WHITE PAPER

American Workers:

Getting Ahead or Just Getting By?

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American Workers: Getting Ahead or Just Getting By?

A white paper on American workers' struggles to attain financial security

This study from Alliant Credit Union and The International Society of Certified Employee Benefit Specialists (ISCEBS) finds that American workers are struggling to get ahead financially and they're looking to their employer for help.

- American workers are struggling to gain control over their financial lives and many are living from paycheck to paycheck.
- Unfortunately, employers are not offering the kind of assistance that can aid employees with achieving financial wellness.

Turns out, employers can take a few low-cost, significant steps to help their employees achieve financial wellness, which, in turn, can yield more engaged and productive employees.

American Workers: Getting Ahead or Just Getting By?

The study examines American workers' ability to manage their finances and provides an in-depth look at how well companies think they provide for their employees. It is based on two research surveys conducted in March 2008 by Alliant Credit Union in conjunction with ISCEBS, whose membership represents 4,000 benefits specialists working in all industries.

One survey, representing employers, was conducted among members of ISCEBS to find out how well employers provide for their employees' financial well-being and their success at educating them to become better consumers. The survey queried participants on the employee benefits offered and their organizations' ability to act as an employee's financial partner.

The second survey, representing the U.S. labor force, was conducted among 420 workers to ascertain their opinions and attitudes toward their employer as a financial partner. The survey queried participants on the extent to which they think their employer helps provide for their financial well-being and provides access to services that aid them in becoming better consumers. The survey also examined their financial situations as a group, in order to gain a better understanding of their financial security and success.

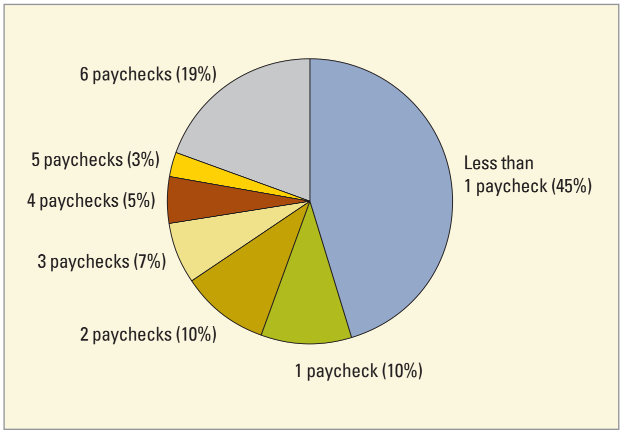
Key findings of the study include:

- Employer benefits such as health and retirement plans are seen as important, but primarily for future rather than present needs. Many employees have financial needs that require assistance in the "here and now".
- Employees with financial concerns spend significant work time dealing with personal financial matters.
- Although employees are generally pleased with their income levels, they can't seem to save money or get ahead financially. In fact, over 50% describe themselves as living from paycheck to paycheck. Less than 20% considered themselves to be financially secure.
- More and more workers are financially strained by increasing credit card debt.
- Employees generally feel they lack knowledge about handling money.

The Problem: American workers are struggling to get ahead financially and many are one paycheck from financial trouble.

- 81% do not feel financially secure
- 88% carry monthly debt they must address
- 75% expressed the need to save more money
- 55% live paycheck to paycheck, with only the equivalent of one or less of their paychecks in the bank to handle any financial emergencies that may come their way

Average Number of Paychecks Saved



This situation has grave consequences for employers. Namely, a worker with financial problems spends 15 minutes per work day dealing with personal financial matters. In other words, these economically-stressed employees spend 75 minutes per week (or 62.5 hours in a 50-week work year) on an employer's dime, worrying about their own bottom line, rather than doing productive work to enhance their company's bottom line.[1]

The Opportunity: The Alliant/ISCEBS study found that 85% of today's employees want useful financial information at the workplace to help them become more savvy consumers.

Today, only 10% of employers currently have some sort of program to educate employees on how to be a better manager of their own money. That's where an employer can come in and create a win-win situation for themselves and their employees.

Employees would also appreciate money-saving benefits, such as reduced rates on group auto and home insurance, mortgages and other loans. Yet, only 15% of today's employers leverage their employees' borrowing power to secure better rates for them.

