

# STRONG MARKET RETURNS FAIL TO REDUCE WORKERS' FINANCIAL STRESS

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Two years ago, Lockton Retirement surveyed people across the country to find the answers to three important questions: Does financial stress drive measurable employer expense? Is success in the employer's retirement plan a reliable proxy for identifying employees experiencing financial stress? And does offering a retirement plan help relieve that stress? The answer then, to all three questions, was a resounding "Yes."

In 2018, after an additional two years of bull market investment returns, the team set out to find whether those tenants still held true. The research uncovered a few surprises and showed that the more things change, the more they stay the same.

## Executive summary

Lockton followed up a 2016 study on the impact of financial stress to see whether two more years of a bull marketplace had changed workers' perspectives:

- After two years of strong stock market returns, people are significantly more likely to say they are in excellent financial health and ahead of schedule in saving for retirement than they were in 2016.
- Despite this optimism, however, they also report significantly more stress, especially financially related stress, driven primarily by growing debt.
- Savings-related benefits like 401(k)s and health savings accounts (HSAs) help employees feel better about their financial well-being, but the data indicate many either do not fully understand the benefit or have overestimated their success using it.
- Employees seem to realize that they need help and the openness to education and advice from financial professionals is markedly up from where it was in 2016.
- Workers struggling with finances are significantly more likely to be absent, unproductive while at work, and seeking treatment for anxiety and depression management. This phenomenon provides employers a major incentive to help reduce employee's stress levels.

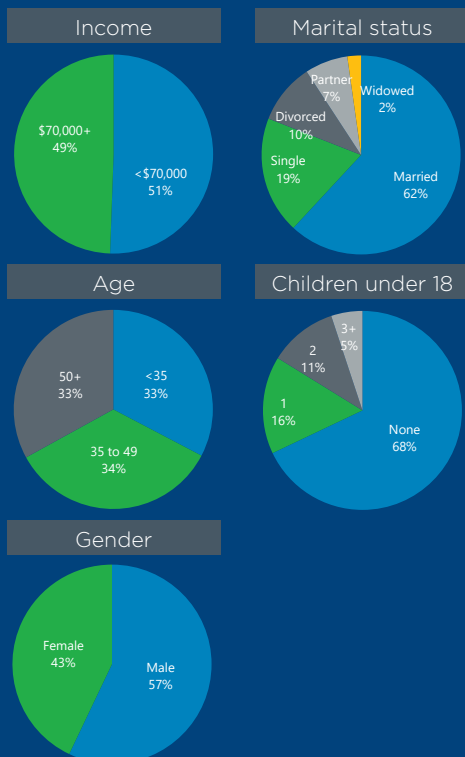
## Methodology

In the summer of 2018, Lockton Retirement engaged marketing research firm, Greenwald & Associates, to survey full-time workers with retirement plan access through their employers. The study built on previous Lockton research from 2016 to examine the connection between retirement readiness, financial stress and job performance. This year the research included more questions about health and the use of Health Savings Accounts (HSAs).

Analysts evaluated a representative population of 615 respondents and weighted the data according to age, income, gender and marital status.

- 100% of respondents were employed full-time.
- 100% had access to an employer-sponsored retirement plan.
- 90% were contributing to their retirement savings plan.
- 64% had access to an HSA.
- 73% of those with HSA access were contributing to it.

