Uncover the science behind employees' financial behaviours

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In partnership with

SYNTONIQ

MetLife®

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Foreword

Early in 2017 we launched our Employee Benefit Trends Study, with our research revealing that addressing employee stress – and, in particular, distractions due to financial concerns – was a key area where businesses lacked the 'know-how' to help employees feel more financially in control.

The UK's political, social and economic landscape is rapidly changing and creating uncertainty for businesses and their employees. We realised that we needed more insight to help businesses drive engagement, leading to greater business success. Our partnership with Syntoniq has allowed us to explore this common challenge from a behavioural perspective – their expertise on the cognition behind people's financial choices makes for fascinating reading, and we hope that it will boost engagement strategies for those who want to create a happy, financially well and sustainable workforce.

Jo Elphick
Marketing Director, MetLife UK

Designed with financial advisers and employee benefit providers in mind, I launched Syntoniq in 2016 to enable insight-driven financial planning through behavioural analysis tools. Our partnership with MetLife, a leading employee benefits provider in the UK, is an important one – especially as financial wellbeing remains high on the agenda as we continue to navigate our way through times of uncertainty.

Employers now have the opportunity to empower their workforce to take control of their own financial future, but may be wondering where to start – this white paper sets out to build a business case for why employers should push financial wellbeing to the top of their agenda, as well as highlight what the current limitations of used approaches are, and offers new behavioural approaches to consider.

Prasad Ramani
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Founder and CEO, Syntoniq

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Introduction

On 24 June 2016, as the result of the EU referendum was announced, the pound dropped by more than 10%[1] to its lowest level in three decades.

In addition to Brexit, the UK faces other critical issues such as rising inflation, sluggish wage growth and slower-than-expected economic growth. The UK of 2017 is a very uncertain place.

Wary of trusting their government or their financial institutions[2], more and more UK workers are looking for a stabilising force to rely on for their financial wellbeing. With increasing numbers of companies recognising their responsibility for employee health and wellbeing, employers are starting to take action.

They need energised, focused employees who together form a productive, reliable and committed talent force that enables them to compete and deliver sustainable growth. When employees are worried and uncertain, they can become distracted and disengaged. To combat this, some employers have introduced wellness programmes designed to improve their employees' overall health and wellbeing.

The 2017 MetLife Employee Benefit Trends Study made some interesting discoveries in employee and employer sentiment related to wellbeing. The report showed that 73% of employers are now using benefits to attract talent, something only 61% of them were doing two years ago. When asked if they placed high value on benefits provided by their employers, 55% of employees agreed, a significant increase from the 40% who answered in the affirmative in 2015.

Financial concerns among the UK workforce have started to become a major issue. In 2015, 12% of employees surveyed said they were distracted at work due to their financial worries. In the two years since, that number has nearly trebled to 36%. This is as much a cause for concern for employers as for the employees themselves.

The report showed that

73% of employers are now using benefits to attract talent

In 2017 **36%**

In 2015 **12%**

of employees surveyed said they were distracted at work due to their financial worries

2

Why employee financial wellbeing matters

In 2014, Barclays released a study[3] showing that corporate profits dipped by 4% due to employee worries about their personal finances.

The same study reported that 38% of employees were willing to move to another company if it made their financial wellbeing a priority. They chose this over what type of work they would be doing or even where they would be living.

Behavioural science research on cognitive scarcity[4] suggests that people who live under conditions of economic hardship or financial worry, have reduced mental bandwidth. As a result, their cognitive functioning can become weakened. A reduction in cognitive power and poor decision-making not only affect work performance, but may also reinforce financial problems, resulting in a vicious circle.

For employees feeling the strain of uncertainty, concerns about financial wellbeing go beyond psychological or emotional factors. According to Bank of America's Workplace Benefits Report[5], more than 50% of employees said that financial stress had taken a toll on their physical health. This not only impacts workplace productivity, but results in losses due to employee absenteeism, as well as increased healthcare costs.

The report showed that

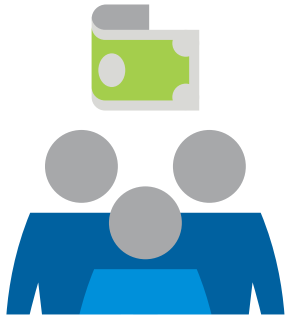
38% of employees were willing to move to another company if it made their financial wellbeing a priority

Financial stress, and the resulting cost of turnover, can be as **high as 200%** of the original employee's salary.

