Financial Stress: The Impact on Individuals, Employees, and Employers

By Addie George
and Michael Kane

Financial stress impacts a significant portion of our population and workforce. The stress can vary from generalized cases, as was seen when the economy crashed in 2008, to severe immobilization of an individual who is worried how he or she will meet certain financial obligations. It can also have an impact on his or her employers. One thing is clear: Financial stress is having a direct and significant impact on our current workforce.

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Financial stress is a category of stress that deals specifically with peoples' perspective of their financial situation. In the *2015 Stress in America* survey, 85 percent of employees admitted to having at least some level of financial stress. [Robertson, Linda, Ward, Gregory, & Davidson, Liz (2015). *2015 financial stress report: executive summary.* (Financial Finesse reports research on financial trends). Retrieved from *http://www.financialfinesse.com*, (Robertson 2015)] The specifics can vary drastically from a general concern for the US economy to a personal concern about one being able to pay expenses month-to-month. For those claiming high financial stress, 65 percent have said that they were stressed out by day-to-day finances, and 61 percent of respondents were concerned about future goals. [Robertson 2015] The APA Report "Paying with our Health" had a slightly different number: 72 percent of adults admitted worrying about finances, and 22 percent called this stress extreme. [*https://www.apa.org/news/press/releases/stress/2014/stress-report.pdf* (Paying)]

Causes of Financial Stress

The causes of financial stress are different for different people. Even those who report having low to no financial stress have concerns, and 39 percent of them are not confident they are ready for retirement. [*Interview with Financial Finesse CEO, Liz Davidson: Research on employee financial stress and wellness.* Retrieved from *http://www.financialfinesse.com* (Financial 2013)] Financial stress impacts a significant portion of our population and workforce. The stress can vary from generalized cases, as was seen when the economy crashed in 2008, to severe immobilization of an individual who is worried how he or she will meet certain financial obligations. It can also have an impact on his or her employers. One thing is clear: Financial stress is having a direct and significant impact on our current workforce.

Impact of Financial Stress on Physical and Economic Health of Both the Employee and the Employer

Financial stress can significantly affect a person's health and personal well-being. According to the 2013 Financial Finesse Financial Stress Report [*http://mb.cision.com/Main/2460/9426470/131741.pdf*], it is the number one cause of stress-related illnesses. This manifests itself as many various common physical symptoms, which can include headaches, backaches, high blood pressure, ulcers, and many more [Choi, L.

(2009), "Financial stress and its physical effects on individuals and communities," *Community development Investment Review,* 5(3). Retrieved August 24, 2015, from *http://www.frbsf.org/community-development/publications/community-development-investment-review/2009/december/financial-stress-physical-effects-individuals-communities/* (Choi 2009)} A 2008 AP-AOL Poll about debt stress compared the percentage of people claiming low levels of financial stress experiencing symptoms to those with high financial stress experiencing the same symptoms. The Poll compared levels of back pain, severe anxiety, severe depression, headaches, sleep trouble, high blood pressure, stomach ulcers, and heart attacks. Those with high financial stress reported a higher occurrence of every symptom than those with low financial stress. For example, the arguably most severe of these symptoms is heart attacks. Three percent of people with low financial stress have had a heart attack, compared to 6 percent of those with high financial stress, indicating potentially double the risk of a heart attack. One-quarter of Americans said that their financial stress has a very strong or strong impact on their physical health. {Paying 2014} In addition, there can be psychological symptoms of depression and anxiety. This can, in turn, negatively impact an individual's goals and dreams. Twenty-eight percent of Americans polled admitted their financial situation had an impact on their mental health. {Paying 2014} These physical and mental symptoms combined can have a drastic negative impact on an individual's overall well-being. Seventy-five percent of Americans report experiencing at least one physical symptom of stress in the past month. {Paying 2014}

While many people would consider an individual's financial wellness as their own personal situation with which to deal, the impacts of financial stress are impacting our workforce. It can adversely affect an employee's ability to perform his or her job. According to the Society for Human Resource Management (SHRM), 70 percent of HR professionals agree that financial stress has an impact on their employees' performance in the workplace. The ability to focus on work is one of the symptoms of financial stress that HR professionals see, and they say around 47 percent of employees are affected. {Lee, C., Wessels, K., Cohen, D., Alonso, A., & Esen, E. (May 1, 2014). *Financial wellness in the workplace*. Retrieved August 24, 2015, from *https://www.shrm.org/Research/SurveyFindings/Articles/Documents/Financial-Wellness-2014-Executive-Summary.pdf* (Lee 2014)} The National Financial Education Council cites a study by the Federal Reserve that found the cost of financial stress to an employer is around $5,000 per employee per year {Financial 2013}. This number is based on lost productivity and does not include the potentially higher health care costs the employer may also be paying.

In addition to the toll it takes on the individual and its effect on his or her ability to be productive at work, financial stress impacts an individual's ability to retire successfully. If someone is struggling with severe financial stress, he or she often is not participating in the company retirement plan or otherwise saving for retirement. Such individuals even may be sabotaging earlier savings for retirement by taking loans from programs like their 401(k) plan. The inadequacy of personal savings could impact the affected employee's well-being by dashing his or her hopes and dreams, but can also have a negative effect on the employer. As an employee ages, there are direct costs and also lost opportunity costs that an employer pays for keeping them on board. This is part of why it is said that it should be a priority of all employers to assist their employees in attaining a successful retirement.

