported feeling stressed about money and finances at least some of the time. More than one-quarter said they experience stress about money most or all of the time.[3] When APA asked respondents to identify the reason(s) for money-related stress, paying unexpected expenses (54%), paying for essentials (44%) and saving for retirement (44%) were considered somewhat or very significant.[4]

While people of all kinds—including those with a high income—experience stress about money, research indicates persons with high levels of stress due to financial concerns are more likely to be those who:

- Are young (i.e., Millennials and Generation Xers)
- Are female
- Do not have a postsecondary education
- Have a pink-collar job in sales or service
- Have a lower income
- Have children at home
- Are members of a visible minority group
- Have recently immigrated
- Do not have family or friends as an emotional support system.[5]

As the stress from financial issues intensifies, the likelihood of interpersonal conflicts, high-risk behaviors (e.g., gambling, substance abuse), accidents caused by fatigue and distractions, and poor health escalate. Persons who suffer from "money worries" also tend to be absent more frequently, less engaged and less productive in the workplace.

A substantial collection of research has demonstrated a link between financial well-being and a more productive, engaged workforce and reduced health care costs. While precise amounts are difficult to pinpoint, some of the cost estimates that have been made are:

- A 2004 study placed the cost of workplace stress in the United States at $300 billion a year.[6]
- Pension Consultants, Inc., estimates workforce stress is costing companies with 1,000 employees $5,655,500 per year.[7]
- Tom Garman, founder of the Personal Finance Employee Education Foundation, estimates the price tag to an employer ranges from $750 to $2,000 per employee annually.[8]

Organizations that want to measure their own hard costs of stress might want to consider using this formula provided by author Ravi Tangri in the book *Stress Costs, Stress Cures*:

- 19% of absenteeism
- 40% of turnover
- 55% of employee assistance programs
- 30% of short- and long-term disability
- 10% of drug plan costs
- 60% of total workplace accidents
- The total costs of workers' compensation and lawsuits.

Signs in the workplace that an employee may be dealing with personal financial problems include:

- Frequent volunteering to work overtime
- Requests for a paycheck advance or loan from an employer
- Borrowing from a retirement account and/or discontinuing contributions
- Calls from lenders to verify employment and wages
- Garnishment of wages
- Frequent phone calls to the worker
- Changes in work performance, attitude or behavior
- Overly emotional behavior.

Personal Relationships

Mental and emotional dynamics such as anger, depression, guilt, irritability, anxiety and even panic attacks frequently accompany stress about money—in fact, stress from any cause. This toxic combination affects people's relationships and can make home life extremely difficult. Almost a third of adults with partners (31%) report that money is a major source of conflict.[9]

One financial expert reports almost 80% of couples who divorce by the age of 30 identified financial problems as a primary reason.[10] Of course, divorce—and the turmoil that leads up to a marital separation—can also exacerbate someone's financial distress. Research has shown that wealth begins falling four years before a divorce and can reduce a person's net worth by 77%.[11]

Financial stress can also put strains on the parent-child relationship and the development of children. Parents taking on extra work to make ends meet and/or distracted by money problems can result in insufficient monitoring of a child's activities, lack of control over a child's behaviors, a lack of warmth and support for a child, inconsistent parenting, and displays of aggression or hostility by the parent(s) as well as older siblings.[12] Parental financial strains—both directly and

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indirectly—have been associated with problem behavior by the children in these households.[13]

In relationships where domestic violence is present, financial problems can lead to an increase in the severity and frequency of abuse. Domestic violence is three times more likely to occur when couples are experiencing high levels of financial strain as when they experience low levels of strain.[14] Domestic violence at home can follow victims to work. It spills over into the workplace when a victim receives threatening phone calls, is absent because of injuries and/or is less productive due to extreme stress. In too many instances, an abusive partner brings the violence to the workplace of the victim, resulting in the injury or death of co-workers.