Employees' financial stress costs corporations over $7,000 per worker in lost productivity, on an annual basis.[2]

Workers mired in personal debt raise a red flag to employers. In a typical scenario, these workers are less productive on the job and more likely to make poor decisions that hurt their company. They also are more likely to suffer health problems, take sick days and be focused on finding a job that offers better pay.

An unpleasant conclusion? Yes, but there are steps employers can take to prevent this from playing out in their company. When employers provide benefits that help increase their workers' financial confidence and well-being, these workers, in turn, become more satisfied with and committed to their company.

By offering financial education services and a means for employees to access and enjoy better rates than they can obtain from a typical financial institution, employers can make a difference both in their employees' lives and, in turn, for their company's bottom line. The good news: the cost to the employer for these benefits can be minimal.

The Employer's Perspective

It's More Than Just Money – The True Costs of Total Rewards

In December 2007, the federal government reported that the average employee costs employers $28.11 per hour,[3] of which only $19.62 (less than 70%) represents tangible wages (see figure 1).

Average Employee Costs to Employer

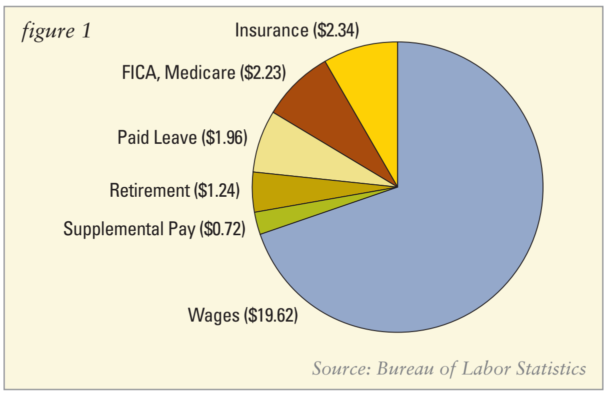


figure 1

Source: Bureau of Labor Statistics

Note: This is before taxes, so the amount employees earn and the amount they actually get to keep are two different things.

Employer-provided benefits account for over 30% of the average employee's compensation, with insurance accounting for the largest cost component. The true cost of employment is greater than the wages paid to the employee, and the actual reward that is received by the employee is far less than what is provided by the employer.

Despite their cost, benefits serve as a strong motivator to building employee loyalty. *The MetLife Sixth Annual Study of Employee Benefits Trends*, conducted in 2008, showed that employees cite health and retirement benefits as important, second only to salary/wages when asked to identify the importance of work-related elements that inspire them to feel loyal to their employers.[4]

Benefits Offered

The most pervasive benefits offered by employers typically include both health care and retirement benefits.[5] As illustrated below in figure 2, our surveys generated similar results among both the labor force and benefits professionals.