Financial stress can also lead to employees leaving their jobs, either in search of better remuneration, or due to termination because of an inability to carry out their responsibilities satisfactorily. The resulting cost of turnover and replacement can be as high as 200% of the original employee's salary.[6]

What is financial wellbeing?
Someone who is 'financially well' is not necessarily rich, debt-free or sitting on a big pension pot. We define them as having:

- Control over day-to-day, month-to-month finances. They know what's coming in and what's going out.
- Capacity to absorb a financial shock - such as a period without work or a family illness.
- Confidence that they're going to meet financial goals - such as buying a house, funding a child's education or retiring on target.
- Choices that allow them to enjoy life as they might reasonably expect - affording a holiday, say, or eating out at a restaurant.



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Limitations of current approaches

While many companies already have multiple financial benefits in place for their employees, these may have some key shortcomings.

Let's have a more detailed look at what the typical approaches are and why they may fail to address employees' most pressing needs.

Low pension auto-enrolment

Work-based pensions in the UK take a percentage of an employee's pay and put it into a pension scheme automatically every payday. Employers have a legal obligation to enrol their employees in these schemes, the aim of which is to ensure that in retirement people have a second source of income on top of their state pension. A major problem with the schemes is that the minimum contribution can be as low as 1%, much lower than the projected retirement needs of most of the UK population.

Impersonal financial education programmes

As part of financial assistance programmes, many organisations also offer some type of financial education, typically focusing on areas such as budgeting, saving and investing. While this is a step in the right direction, it is often delivered impersonally and without much thought about the behavioural change it should be seeking to achieve. Programmes that are not tailored to an employee's personal circumstances, do not tend to show sufficient practical impact on financial behaviour, and may turn out to be ineffective.

> The **least effective measures** are **one-time hits** – a **quick course of budgeting**, for example.

Infrequent interventions

A team spokesperson at the Center for Social Development at Washington University in St. Louis notes[7] the importance of continuous interventions, "The least effective measures are one-time hits – a quick course of budgeting, for example." Good intentions? Perhaps. Effective in easing the burden of financial stress? No.

The real problem may be that companies are giving employees lots of information, but no real direction or motivational boosts. Good intentions often don't translate into actions, which can be alleviated by facilitating better decisions through behaviour change programmes. For financial wellbeing initiatives to be effective, employees also need to get connected with the programmes at an emotional level. Without attempting to personalise these programmes, employers can never hope to make a significant difference to employee financial wellbeing.

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A new behavioural approach

It's often said that you get out what you put in. Offering employees a bare minimum amount of training or counselling, is likely to see them respond with the bare minimum of enthusiasm and desire to take action.

Employers can significantly improve the effectiveness of their programmes by including the following three elements, none of which demands a higher employer investment: increase employee motivation through self-awareness; redesign choice architecture to enable good financial decisions; and put in place systems to encourage this as part of an ongoing dialogue.

Taking **positive actions**, even small ones, **helps people expand** their **skill sets.**

4.1 Motivation via increased self-awareness

What motivates the average employee to put more of their salary into a pension that they know they won't see for decades? Why should they pore over pages and pages of financial products to find the right one for them?

If the motivation behind an action is unclear, most people will find a way to procrastinate until the end, and will rationalise why it can wait for later. So, as a first step, employers must use the right tools to motivate their employees to get more engaged with financial planning.

To do this, employers may choose to apply a bit of tried-and-tested social psychology. Instead of trying to inform or convince employees to act, or relying solely on external incentives, companies can also rely on employees' capacity for self-persuasion by generating internal forces.[8] For example, individuals may be asked to think about their level of concern about their financial situation or objectives, along with their current financial behaviours (such as budgeting, debt control or planning for retirement). Becoming aware of potential gaps between behaviour (what is) and concern (what ought to be) can lead to the uncomfortable but effective tension that often triggers action.

When employees become aware of their own financial situation and are motivated to improve it, the burden of financial wellbeing begins to shift from the employer to the employee. This is a critical transition on multiple fronts. From the employer's point of view, it makes the task of reducing employees' financial stress more of a winnable fight, because employees are now on their side. It also promotes positive action in employees. Taking positive action about a problem creates an enormous shift in how a person thinks and acts.

A research paper by American scientist Barbara Fredrickson[9] reveals that taking positive actions, even small ones, helps people expand their skill sets, while taking negative actions or keeping a negative mindset narrows their ability to focus on more than one thing at a time. In the workplace, this can be seen in employees being so focused on their personal financial difficulties, that they fail to keep up with their assigned tasks.

