Unhealthy finances: Employees on the edge

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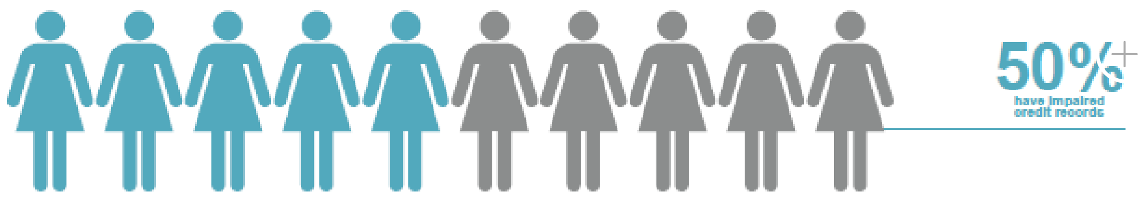
Although financial markets have become more sophisticated and employees better educated, South Africans seem to find being financially healthy every bit as challenging now as it was when Coolidge penned this quote in his 1929 autobiography. About 15% of employees are subject to garnishee orders[1] and almost 50% of South Africans have impaired credit records[2].

Defining Healthy Finances

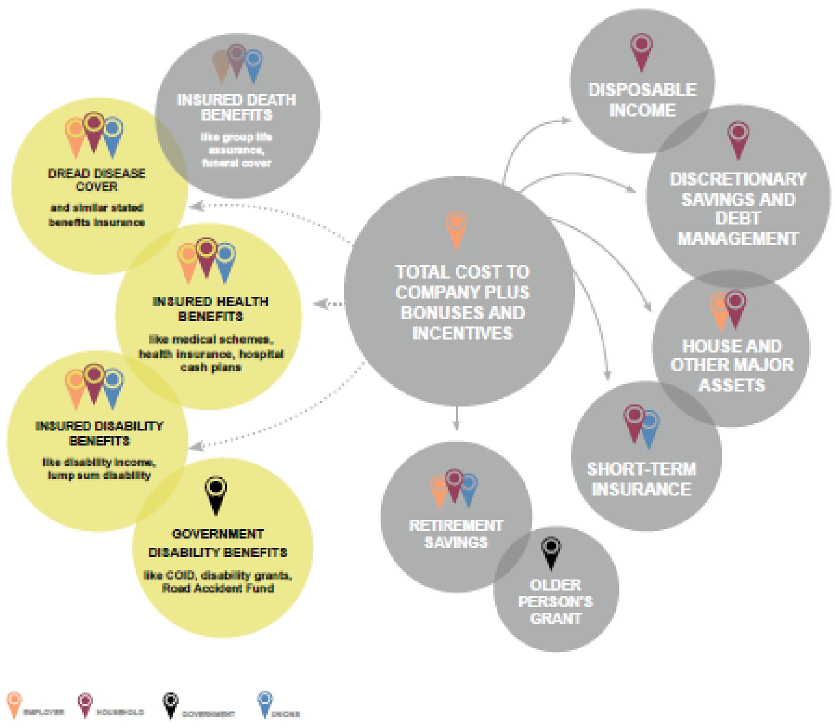
Financial health involves having enough income and net assets to meet your needs throughout your life with enough protection in place to ensure that this is maintained irrespective of what life throws in your path. The employer has an important role to play in facilitating financial health. In doing so, employers need to recognise that benefit packages of the same rand value can have very different effects on an employee's financial health. In other words, how the benefit package is structured can be as important to financial health as the monetary cost of the package itself. Elements of a balanced total rewards system (TRS) are illustrated on the next page. But why should the employer be concerned with personal finances at all?

> **" There is no dignity quite so impressive, and no one independence quite so important, as living within your means. "**
>
> *Calvin Coolidge, US President 1923-1929*

South Africans



The interdependence of personal finance and employee benefits



Whose Problem Is This, Anyway?

Unhealthy personal finances can lead to unhealthy employer finances. This effect is likely to be felt on two fronts. Firstly, unhealthy finances have a direct impact on productivity due to distraction from work. In the longer term, unhealthy finances can create physical and mental health problems due to stress and not receiving appropriate medical treatment. Secondly, these health problems themselves create further financial distress for employees as well as increasing absenteeism, both of which serve to decrease productivity further. Thirdly, it is also possible that unhealthy personal finances can increase workplace fraud and theft of company property.