Benefits Offered by Employers

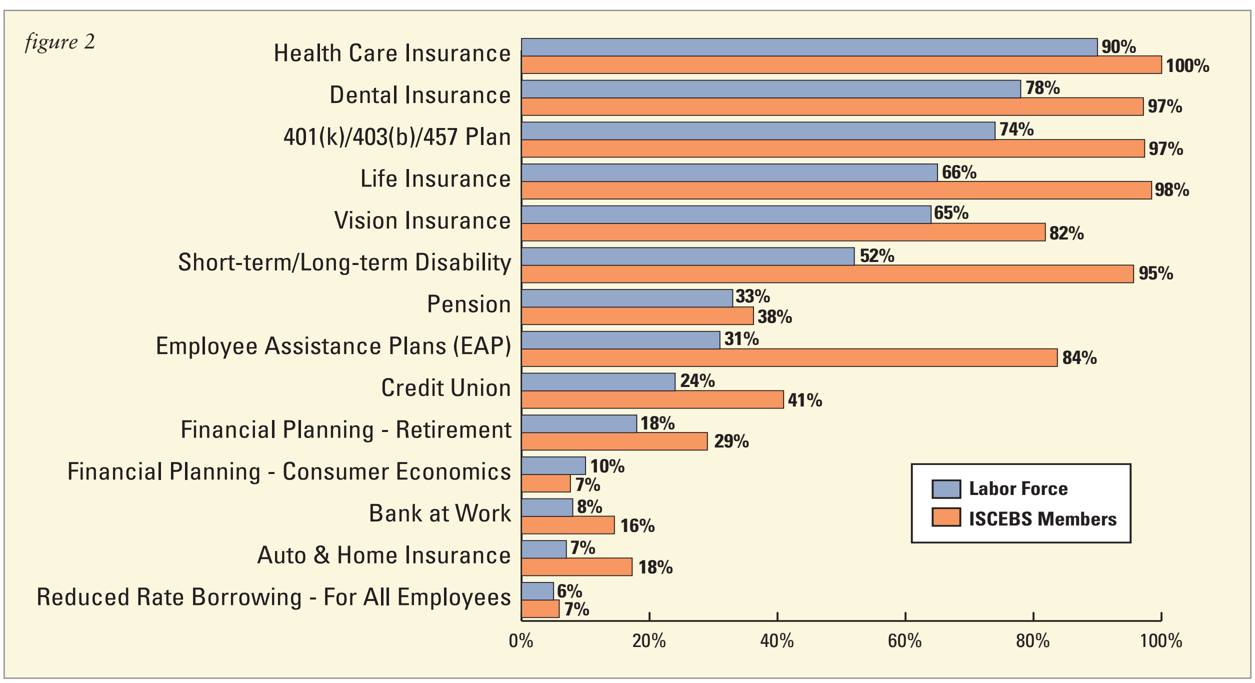


figure 2

Certainly, employers work hard to ensure that their employees' medical needs and retirement security are met, but what about other needs such as their financial security in the "here and now"?

The survey results revealed that: (see figure 2)

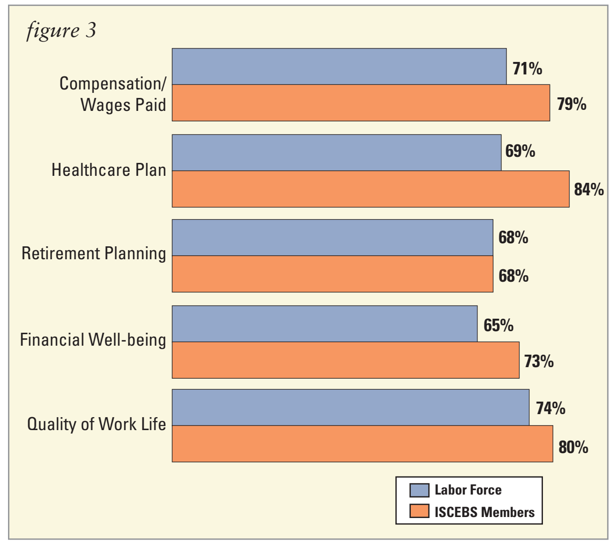
- Retirement plans are pervasive, but financial planning for retirement is not.
  - Only 28% of the ISCEBS respondents and 18% of the labor force respondents report that their organization offers some form of counseling for retirement.
- Financial planning covering topics such as basic consumer economics is practically non-existent.
  - Only 7% of the ISCEBS respondents and 10% of the labor force respondents have access to some form of program which educates employees on how to be a better consumer.
- Money-saving programs, such as group auto and home insurance and reduced-rate borrowing, are limited.

Thus, employers who lack the types of programs that address their employees' desire for financial services and education will see a reduction in employee productivity and engagement. A worker with financial problems spends 15 minutes per work day dealing with personal financial matters. This equates to 75 minutes per week, or 62.5 hours in a 50-week work year.[6]

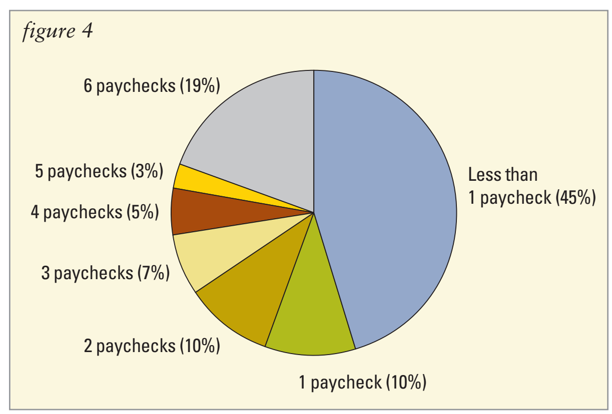
It's More Than Just Money

The surveys asked both benefits professionals and members of the labor force to rate the compensation/wages paid by employers. A majority of the labor force rated their employer as "excellent", "very good" or "good" on this issue (see figure 3). Over 70% of U.S. workers are satisfied with the money they make. But, this satisfaction is only half of the picture. These same people, according to their own assessment, just can't seem to get ahead and feel financially secure.