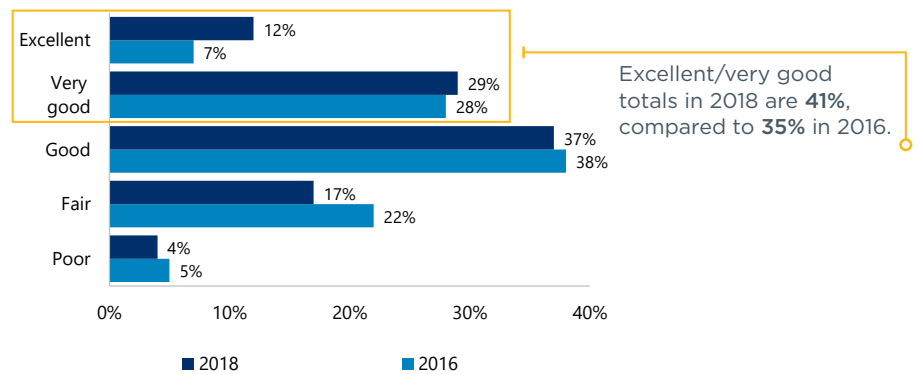
## Sample demographics



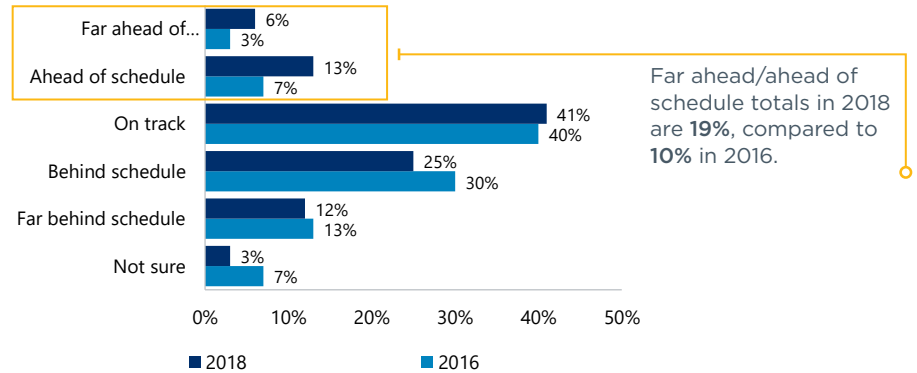
## Despite feeling better financially, people remain stressed

Two years after the last survey, respondents felt their financial situations were better and claimed to be further ahead with their retirement savings, but their stress levels hadn't improved.

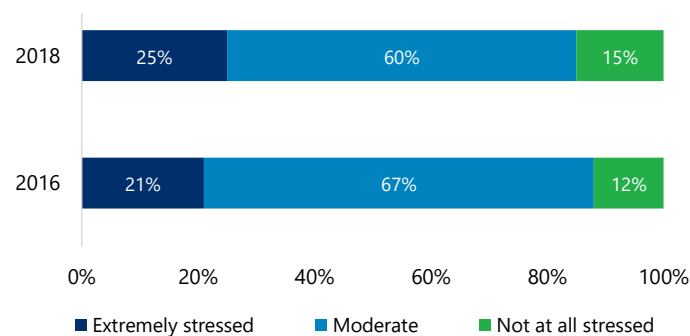
### HOW WOULD YOU EVALUATE YOUR CURRENT FINANCIAL SITUATION?