> **In the longer term, unhealthy finances can create physical and mental health problems due to stress, distraction from work and not receiving appropriate medical treatment.**

The Direct Effects

Absenteeism is closely linked to unhealthy finances and results from poorer physical and mental health and the fact that employees often need a considerable amount of time to address their financial problems[3]. Even if employees with unhealthy finances make it into the workplace, they spend a considerable amount of their workday dealing with their personal finances. One study suggested that 53.9% of employees use work-time to address financial problems[4]. Another indicated that those with very poor financial health spend 26% more work-time than average attending to personal financial matters[5].

Direct effects of unhealthy finances

> **The implication is that reducing deductions for things such as pension fund contributions will not lift employees out of financial distress, no matter how great the appeal may be to the worker.**

The Indirect Effects

Financial distress is known to cause health problems and vice versa. The links between unhealthy finances and stress have been documented for thirty years or more. Financial distress is a key determinant of overall stress levels and stress is a well-known contributor to heart disease and ulcers[6]. In one study, 82.5% of employees stated that financial worries had a negative impact on their physical health[7]. However, this may represent the tip of the proverbial iceberg. US research indicated that unhealthy finances impact on physical health in a number of ways[8]. Poor money management can result in people delaying medical treatment or not receiving any at all. Alternatively, people may choose cheaper public sector care, which may be of lower quality.

This may be particularly true in cases where individuals allow their medical scheme membership to lapse or reduce their coverage level to increase their take-home pay. In the longer term, a lack of money may prevent individuals from taking preventative health measures such as eating well and going for healthcare screening, although corporate wellness initiatives can reduce this effect. This can be exacerbated by employees in financial distress letting insurance policies lapse, which makes them vulnerable to life events including illness or injury. Financial distress has also been linked to increased accident rates both at work and outside the workplace[6], which means that one employee's financial problems may impact negatively on the health of their co-workers, their company's safety record or society as a whole.

While financial health can impact on physical health, poor physical health can also contribute to poor financial health. A 2005 study indicated that health crises contributed to almost half of all personal bankruptcies in the US. This is not only due to the medical bills themselves but the concurrent loss of income that can arise when poor health jeopardises job security[8] and performance.

How Big A Problem Is Financial Health For Employers?

In 1979, Brown estimated the cost to the employer as a result of reduced productivity to be about 10% of total salary bill and this is still the most quoted estimate of the cost of financial distress[6]. However, it doesn't capture all the indirect costs such as higher health insurance costs and fraud, as well as lost productivity due to secondary ill-health brought on by financial distress[9].

How Have Employers Responded?

Employers may be pleased to note that research shows that simply increasing salaries is not the solution[6]. The implication is also that reducing deductions such as pension fund contributions will not lift employees out of financial distress, no matter how great the appeal may be to the worker. American employers have found a number of creative ways to assist employees who may be in financial distress but the evidence suggests that education coupled with counselling may be the solution[6]. Taking positive action to reduce financial distress, such as enrolment in a debt counselling programme, has been shown to improve financial status and this also has a positive knock-on effect on health. However, interventions need to be sustained and it can take 18 months for the effects to be felt[8]. This requires commitment both from the employer and the employee. For programmes to be successful, they need to integrate physical, mental and financial wellness initiatives. When we surveyed employers, we found that of employers who believed wellness programmes could improve productivity, only 30% had financial wellness programmes in place[10].

Implications

Most employers have wellness initiatives to improve physical and mental health. However, financial health should be dealt with concurrently and with more emphasis if employers want to help employees become more productive. This could start with the employer reviewing their benefit programme as a whole, considering all aspects of financial health and taking into account their specific demographics and the identified gaps or shortfalls in benefits. But it should go further to have real impact. Employers looking to introduce financial wellness initiatives should consider face-to-face education initiatives together with personal financial coaching through workplace programmes. They may be surprised by the return on investment.

References

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UNHEALTHY FINANCES

PERSONAL FINANCE EMPLOYEE BENEFITS DEBT