Percent Rating Employer as "Excellent", "Very Good" or "Good"



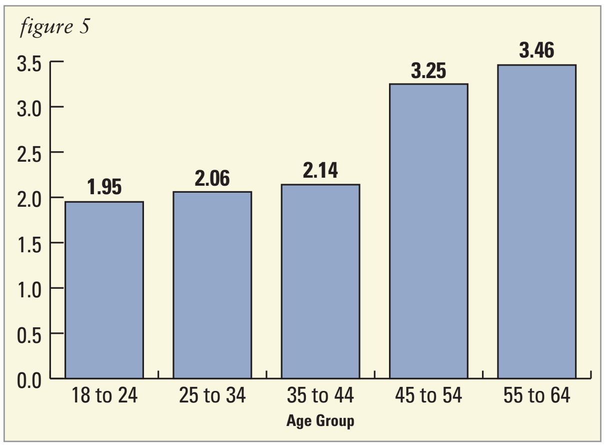
Average Number of Paychecks Saved



Saving is a Challenge

Employees are ill-prepared for any financial setbacks that may arise. Over half of the respondents indicated that they have the equivalent of one or fewer paychecks in the bank (see figure 4). Experts say that an individual should have at least three months' worth of their living expenses set aside as an "emergency fund" to help get through unforeseen financial situations. While older workers tend to have more savings (see figure 5), even their savings are insufficient to handle unforeseen financial events.

Average Number of Paychecks Saved in After-Tax Savings by Age Group

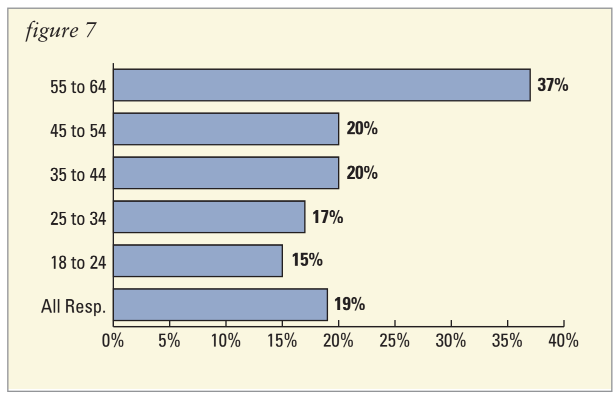


Labor force respondents were asked to comment on various statements concerning their finances. A strong majority of workers – more than three out of four – expressed the need to save more money. Half demonstrated a tendency to live from paycheck to paycheck, while only 19% indicated they are financially secure (see figures 6 and 7).