To increase accountability in employees when it comes to their benefits, companies could stop offering all wellness programmes unconditionally to employees. Instead, employees would unlock new wellbeing benefits and training by improving their participation levels and achievements. This would allow them to feel a sense of pride and accomplishment, while holding them accountable for their own benefits.

Being faced with a number of choices or high complexity of individual alternatives **increases choice difficulty** and **uncertainty.**

4.2 Nudging behaviours and redesigning choice architecture

Research in psychology and behavioural economics has shown that people's financial decision-making is far less rational than normative economic theory predicts.[10] Human beings lack the time, information and brain power to make optimal decisions, and are easily influenced by emotions, intuition and salient information in the environment.[11]

Current systems are designed to provide us with lots of information and choices, in the hope that we will make rational, intelligent decisions concerning our future financial wellbeing.

However, this is often not the case, as illustrated by the following biases in financial decision-making:

- **Overconfidence.** People often hold an inflated view of their own competencies, are prone to exaggerate the probability of a particular outcome occurring, and believe they can affect it to a greater degree than they actually can.[12] This may influence everything from making the right savings choices to anticipating one's financial needs as a retiree.
- **Status quo bias.** Humans prefer things to stay the same, which can be manifested in inertia or inaction, habitual behaviours, as well as persevering with a past decision.[13] For example, people may fail to switch their insurance plan, even when better options are available.
- **Present bias.** People tend to prefer immediate rewards over potentially more valuable future payoffs.[14] Impatience and impulsiveness are the main reasons behind undersaving and overspending. Inertia and present bias together are a powerful cocktail to produce procrastination.
- **Loss aversion.** We are naturally averse to pain, and feel losses to a greater degree than we feel pleasure from equivalent gains.[15] This loss aversion affects savings, for example, because people get used to a certain level of disposable income and tend to view reductions in that level as a loss.[16]
- **Decision paralysis.** Being faced with a large number of choices or high complexity of individual alternatives, increases choice difficulty and uncertainty. Consumers may end up not only unhappy as a result, but also 'decision fatigued' or inclined to defer a decision altogether.[17] Financial products are frequently mentioned in discussions of decision paralysis.

From a behavioural point of view, just raising awareness or increasing motivation to engage in an action may not be sufficient to trigger the right actions. A complementary approach is needed to help employees make decisions, by redesigning 'choice architecture' or 'nudging' them in the right direction.[18]

Nudges are small changes in the way choices are presented to individuals, designed to steer decisions in a way that is beneficial to the decision-maker. To qualify as a nudge, the design change cannot restrict choice or alter incentives, but must instead apply psychological principles to affect behaviour for the better.[19]

The following are some of the tried-and-tested nudges that employers can use to help employees make better financial decisions.

Defaults. When people are presented with a choice, the default can be set to have them accept a course of action without having to make an active choice[20]; whether it's auto-enrolling in a pension plan, getting a health examination scheduled, or participating in a financial wellbeing seminar. An opt-out approach requires employees to physically check a box, click a button or swipe a screen if they do not wish to participate. We are naturally inclined to go with the default due to inertia, and because the default may be perceived as the norm or recommended course of action.[21]

Simplification. Complexity and decision paralysis are problems in many domains of decision-making, particularly finance. Hence, a 'less is more' approach often results in better outcomes.[22]

For example, employees seeking to make decisions about their pension may benefit from being offered a choice of only three funds.[23] Alternatively, the comparison of choices could be simplified, by offering investors information about investment products that answer a standard set of questions, such as, "What is the investment?" "Can I lose money?" "What are the risks and what might I get back?" "What are the costs?"[24]

Ease and Convenience. We've discussed the importance of simplifying choices to reduce the cognitive burden on employees. To further enhance and enable decision-making, we can make a particular course of action easier or more convenient. For example, a person is more likely to fill in a form that takes five minutes to complete and looks less intimidating, than one that takes 20 minutes and looks complicated. At the same time, allowing employees to take care of important financial behaviours during work hours further reduces perceived costs (eg lost leisure time) and thus barriers to action.[25]

Feedback. Nothing sparks our interest in a decision like seeing immediate results from it. Appropriate and timely feedback about the consequences of one's actions is central to driving the right behaviours.[26] This is exemplified by smart meters that display energy use in monetary terms[27] and pension pot projections based on different savings scenarios. Behaviour change can be encouraged by making the invisible, visible. For example, writing a detailed budget for retirement long before pension age, not only forces people to connect with their future self (counteracting present bias), it also provides feedback about what their pension pot might be able to buy them.