In addition to these retirement-based costs, there are workforce costs as a whole that are affected by financial stress. Liz Davidson notes in her interview that, "[F]inancial stress impacts productivity, health care costs, turnover, and employee engagement/performance." {Financial 2013} For example, the increased age of the average employee due to an inability to retire successfully could lead to higher group life and health insurance costs. Absenteeism is also a major factor to consider as it can affect payroll costs as well as cause staffing concerns. The less productive employee also costs his or her employer time and money. An employee with an increased financial stress may be spending company time to resolve personal financial issues. Take a look outside many office buildings at the number of people on the phones, handling personal financial situations. Many employees work similar hours to banks and financial institutions and have to take time from their work day to handle these personal issues. This means company money and company time are being spent on personal issues in the most direct way. In a less direct way, when employees are distracted and worrying about how to resolve an issue, they are not going to be productive. If an employer has a large number of employees with a high percentage of them struggling with financial stress, the cumulative effect could mean that the employer is suffering substantial costs.

The physical symptoms of financial stress are also having an impact on health care costs. As mentioned before, financial stress manifests itself in many physical symptoms of varying severity. According to SHRM, 42 percent of HR professionals reported that medical expenses are the challenge most affecting their employees. [Lee 2014] In addition to these costs, the APA study shows employees may actually avoid seeking medical care because of the cost. [Robertson 2015] To clarify, one in five Americans said that they either have skipped or considered skipping a doctor's visit in the past year because of financial concerns. [Paying 2014] These statistics deal with an individual's out-of-pocket health care costs increasing, but the problem does not end there. An increase in claims from an insured group commonly leads to an increase in premiums for the group. This can increase the cost of health insurance to the employer as well as employee, which exacerbates the problem.

This all goes to show that financial stress in the world today is affecting the individuals and their employers. The high percentage of the workforce (only 15 percent report no financial stress) that is being affected by financial stress also harms their employers. [Robertson 2015]

How to Improve the Situation

The question remains: How does one go about improving financial wellness and reducing financial stress? Ultimately, the way to reduce financial stress is to improve the financial literacy and financial situation of the individual. But how?

One school of thought is to face financial literacy on an individual level. This means making each person responsible for his or her own changes to reduce the financial stress level. Logic implies what changes should be made and makes it seem simple. Maggie Baker said it best: "[E]motions related to money can be so powerful that they prevent us from being fully rational about it." [Baker, M., *Crazy about money: How emotions confuse our money choices and what to do about it*. Holistic Wealth Press, p.1. (Baker)] The emotions tied to money make it much more challenging than a simple logical decision. If asked, just about anyone would say they want to improve their financial situation or literacy, but it is not that simple. There are two main challenges in behavioral finance that explain why this is so difficult: inertia and myopia. To simplify this concept, think about a more common lifestyle change that most have done at some point in their life: starting a diet.

How often do individuals say they are going to start a diet and it takes a while to get going or maybe they never do? Making a financial life change is similar. Getting started is perhaps the toughest part. This concept is called inertia. Shlomo Benartzi, expert in behavioral finance, defined it as the preference for the status quo or the preference not to change, simply because it is change. [Benartzi, S., & Lewin, R., *Save more tomorrow: Practical behavioral finance solutions to improve 401K plans*. New York, NY: Portfolio/Penguin, 2012 (Benartzi)] This is difficult when it comes to an individual's financial well-being as well simply because it means a change in lifestyle and the status quo.

By using the example of a diet, we can explore the other challenge to overcoming financial stress: myopia. Again, Benartzi's definition is simple: "a detrimental focus on the short term." [Benartzi, p.9] Imagine a piece of delicious looking chocolate cake. Beside the cake is a dull banana. Everyone would agree that a banana is healthier for an individual in the long run, but how many people would still choose the immediate satisfaction one gets from a piece of chocolate cake? This is the concept of myopia. Most people are likely to pick short-term satisfaction over long-term benefits, and it is one of the challenges that must be overcome in financial wellness. The choice between enjoying something fun this month or saving that money for an upcoming bill or retirement is difficult to make. Just like with a diet, a balance must be found. Always saving the money and never enjoying it now will burn out an individual much like never cheating on a diet, but always picking the chocolate cake or fun event will leave a person hurting in the long run.

Because financial stress does not only affect an individual, but also the employer and potentially the employer's bottom line, more employers are beginning to offer financial wellness programs to their employees. Fifty-seven percent of HR professionals said that they provided financial education to their employees in 2014, and an additional 21percent plan to offer it in the next 12 months. Of those offering financial education, 72 percent report that the initiative has been effective in improving the financial wellness of their employees. [Lee 2014] These results show that this solution is having an impact on the financial well-being of employees. Of those companies that offered this benefit in past years, 27 percent said they increased the offering in 2014 to be more robust or more available to employees. [*Id.*] The topics of this financial education can vary drastically from introductory budgeting to retirement planning, and the format can vary also from one-on-one meetings to group meetings to Web-based meetings.

In the SHRM report, 24 percent of HR professionals said they had a lack of staff resources to effectively offer financial wellness to their employees. {*Id*.} To combat this challenge, there are programs in the marketplace that can take this workload off of the HR department of an employer. Programs such as SmartDollar™, 8 Pillars™, Financial Finesse™, RetireMap™, and so many others are turn-key solutions to offering financial literacy. All of these programs begin with an individual assessment that is confidential and allows an employee to answer a series of questions to help assess their personal financial strengths and weaknesses or priorities and vulnerabilities. Most of these programs have an aggregate report that goes to the employer that allows it to know which topics are affecting the majority of its workforce and allow targeting of the education to those topics. In addition, most of these providers also include individual Web-based resources and education for the employee who wants to do some work on his or her own time as well.

Conclusion

Financial stress is not something that can be ignored. It is affecting a majority of our population as well as companies that employ those individuals. The costs of financial stress are adding up each year. Individuals need to begin taking steps to improve their personal financial wellness, and employers need to consider implementing financial education and financial wellness programs as a benefit offering.

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