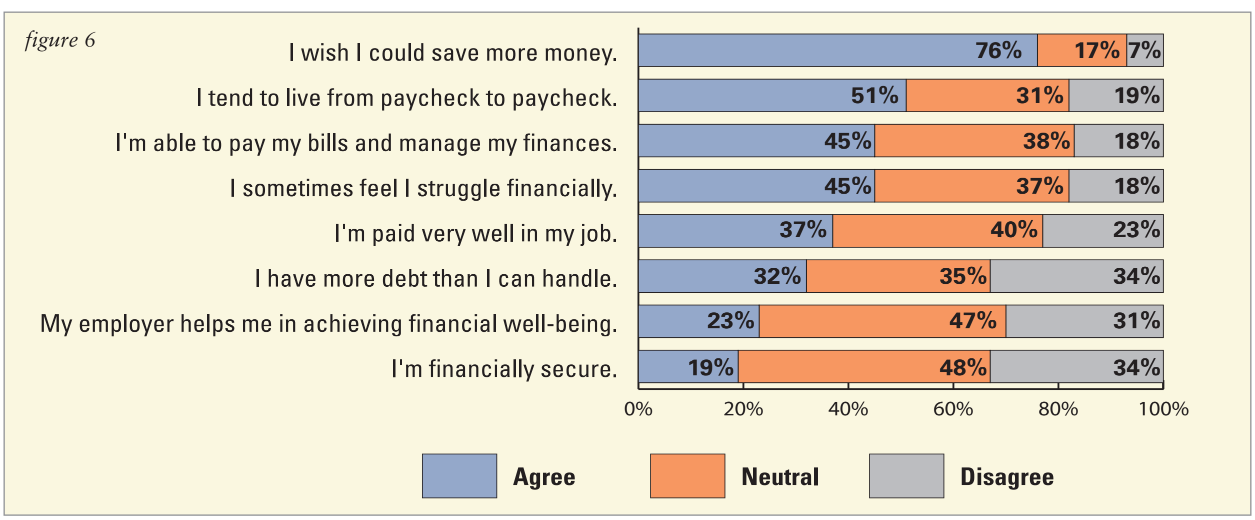
Again, the feeling of financial security tends to increase with age, but there's no doubt that people recognize they need to do more to ensure their financial security.

So how much money does one need to be considered financially secure? According to the National Savings Rate Guidelines for Individuals,[7] that amount varies widely by age and income, however, accumulated savings ranging from $118,000 to $1.5 million at the age of 65 (depending on annual income while working) is sufficient. These numbers represent the median of what an individual should

Respondents Financial Security by Age



Employees' Financial Concerns



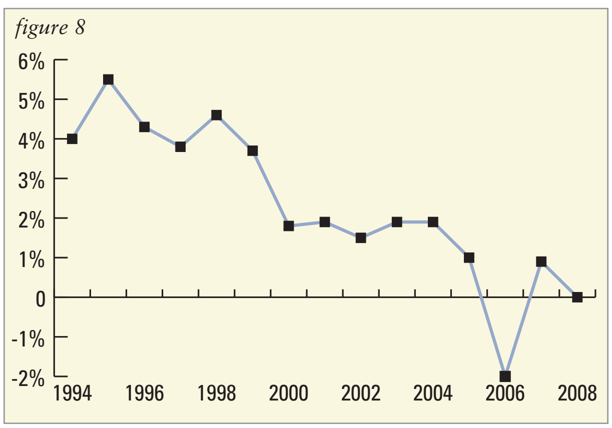
have saved at their age and income in order to retire as a financially secure individual. Thus, a 45-year old with $60,000 in income should have already saved a median of $113,526 (see Appendix 1).

More Money, Less Savings

The evidence of this study supports that while the desire to save is there, American workers are struggling to set anything aside.

As illustrated in figure 8, Americans have been saving less and less, even though, surprisingly, they currently seem content with their compensation.

Personal Savings Rate



Source: Federal Reserve Bank

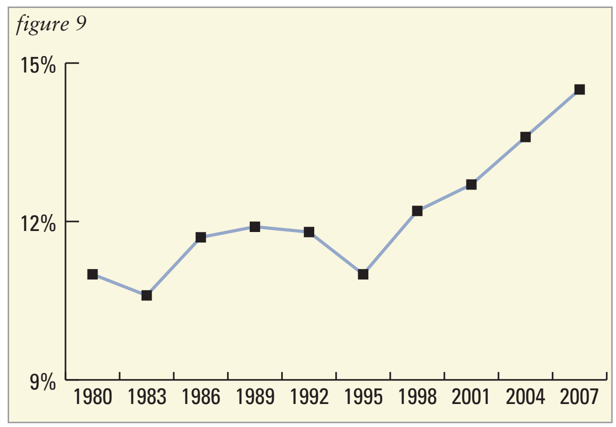
Climbing the Mountain of Debt

Over 88% of the respondents indicated that they have monthly debt that they must address. Over 50% report that they carry debt on their credit cards each month, and are also obligated to pay for other monthly debt payments such as an auto loan and mortgage. 17% are also repaying debt to relatives or friends.