People are often **more driven** by the **threat** of a **financial penalty** than they are by a **reward.**

Pre-commitment. Precommitment is exactly what it sounds like. Getting individuals to agree to a specific action increases the likelihood that they will act to achieve those goals.[28] People are less likely to procrastinate if the timing of the action or a deadline is also specified.[29] Precommitment is particularly effective if it is tied to loss aversion. For example, people who enter health commitment contracts, whereby they receive an initial monetary deposit back only if they reach their goal (eg stopping smoking, or exercising), are more likely to maintain positive behaviours. [30] In another specific case, precommitment can counteract the effect of loss aversion: having people commit to future increases in retirement savings that are in line with pay rises reduces the effects of the loss aversion felt when disposable income is reduced ("Save More Tomorrow").[31]

Framing. People's preferences are often inconsistent across different presentations of options, such as whether the same choice is presented in terms of gains or in terms of losses.[32] This theory tells us that people are often more driven by the threat of a financial penalty ('loss framing') than they are by a comparable financial reward ('gain framing'). So, when it comes to financial wellbeing or retirement planning, communications may stress avoiding losses (eg what they may not be able to afford any longer in retirement due to inadequate savings), rather than making gains or reducing the perception of loss associated with costs (eg the daily rather than annual cost of financial advice/products).

Social norms. Social norms are expectations or rules within a group of people that signal appropriate behaviour.[33] Normative feedback is often used successfully in behaviour change programmes.[34] Examples include descriptive[35] messages, such as "85% of our employees participate in our financial wellness programme" or injunctive[36] statements, such as "the average person of your age and pay grade should contribute 16% of their salary to their pension".

4.3 Encouraging dialogue

Talking about money is often an unspoken no-no in the workplace. This taboo must be changed if employees are to be better off financially, prepared for retirement, and happier, more productive people. This will lead to smarter wellness programmes for employers to offer, and provide an open forum for employees who want help with financial decisions, but don't have the comfort level to ask for it.

Employers can also encourage employees to get involved in designing the company's financial wellbeing programmes. Not only does this help gauge employee needs, but it also helps remove any stigma that prevents employees from admitting they have issues around this topic.

Armed with the knowledge of what their employees want, employers can custom-fit plans or reach out to third-party vendors to do likewise, as well as checking out what other firms are providing for their employees and "take the best and leave the rest".

Focus on messaging

Most of us are visual learners. When it comes to making decisions about financial affairs, we would much rather look at charts and pictures than have to scan through pages of text to get the same message. To increase employee engagement, the key is to show them how benefits can help them achieve financial security.

If employers craft financial wellbeing as a principle of the company and make it part of the culture, employees will come to see it as such. Instead of making it a one-time or annual event, employers can continue to add fresh marketing around that central hub of financial wellbeing all year long, so that employees are constantly aware of it.

Corporate culture

Culture is a big part of a healthy, happy workplace. Perception is reality, and if your employees see you as really caring about them outside the workplace, they will respond in kind with loyalty and efficiency. Embracing the benefit of financial wellbeing to all, is a way to show employees that their stability and wellbeing are as important to you as the company's profits. The ability to use a company's resources to make their own lives happier and more successful is a big attraction to most employees.

5

The business case – what's in it for you?

Competition for quality employees has never been tougher than today. If you offered a 25-year-old a place in an established company 40 years ago, the odds of them retiring from the same firm today were pretty good.

The mobile workforce of today, by contrast, is always on the lookout for the next opportunity with a better fit and a more beneficial life-work balance. Being able to build a workplace culture that attracts quality employees beyond the wages and the work being done, is essential for any company's success moving forward.

5.1 Effect on employee engagement

The Institute for Social and Economic Research at the University of Essex has published extensive research into the impact of financial capability on psychological wellbeing. It finds that improving financial wellbeing increases general health questionnaire (GHQ) scores for both men and women by a far higher percentage, regardless of income level, than giving them an extra £1,000 a month in income alone.

The researchers also comment that improved financial capability will have "beneficial spillovers on psychological health" in addition to the expected benefits associated with reducing problem debt and welfare dependency, increasing savings and general skills.

Think about your employees on a typical Monday morning. Are they coming to work depressed from seeing their bills mount up, and struggling to engage with their tasks because of financial stress? Or are they completely focused on the task at hand, because their financial situation is secure and they aren't going to spend the day fretting about their diminishing bank account? When employees are financially secure, they are far more efficient, because they aren't trying to solve their own financial woes while also taking care of their job responsibilities.