### WHEN IT COMES TO SAVING FOR A SECURE RETIREMENT, ARE YOU ... ?



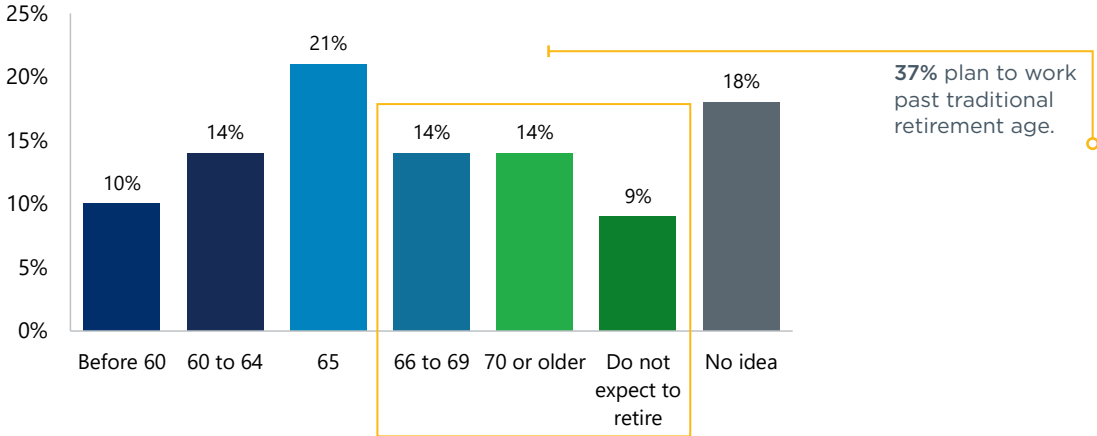
### OVERALL STRESS



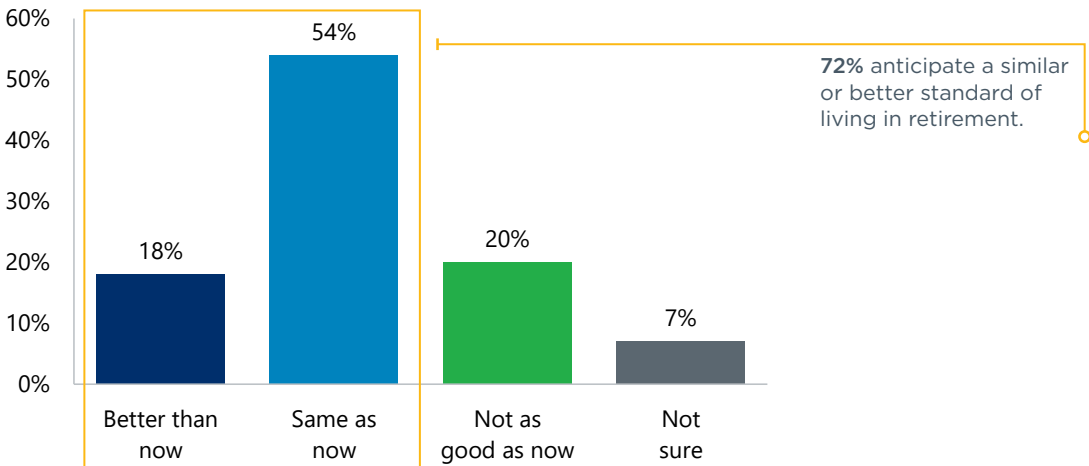
Retirement plan behavior remained an indicator of financial anxiety as workers with high levels of stress were also more likely to say they were behind in saving for retirement (50 percent compared to 25 percent of those who said they had low levels of stress).

From an employer perspective, however, the population at issue may be even larger than savings behavior and retirement plan balances would suggest: Many of those who claimed to be ahead of schedule appeared to have unrealistic expectations for their post-retirement standards of living and pre-retirement savings needs. As these workers age, that translates into delayed retirement, which creates its own set of workforce management issues.

EXPECTED RETIREMENT AGE

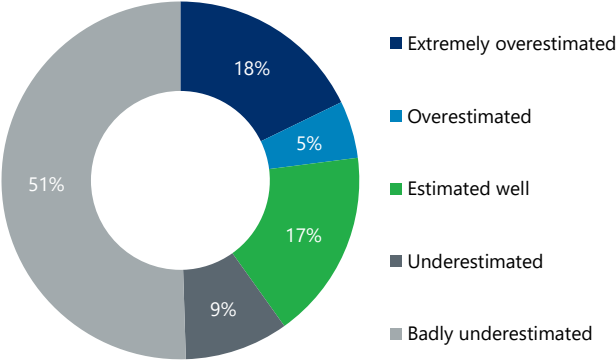


EXPECTED STANDARD OF LIVING IN RETIREMENT

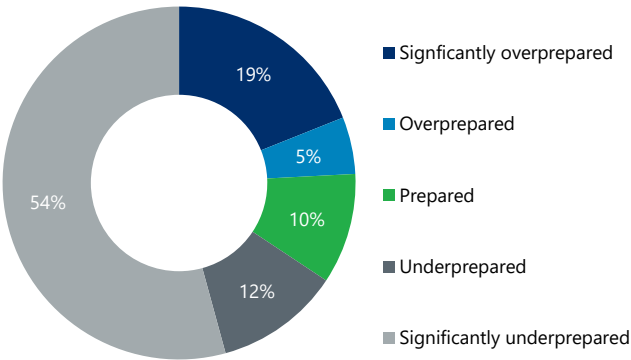


Only about half of the survey respondents were willing to share specific details about both their household income and accumulated retirement savings. Of those who did, more than half had badly underestimated, by 35 percent or more, their savings needs. Their actual savings were even worse with two-thirds having accumulated less than they should, given their ages and incomes and based on standard industry targets.\*