In fact, lack of attention to detail aggravates the problem. Only 34% of American consumers know the interest rate of the credit card they use most often.[8]

Debt and the acceptance of household debt is becoming more and more a part of everyday American life. Since 1993, household debt – when expressed as a portion of disposable income – has climbed steadily from 11% to over 14% in 2007 (see figure 9).

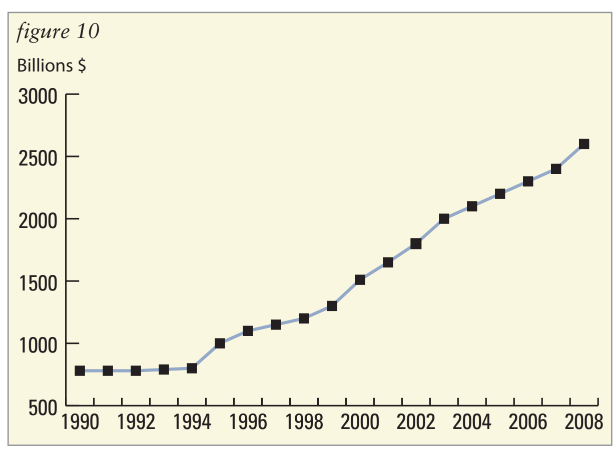
Household Debt as a Percent of Disposable Income



Source: Federal Reserve Bank

While an increase of 3% (from 11% to just over 14%) may not represent a serious trend, consider this: Total consumer credit outstanding has more than tripled during this time (see figure 10). While

Total Consumer Credit Outstanding



Source: Federal Reserve Bank

disposable income has increased, so has the debt American consumers are willing to take on – and with significant repercussions. Over 1.6 million non-business bankruptcies occurred between 2003 and 2005, double the 800,000 average during 1994-95 (see figure 11).[9]

Non-business Bankruptcies, Total

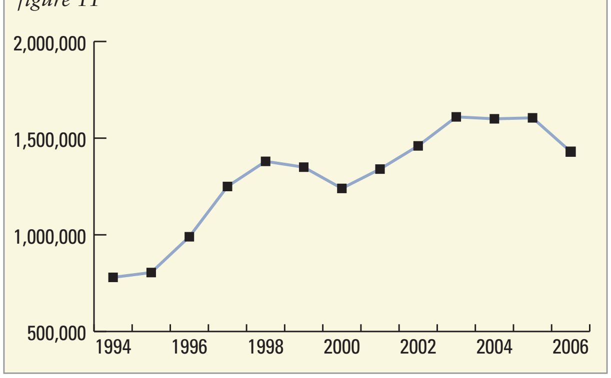


figure 11

Source: Federal Reserve Bank

Credit cards, the number one form of debt for most people, have certainly done their share to enrich (or possibly to confound) the American dream. Originally developed after World War II and offered to a select group of affluent, upscale Americans, credit cards have become a "must-have" for most consumers.

In addition to other types of debt, it's estimated that 164 million Americans held one or more credit cards in 2005. This number is projected to increase to 176 million by 2010.[10]
Consider the following statistics:

- There were 1.3 billion credit cards in circulation in the United States in 2005.[11]
- Credit card companies made $43 billion in fee income from late payment, over-limit and balance transfer fees in 2004.[12]
- $832 billion in credit card balances are carried from month to month (according to Federal Reserve figures). This is projected to increase to over $1 trillion by 2010.[13]

The Decline in Financial Literacy

While household debt and bankruptcies increase, Americans' ability to manage their finances is declining. In January 2008, President Bush announced the formation of the President's Advisory Council on Financial Literacy. In a response related to the developments of the recent mortgage crisis, it's become apparent that the federal government understands the dangers of financial illiteracy and economic downturns.

Consumers have become less savvy in an era of increasing financial complexity. In the Jump$tart Coalition's biennial survey, funded by the Merrill Lynch Foundation, graduating high school seniors correctly answered only 48.3% of the questions. This mean score is a decrease from those posted by the senior class of 2006, which correctly answered 52.4% of the questions. The key findings include:[14]

- 48% correctly said that a credit card holder who pays only the minimum amount on monthly card balances will pay more in annual finance charges than a card holder who pays their balance in full.
- 17% correctly answered that stocks are likely to yield higher returns than savings bonds, savings accounts and checking accounts over the next 18 years even though there has never been an 18-year period where this wasn't true.
- 40% correctly answered that they could lose their health insurance if their parents become unemployed.
- 36% think a house financed with a fixed-rate mortgage is a good hedge against a sudden increase in inflation, compared with 45% in 2006.