High-Risk Behaviors

Most people think of high-risk behaviors such as substance abuse and gambling as causes of financial distress. However, the stress of financial problems can also lead to (and escalate) risky behaviors that negatively impact a person's physical health, damage personal relationships and worsen financial problems. Consider:

- **Substance abuse.** Some people turn to tobacco, alcohol or drugs to dampen the effects of stress.
- **Gambling.** Some people mistakenly think they will be able to get a "big win" that can help them solve their financial problems. For others, gambling provides an emotional high or a way to temporarily escape the pain they are feeling from financial distress.[15]
- **Shopping.** Impulse and excessive spending are additional short-term remedies for coping with the feelings created by financial problems.[16]
- **Eating.** While some people find food a comfort in difficult times and overeat, others lose their appetite. In worst-case scenarios, the result is an eating disorder such as anorexia or bulimia.

In one survey, researchers found that 40% of people smoked, 41% gambled, 35% shopped and 27% drank alcohol to cope with stress.[17] Any and all of these behaviors can lead to poor employee performance and absenteeism as well as increased use of workplace benefits such as sick time, disability and workers' compensation.

Personal Health

People vary in their ability to cope with stress. How their body reacts can also differ. Some experience digestive problems, while others have headaches, sleeplessness, fatigue, a depressed mood, anger and/or irritability. People under chronic stress are prone to more frequent and severe viral infections such as the flu or common cold.[18] Vaccines (e.g., a flu shot) are less effective. Continued stress can also lead to serious health problems such as heart disease, high blood pressure, diabetes, depression and anxiety disorder.

Accidents

Financial stress can be a significant distraction at home and at work. Persons who are distracted or experiencing stress-induced fatigue are more prone to errors and injuries. An analysis of U.S. police report data for 2010 and 2011 revealed that one in ten fatal motor vehicle crashes involved at least one distracted driver. A whopping 62% of these drivers were described as "generally distracted" or "lost in thought." These figures do not include specific distractions such as texting, dealing with an unruly child or lighting a cigarette that one might expect to be primary factors.[19]

On the job, an estimated 60% to 80% of accidents are caused by a stress-related distraction or sleepiness.[20] Stressed workers are more likely to damage equipment than employees who are fully focused on their work. For nurses, doctors and others in the medical field, inattentiveness can literally be a "life-and-death" situation for patients—boosting the potential for negligence and medical malpractice suits.

Even off-the-job injuries can have a big impact on a company's bottom line. About 165 million days of lost production time in 2004 were the result of injuries that were not work-related.[21]

Absenteeism

Much research has documented that financially stressed workers are more likely to miss work—not surprising given individuals with financial stress tend to have more physical and mental health problems than those who are financially healthy. In fact, 70% of all job absenteeism has been tied to stress-related illnesses.[22] Employees also call in sick so they can make court appearances, talk with attorneys and meet with others concerning their financial problems.

Presenteeism

Even when employees do show up for work, they are likely to demonstrate some degree of presenteeism due to fatigue and/or the inability to concentrate. *Presenteeism* is the phenomenon of employees coming to work yet not functioning up to their capabilities. It manifests in a host of ways including more time spent on tasks, poor quality work, impaired social functioning, burnout, anger and low morale.

Employees with financial stressors may take time to telephone creditors, seek sources of additional credit, talk with co-workers about their money problems, smoke cigarettes and place gambling wagers. One in five employees reports that issues with personal finances have been a distraction at work. More than one-third (37%) say they spend three hours or more each week thinking about or dealing with issues related to their personal finances.[23]

Morale

When workers are financially distressed, their problems tend to have a ripple effect, creating tension and reduced morale among co-workers. The mental and emotional dynamics (e.g., anger) that negatively affect personal relationships at home also appear in the workplace.[24] In addition, absenteeism and presenteeism force fellow employees to shoulder extra work. Co-workers may respond with passive forms of aggression such as withholding resources, not responding to communications and/or being late to meetings that further reduce productivity. Tempers may flare and, in worst-case scenarios, a physical assault may occur.