ACCURACY OF RETIREMENT SAVINGS NEEDS ESTIMATES



SAVINGS ADEQUACY

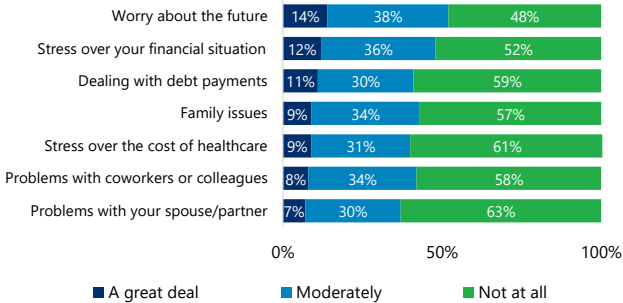


Interestingly, the quality of retirement estimates better predicted stress levels than the adequacy of retirement savings. Those who had overestimated their retirement needs were half as likely (13 percent) to feel extreme levels of stress as those who had underestimated their needs (24 percent). In contrast, though, actual savings behaviors were not predictive of stress. Those who were saving past retirement targets were almost as likely to feel extreme levels of stress (20 percent) as those who were under-saving (25 percent). These results underscore the value of providing employees with retirement income projections that give people feedback about savings progress throughout their careers.

## Debt is the major driver of stress

Respondents cited worry about the future, stress over their financial situations and dealing with debt payments as the three top reasons their work productivity suffered. More than one in four (27 percent) said they were very uncomfortable with their current level of debt. Paying off outstanding credit card balances was the number one financial priority with 77 percent of respondents rating it extremely important. That places credit card debt ahead of saving for retirement, paying off student loans and increasing the size of an emergency fund in the minds of those surveyed.

TO WHAT EXTENT HAS YOUR PRODUCTIVITY SUFFERED DUE TO ... ?



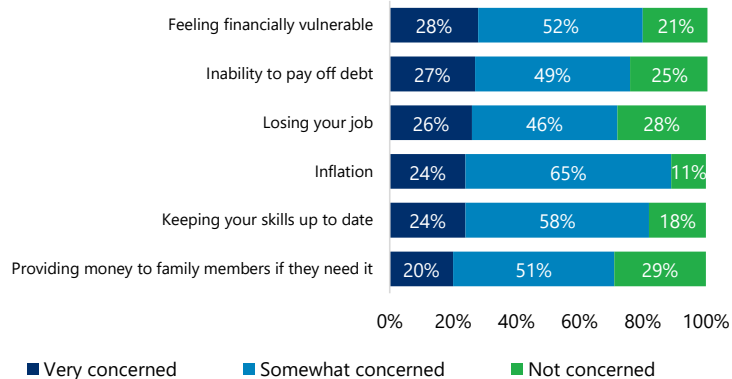
\*To calculate savings targets by age, there are several industry rules of thumb. For purposes of this study, we assumed someone should save 1X his or her current salary by age 30, 3X by age 40, 5x by age 50, and 8x by age 65. Assuming a 4.5 percent drawdown, beginning at age 65, with an approximate 35 percent of preretirement income from Social Security, this would allow for a 70 percent income replacement rate in retirement, which is considered a minimum threshold.

The median respondent paid \$3,640 a month for bills in 2018, which was up 31 percent from the \$2,770 reported in 2016. Monthly payments for credit cards and medical bills drove the change with both more than doubling in the last two years. Student, home equity and retirement plan loans were on the rise, as well. One in three said that paying off all their debt was very burdensome and almost one in four said the same about paying for healthcare expenses. Despite the number who claimed healthcare expenses were a burden, a quarter of respondents did not know what their monthly healthcare costs were.

## Financial stress continues to drive employer expense

Survey data indicated several connections between employee stress and employer healthcare expenses. For example, employees with higher stress levels were twice as likely to have experienced a recent hospital stay (15 percent compared to 7 percent) and seven times as likely to have filed a short-term disability claim (14 percent compared to 2 percent). Both of these examples, though, have a certain “chicken and egg” quality, as it is difficult to ascertain whether the stress led to the healthcare need or vice versa.

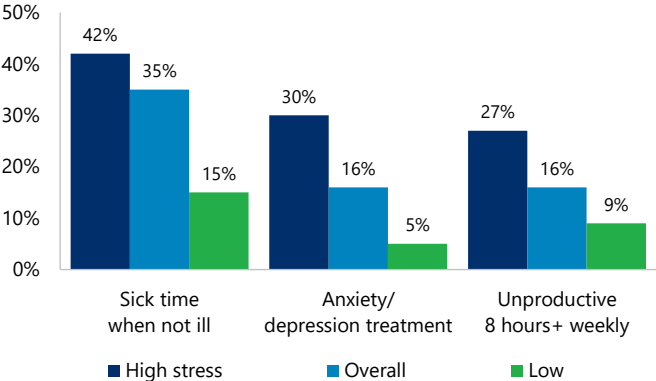
HOW CONCERNED ARE YOU ABOUT THE FOLLOWING?