What is the Employer's Role?

Benefits professionals were asked to comment on various statements using a 10-point scale. Figure 12, on the next page, combines their answers into three groups. While most benefits professionals surveyed stated that they offer superior salary and benefits, they offer little assistance when it comes to figure 12

Employer Views on Providing for Employees Financial Well-being

ISCEBS	Agree	Neutral	Disagree
As compared to other firms in our industry, we offer employees an excellent total rewards package.	55%	33%	12%
We partner with our employees to assist their financial well-being.	**17%**	43%	39%
We are proactive in counseling our employees on financial management.	**17%**	40%	44%
Most employees are able to manage their finances effectively.	13%	52%	36%
Very few of our employees live from paycheck to paycheck.	13%	29%	58%

everyday financial management. Employers are largely neutral to the idea of "partnering" with employees to assist in their "financial well-being."

Yet employee interest in the employer taking an active role in their finances is growing. *The MetLife Sixth Annual Study of Employee Benefits Trends*[15] conducted in 2008, concluded "more employees than ever before indicate an interest in obtaining advice and guidance from their employers for their financial preparations."

While it's understandable that employers don't want to become the gatekeeper of their employees' finances, one can only wonder what would happen if employees were capable of managing their money more effectively. 65% of Americans think that no one is looking out for their financial future.[16] This presents employers with a golden opportunity.

Our study shows that employees want to receive financial information from their workplace. Similarly, a study from Bernheim and Garrett (1996) found that employees relied on employer-based financial education to a large extent when it was available, and the employer-based financial education strongly influenced household financial behavior.

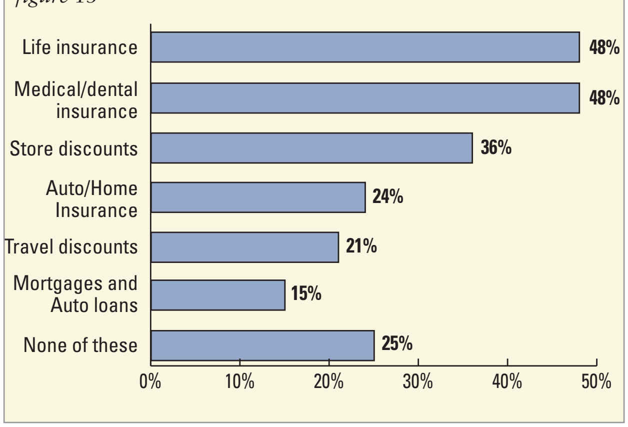
- According to a survey by National Family Opinion Research, Inc. for American Express Financial Advisors, 85% of respondents were seeking financial information at their workplaces (Gorbach, 1997).[17]
- Additionally, employees who participate in workplace financial education more fully understand personal finances, become more confident of their future financial situation and are more likely to be satisfied with and supportive of their company (Hira and Loibl)[18]

Yet, employers don't see it that way. In our survey of benefits professionals, only 17% indicated that they partner with their employees to assist in their financial well-being. Furthermore, most acknowledge that they are not proactive in providing financial education and counseling for employees who need it (see figure 12).

While employers are focused on providing for their employees' financial futures through a tax-favored retirement plan, such as a 401(k), 403(b) or 457 plan, many do not address the employees' current financial needs. For example, only 15% leverage the borrowing power of their employees to obtain better rates for them on mortgages and auto loans (see figure 13).

Percent of Benefits Professionals Reporting They Obtain Group Discounts for Benefits Offered

figure 13



Better interest rates and education on debt management can be a much needed jump-start to give employees a financial leg up.

Consider the finances of an employee with a mortgage, auto loan and credit card debt. The scenario in figure 14 below demonstrates examples of the dramatic differences between typical interest rates charged. In this scenario, a financially-educated employee – one who knows how to maximize savings, manage debt and maintain good credit – can realize a net gain of over $2,400 per year.