Ethics

Retailers estimate "shrinkage losses" in the U.S. totaled $44 billion in 2014, and 34.5% of these losses can be attributed to employee theft. Financially stressed workers are more tempted to steal from their employer, and a small percentage of employees has been caught doing just that.

Turnover

Financially stressed people tend to be focused on the dollar amount of income coming in and what is going out. They are less likely to be satisfied with their pay, their jobs and their benefits and so are more likely to look elsewhere for greener pastures. Employee departures cost a company time, money and other resources.

Delayed Retirement

Not all turnover is negative. An employee's retirement generates an opportunity for a new hire who may be more skilled or productive. Payroll and benefit costs may be reduced with a younger, healthier workforce. But many financially distressed individuals barely pay their bills, let alone set aside sufficient funds for retirement. Among individuals who have some retirement savings, funds may be withdrawn to address financial shortfalls. There are also

takeaways

- Many people—young and old, male and female, rich and poor—lack the knowledge, skills and personal traits needed to manage money and make financial decisions.
- Money and financial issues are the main causes of stress in the United States.
- Employees who worry about money tend to be absent more frequently, less engaged and less productive in the workplace.
- Nearly 80% of couples who divorce by the age of 30 identified financial problems as a primary reason.
- Financial stress can lead to high-risk behaviors like substance abuse, gambling and impulse shopping, as well as eating disorders and other health problems and the increased likelihood of accidents at work and at home.
- People with a sense of financial well-being feel in control of their day-to-day lives, are able to absorb a financial shock, are on track to meet financial goals and can make choices that let them enjoy life.

the workers who recognize the need to make up for lost time in terms of retirement savings who choose overly aggressive investments or fall prey to salespersons offering products that promise results "too good to be true." For too many of these workers, the only option may be to continue working beyond their retirement age.

Employee Benefits

According to the National Institute for Occupational Safety and Health (NIOSH), U.S. workers who report they are stressed incur health care costs 50% higher than those of nonstressed workers. The increment rose to nearly 150% for workers reporting high levels of both stress and depression.[25] Another report said stressed workers incurred health care costs twice as high as those for other employees.[26] More specifically, 60% to 90% of doctor visits are attributed to stress-related illnesses and symptoms.[27] It is likely that workers' compensations claims—both legitimate and fraudulent—also increase.

Personal financial problems lead to higher use of employee assistance programs (EAPs) and outpatient mental health services. Consider a survey by one EAP near the beginning of the 2008-2009 financial crisis that swept through North America. A dramatic increase was discovered in requests for financial services from employees when compared with the previous year.[28]

Financial Well-Being and What Influences It

What is *financial well-being*? In a January 2015 report, the U.S. Consumer Financial Protection Bureau (CFPB) defined it as "a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow enjoyment of life."[29]

Income is not a particularly useful way to measure well-being. A person who is far from wealthy may have a high level of well-being, while a person with a much higher income may feel quite the opposite. Furthermore, through learning and effort, given reasonable opportunity and support, it appears that people can move toward greater financial well-being.

The CFPB says people with a sense of financial well-being have four characteristics. They:

1. Have control over day-to-day, month-to-month finances, feel in control of their day-to-day lives, and are able to cover expenses and pay their bills on time. They don't worry about having enough money to get by.

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2. Have the capacity to absorb a financial shock, perhaps due to factors such as having a support system of family and friends, personal savings and insurance.
3. Are on track to meet financial goals.
4. Have the financial freedom to make the choices that allow them to enjoy life including an occasional splurge and the ability to be generous with family, friends and community.