	% of 2018 respondents with	Median monthly payment	
		2018	2016
Mortgage	52%	\$1,100	\$1,075
Car loan	44%	\$385	\$325
Unpaid credit card balance	38%	\$800	\$300
Medical debt	22%	\$200	\$100
Student loan for self	21%	\$200	\$200
Student loan for another	15%	\$200	\$150
Home equity loan	14%	\$255	\$200
401(k) loan	13%	\$200	\$120
Other type of loan	7%	\$300	\$300

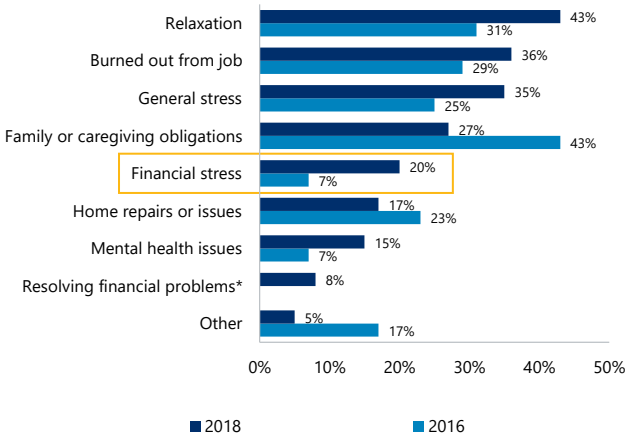
Perhaps more compelling are data that show the shorter-term impact of stress on absenteeism and so-called “presenteeism,” where employees are in the office but not focused on work. High-stress employees are three times as likely as their low-stress counterparts to call in sick for work when not actually ill or to report being unproductive eight or more hours each week. They are six times as likely to be seeking medical treatment for depression or anxiety.

IMPACT OF STRESS ON PRODUCTIVITY AND HEALTH EXPENSE

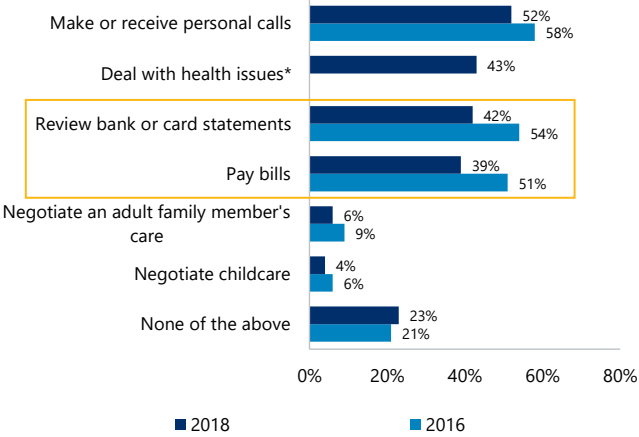


Interestingly, the reason for calling in sick when not actually ill was much more likely to be related to financial stress in 2018 than it was two years ago. But non-productive hours were less likely to be spent on financial management issues like reviewing statements or paying bills. Reducing employee financial stress could conceivably have significant impact on productive hours at work and help bring down the expense of treating chronic anxiety.

REASONS FOR USING SICK TIME WHEN NOT PHYSICALLY ILL



DO YOU DO ANY OF THE FOLLOWING AT WORK?

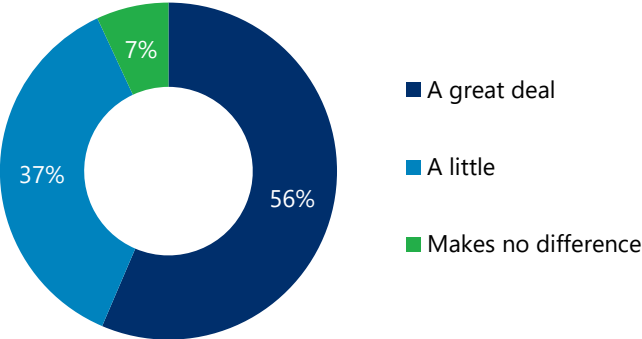


\*Not asked in 2016.