- Smart shopping on interest rates paid on debt can lead to a savings of $179 per month.
- Likewise, a higher return on savings can lead to increased earnings of $255 over the course of a year.

Value to Employer

If an employee can reduce his/her interest expense and increase his/her interest income by $2,400 a year, what is the value to the employer? Stated another way, how much would it take for the employee to see a raise of $2,400 per year in net pay?

figure 14

Smart Financial Management

Monthly Debt Payments	Better Rate	Higher Rate	Difference
Mortgage, $200,000, 30 yr. Fixed (5.5% vs. 6.5% APR)	$1,136	$1,264	$128
New Auto Loan $25,000, 60 Months (5.5% vs. 6.5% APR)	$478	$489	$11
Credit Card Balances $8,000 (12.5% vs. 18.5% APR)	$83	$123	$40
Total Monthly Payments	**$1,697**	**$1,876**	**Monthly savings in interest expense $179**
Annual Savings on Interest Expense ($179 x 12)			**SAVE $2,148**

Savings Accounts	Better Rate	Higher Rate	Difference
$10,000 Money Market (1.5% vs. 4% APR)	$145	$400	**EARN $255**
Net Gain to Employee			**$2,403**

Depending on the tax situation and marital status, employers would need to pay anywhere between 112% and 125% of this $2,400 for the employee to realize the same net gain benefit in salary. It would cost the employer between $2,688 and $3,000 annually per employee in salary to provide this kind of advantage. Alternatively, it's estimated that the employer would have to pay an additional 30% in benefits, or anywhere between $3,494 and $3,900 for the employee to see the $2,400 advantage.

Conclusion

Based on our research, our position is that American workers are struggling to get ahead financially as their savings rate declines and debt climbs. Consequently, employees are bringing their financial troubles to work, resulting in lower employee engagement, productivity and performance. Employers have responded to what they perceive as their employees' financial needs through wages, health insurance and retirement plans. Therein lies the gap between the needs of today's employees and the benefits programs employers have to offer. Benefits such as health and retirement plans are vital, but are primarily for future rather than day-to-day needs.

The financial wellness of employees and the profitability of a business are closely linked. An employer that helps its employees understand and gain control of their personal finances will realize significant improvements in lower absenteeism, higher productivity and employee engagement, reduced turnover and greater profitability.

Appendix

Appendix 1

Projected Accumulated Wealth by Current Age for Various Income Levels at 80% Net Income Replacement

Age	Income $20,000	Income $40,000	Income $60,000	Income $80,000	Income $100,000	Income $120,000
35	$0	$0	$0	$0	$0	$0
40	$9,811	$27,836	$49,969	$74,839	$100,394	$131,425
45	$22,290	$63,243	$113,526	$170,029	$228,088	$298,588
50	$39,117	$110,984	$199,226	$298,384	$400,271	$523,991
55	$59,408	$168,553	$302,567	$453,160	$607,898	$795,793
60	$85,394	$242,282	$434,916	$651,381	$873,804	$1,143,889
65	$118,414	$335,965	$603,084	$903,249	$1,211,675	$1,586,193

Source: Journal of Financial Planning; April, 2007

Endnotes

[1] So-hyun Joo and E. Thomas Garman, "The Potential Effects of Workplace Financial Education Based on the Relationship between Personal Financial Wellness and Worker Job Productivity©," Personal Finances and Worker Productivity, 1998, Vol 2, No. 1, 163-173.

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[11] United States, Statistical Abstract of the United States, 2008, "Table 1157 – Credit Cards – Holders, Number, Spending, and Debt, 2000 and 2005, and Projections, 2010."

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[18] Tahira K. Hira and Cazilia Lobil, "Understanding the Impact of Employer-provided Financial Education on Workplace Satisfaction," Journal of Consumer Affairs, Volume 39, Issue 1, p 173-194, April 2005, www.blackwell-synergy.com/links/doi/10.1111/j.1745-6606.2005.00008.x/abs/, June 12, 2008.

This study was conducted by Alliant Credit Union and the International Society of Certified Employee Benefit Specialists.

ALLIANT℠
credit union

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