One of the most beneficial gains associated with implementing a wellness programme, is a more engaged and satisfied workforce. Research by the Consumer Financial Protection Bureau (CFPB) clearly shows that "financially capable employees are more likely to be engaged employees".[37]

5.2 Effect on the bottom line

When your employees are healthy and happy, they work more efficiently, creatively and reliably. All of these positives benefit the company's bottom line by pushing up profits while driving down costs.

Some key findings in this area are:

- Dr Susan Jenkins of Idaho State University says, "Even a small increase in an employee's financial security can add significantly to [the] bottom line."[38]
- Dr Garman tells employers they can expect $450 (£346) in positive job outcomes from each employee who slightly increases their financial behaviours and financial wellbeing.[39]
- Engaged employees outperform disengaged employees by about 28%.[40]
- Organisations with engaged employees showed a 19% increase in operating income over a 12-month period, compared to a 33% decrease in companies with disengaged employees.[41]
- In organisations with highly engaged employees, the share prices rose by an average of 16% compared with an industry average of 6%.[42]

5.3 Rethinking ROI of employee financial wellbeing programmes

Employers stand to recoup significant return on investment by implementing well-thought-through financial wellbeing programmes – as much as $3 (£2.30) for every $1 (£0.77) spent.[43] Even in the first year of a programme, employers can expect to experience a sizeable return on investment, with savings of up to $2,000 (£1,538) per employee for an initial investment of about $250 (£192) per employee.[44]

Using actual, quantifiable data, Financial Finesse has developed an ROI model[45] that can help employers project potential cost savings when implementing a financial wellbeing programme. Based on this model, a large employer (50,000 employees) can potentially save millions every year (US$23.7m, £17.7m) when factoring costs such as wage garnishments, absenteeism, utilisation of flexible spending and health savings accounts.

5.4 Effect on branding

Financial wellbeing programmes support a positive employer brand image by fostering graceful exits for retirees and showing that employers care about the financial wellbeing of their employees.

A company that takes care of its employees is the kind of company most of us want to work for. Word of mouth spreads fast when employees find a company that cares about them and helps them succeed outside the normal confines of human resource mandates. This allows for completely organic branding for the company without paying a single pound in advertising.

That is a benefit that literally cannot be bought.

6

Conclusion

There is a real and pressing need to address employee financial wellbeing in the UK workplace, especially during these uncertain times.

The link between employee financial stress and its impact on business performance is direct and undeniable. An employee's problem sooner or later turns into the employer's problem.

Employers have started to appreciate this and are giving financial wellbeing initiatives the attention they deserve. However, there are some issues with many standard current approaches, mainly because of the 'one-size-fits-all' style of these programmes and the focus on information rather than behaviour change. This must change if employers want to see real and lasting benefits from these programmes.

Employers must understand that personalisation of financial wellbeing programmes is the key to engaging their employees. When employees see that their personal needs are being addressed and met, they are willing to start a dialogue that can benefit both sides of the table.

Employers must also realise that well-designed benefits programmes involve a study of people's habits, biases, belief systems, as well as fears and concerns. By taking this behavioural approach, we can analyse data about what makes employees tick, and address those behaviours in real, beneficial ways to create a culture of financial wellbeing not only that employees will take pride in, but that will also attract new talent.

Finally, employers need to engage with their employee benefit providers to design and put these plans into action. Don't let them sell you on the 'same old, same old' when it comes to offering benefits to your staff. Instead, work with the providers to deliver a customised solution that will show your employees that you not only have listened to them, but have acted as well.

By investing in employee financial health, employers are certain to reap significant return on investment. The accrued benefits can be gauged in both direct and indirect ways: directly via improved productivity, reduced absenteeism and lower insurance claims; and indirectly through greater employee satisfaction, attracting talent and more reputable corporate brand image.

> **The bottom line:** financially healthy employees make for successful companies.

Suggested reading list

Misbehaving: The Making of Behavioral Economics by Richard H Thaler

Why Smart People Make Big Money Mistakes and How to Correct Them: Lessons from the Life-Changing Science of Behavioral Economics by Gary Belsky and Thomas Gilovich

Payoff: The Hidden Logic That Shapes Our Motivations by Dan Ariely

The Power of Habit: Why We Do What We Do in Life and Business by Charles Duhigg

Inside the Nudge Unit: How Small Changes Can Make a Big Difference by David Halpern

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