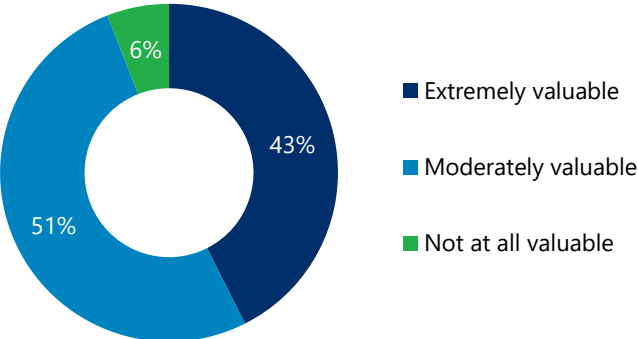
# Financial benefits help reduce anxiety

As they did in 2016, most respondents said that access to a retirement savings plan helped ease their financial concerns. This year they also said they found HSAs to be a valuable benefit. As with retirement plans, however, there were indications that employees did not understand the full benefit of the HSA or how it could most effectively be used.

TO WHAT EXTENT DOES AN EMPLOYER-SPONSORED RETIREMENT PLAN EASE YOUR FINANCIAL CONCERNS?

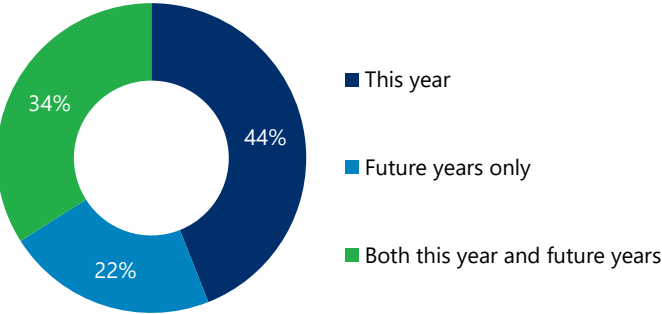


HOW VALUABLE IS IT FOR AN EMPLOYER TO OFFER AN HSA?

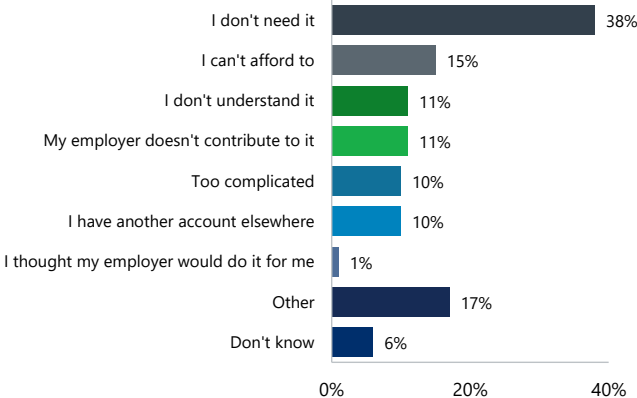


About 40 percent of those surveyed did not know that money contributed to an HSA is not subject to taxation and that money taken out to pay doctor bills or for prescription drugs is also not subject to taxes. But roughly three quarters knew at least one of these statements was true. Many seem also not to fully understand the value of saving in HSAs for future retiree medical needs. Most contributing respondents said they saved in the HSA to fund the current year's medical expenses, only, and those not contributing felt it simply wasn't necessary. Another 11 percent of those not contributing said they didn't understand HSAs.

ARE YOUR HSA SAVINGS INTENDED FOR THIS YEAR'S HEALTH EXPENSES OR FOR FUTURE YEARS?

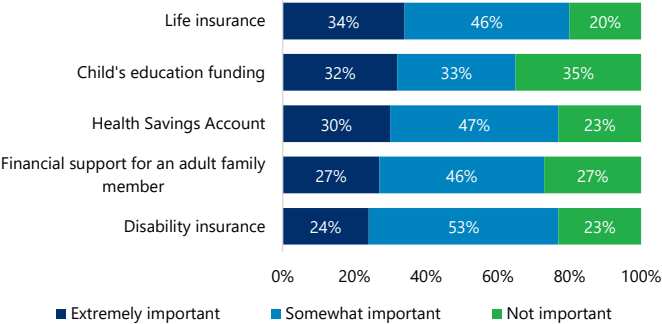


REASONS FOR NOT CONTRIBUTING TO AN HSA



Beyond savings plans, workers valued benefits that protected their families. Of the options given, most said that purchasing life insurance or saving for a child’s education were their two most important goals.