The CFPB analyzed what factors influence financial well-being. Events such as unemployment and inflation, family wealth and connections, access to education and other opportunities, geographic location and life events can and do play a major role in financial well-being. But individual behaviors, abilities and personality traits also are influential. These latter qualities help people make the best of the situations they are handed.[30]

1. Financial Behaviors

- Effective routine money management, which encompasses often unconscious habits, intuitions and decision-making shortcuts. This behavior includes managing both the money that goes out *(living within one's means)* and the money that comes in.
- Financial research and knowledge seeking, which support purposeful, informed financial decision making
- Financial planning and goal setting, which give purpose and structure to individual financial decisions. Some people develop a budget, while others focus on a longer time horizon.
- Following through on financial decisions, the final step between intentions and desired outcomes.

2. Financial Ability

- Knowing when and where to find reliable information to make financial decisions.
- Knowing how to process financial information to make sound financial decisions; e.g., determining which cell phone service has the features desired and which auto loan works best for a budget.
- Knowing how to execute financial decisions—implementing a plan, sticking with it and making adjustments as necessary.

3. Personal Traits

- Comparing oneself with one's own standards, not with others *(internal frame of reference)*. How one judges success is a characteristic that may be learned within one's family or another social context. If the result is low self-esteem, impulsive spending may be used to feel better about oneself at least temporarily.
- Being highly motivated to stay on track in the face of obstacles (*perseverance*)

Signs of Financial Distress

Most people occasionally make a mistake or are careless with their money. It seems to be a natural result of today's hectic living and complicated financial world. When there are many mistakes or careless behaviors, however, something more serious is probably happening. Following are 35 indicators suggesting a problem that goes beyond the occasional error.

Saving

1. Typically having a low or nonexistent emergency fund
2. Typically not contributing to a retirement plan

Spending

3. Regularly spending too much money
4. Regularly running out of money
5. Regularly being unable to pay due bills (e.g., utilities, rent, child care, credit cards)
6. Regularly relying on a second income to pay living expenses and debts
7. Regularly borrowing, perhaps by obtaining a cash advance to pay for living expenses and/or other debts
8. Regularly losing money to ripoffs and fraud
9. Regularly losing money by gambling or buying lottery tickets and/or gambling in an attempt to "fix" one's financial situation
10. Regularly allowing insurance (e.g., vehicle, renters'/homeowners', medical, life) to lapse
11. Choosing not to access preventive/routine health care due to its cost
12. Regularly writing bad checks that result in additional fees/penalties due to insufficient funds in an account

Borrowing

13. Being denied additional credit because of a poor credit history
14. Regularly overusing credit
15. Regularly paying only the minimum amount due on a credit card
16. Regularly reaching the maximum limit on a credit card
17. Regularly paying some bills and installment debts late
18. Regularly being unable to repay installment debts
19. Habitually receiving "overdue" notices from creditors
20. Regularly obtaining debt-consolidation loans
21. Regularly receiving communications from collection agencies
22. Having utility services cut off
23. Having property securing a debt repossessed
24. Being evicted from rental housing or having one's home foreclosed
25. Filing for personal bankruptcy

Ethics and criminal behavior

26. Committing check fraud
27. Stealing from a family member, employer or other source
28. Filing false expense account requests
29. Evading income tax payments
30. Filing deceptive loan statements

Other

31. Regularly making a request for welfare support (e.g., cash grants, food stamps, subsidized housing)
32. Being sued for financial reasons
33. Having one's tax refund intercepted by a government agency or court order
34. Having one's wages garnished
35. Having a lien placed on one's personal or real property.

Source: Adapted from Table 2 in E. T. Garman, I. E. Leech and J. E. Grable, "The Negative Impact of Employee Poor Personal Financial Behaviors on Employers," *Financial Counseling and Planning,* Vol. 7, (1996) p. 159.

- Having a tendency to plan for the future, control impulse and think creatively to address unexpected challenges *(executive functioning)*
- Believing in one's own ability to influence one's financial outcomes (*financial self-efficacy*).

To a large extent, these latter qualities are also the ones that are the focus of a financial well-being program.

Next up in the July *Benefits Magazine* are strategies for promoting financial well-being.

Endnotes

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