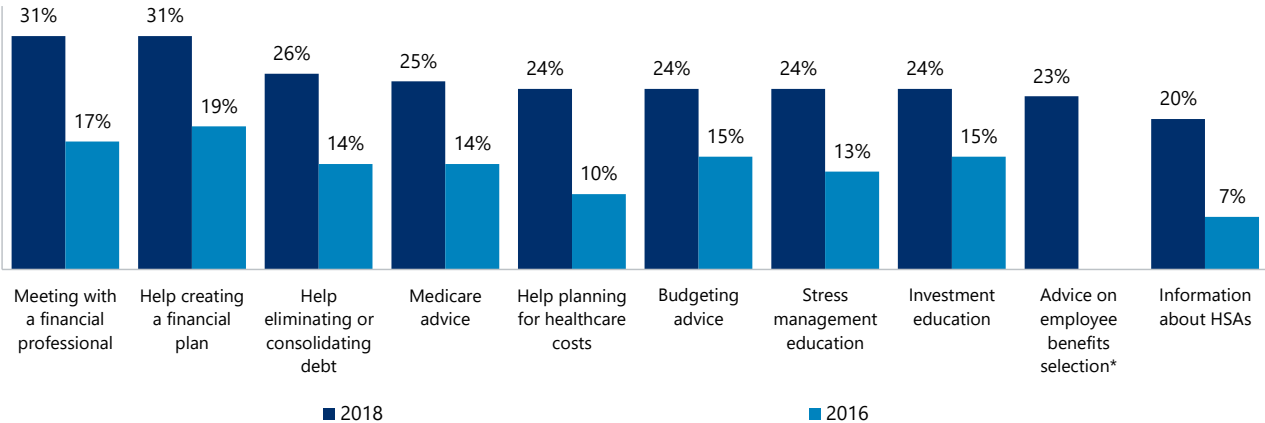
HOW IMPORTANT ARE EACH OF THE FOLLOWING?



## Workers want financial education now more than ever

In general, more employees wanted advice or education than didn’t on most topics listed in both 2016 and 2018. This year, however, there was a dramatic increase in the number of people who said that financial wellness information would be helpful, particularly when looking at the people who said they would find it “very helpful.” People were especially interested in meeting with a professional who could help them establish a financial plan that included reducing their debt and managing healthcare expenses.

HOW HELPFUL WOULD THE FOLLOWING BE IN DECREASING IN FINANCIAL CONCERNS? (% RESPONDING “VERY HELPFUL”)



\*Not asked in 2016.



Highly stressed workers were even more likely than the average respondent to say they would benefit from financial guidance, though they had slightly different priorities. They ranked stress management education much higher.

PERCENTAGE OF HIGH STRESS WORKERS WHO RANKED THE TOPIC "VERY HELPFUL" TO DECREASING FINANCIAL CONCERNS

	Baseline	High stress
Meeting with a financial professional	31%	47%
Stress management education	24%	43%
Help creating a financial plan	31%	42%
Budgeting advice	24%	39%
Help planning for healthcare costs	24%	37%
Help eliminating or consolidating debt	26%	36%
Information about HSAs	20%	34%
Investment education	24%	33%
Medicare advice	25%	30%
Advice on employee benefits selection	23%	30%

## More employers are translating information into action

The topic of financial wellness for employees is a popular one in the benefits industry. In fact, recently surveyed Lockton institutional clients rated it their number one subject of interest. But financial wellness is a big topic and different people may define it differently. An important part of building a strategy, then, is understanding what employees' financial education needs are and tailoring a program to help them achieve their goals.

While there are unique demographics and business needs at play for any individual organization, national information like that presented in this study can be helpful to employers wanting to estimate the potential return on investment for a financial wellness initiative. Historically, retirement plan sponsors measured the success of financial education by behavior change in the organization's retirement plan. As this study shows, however, many financial needs exist outside the workplace in issues like credit card debt management and funding a child's education. Success, then, must be evaluated using more subtle metrics such as a reduction in stress and subsequent improvement in attendance, productivity and healthcare costs.

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