BEYOND THE PAYCHECK:

Getting Employees on the Right Financial Track- and Staying There

PURCHASING POWER

Giving Employees A Better Way To Buy

The Power Behind the Purchase Series
A Purchasing Power White Paper

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Book 3

Book 3 in the
Power Behind
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EXECUTIVE SUMMARY

Despite recent improvements in the economy, the hangover effect from the recession and slow economic growth continue to erode employees' overall financial wellness and retirement confidence.[1]

One in three employees does not feel financially secure, and more than one in four say they feel less financially secure compared to last year at this time. Almost half are not confident they have enough money to cover future expenses.[2]

As employees continue to be burdened by day-to-day financial concerns, the distractions and resulting levels of stress seriously affect their health and productivity. With an increasing number of people worrying about their personal finances, employers are seeing this trend negatively impacting the bottom line.

Up to 80 percent of financially distressed employees spend time at work dealing with their personal financial issues, wasting from 12-20 hours per month.[3] An estimated 60 percent of illness is directly or indirectly caused by financial stress, costing most large and medium-sized companies millions of dollars per year in healthcare expenses.[4]

Employee financial distress costs employers increased absenteeism; lower productivity; increased turnover; decreased employee health and diminished work environment.

Not only are employees looking to employers to help with their financial needs, but it is in an employer's best interest to provide programs and services to help employees remain financially healthy. It means doing more than just providing a paycheck and core benefits.

Companies can take steps to alleviate employees' financial distress. Employers should introduce or increase financial education benefits and offer non-traditional voluntary benefits like employee purchase programs. Employee purchase programs allow employees to acquire high-ticket products and services on a disciplined budgeting plan.

There is a significant cost to businesses when employees are financially stressed. And there is tremendous benefit to the employer who takes a proactive stance by helping employees learn to manage their finances. Helping employees deal with their finances can help companies cut healthcare costs, boost productivity, reduce absenteeism and build employee engagement.

This discussion, the third in "The Power Behind the Purchase Series" of white papers, explores the toll employees' financial stress takes on the worker's health and welfare as well as on the employer's bottom line. The paper examines programs and services employers can undertake to improve employees' financial health. It also discusses the pay-off for employers who help employees handle financial stress and get back on firmer financial footing.

FINANCIAL STRESS DRAINS EMPLOYEE PRODUCTIVITY

Although the economy has improved somewhat over the past few years, many employees are still very much burdened by day-to-day financial concerns. Forty percent of employees are living paycheck to paycheck.[5] This marks a decrease from 46 percent in 2008 when the recession first hit, down to 42 percent in 2011.

Cash flow and debt management issues top employees' financial concerns according to a financial wellness survey from PwC earlier this year, with worries about not having sufficient emergency savings for unexpected expenses (54 percent) and not being able to retire on time (37 percent). Almost half (49 percent) of respondents find it difficult to meet their household expenses on time, and it is reflected in the continuation of employees using credit cards to pay for monthly necessities they couldn't afford otherwise (24 percent). Not surprisingly, employees' financial stress remains high: overall, 61 percent of employees find dealing with their financial situation stressful, and more than half (56 percent) report that their stress level related to financial issues has increased over the past 12 months.[6]

With financial stress remaining high, it's no surprise that one-third of employees admit personal finance issues have been a distraction at work and 97 percent of those employees say they spend time at work either thinking about it or dealing with those issues.[7] These stress levels and distractions at work affect employees' health and productivity.

Human resources professionals report that employees' personal financial challenges have a "large impact" on their work performance. Among the factors cited are absenteeism and tardiness; ability to focus on work; overall stress level; productivity level; morale; health; and relationships with other employees.[8]

> "Employees with money problems are like sharks swimming around the workplace taking bites out of the bottom line."
>
> Dr. Thomas Garman, Personal Finance Employee Education Foundation.

THE DEMOGRAPHICS OF FINANCIAL STRESS

There is a gender gap in financial literacy – women are more affected. Statistics show women are three times as likely as men to face overwhelming financial stress. When it comes to basic money management, only 43 percent of women report having an emergency fund to cover unexpected expenses compared to 63 percent of men. Likewise, 52 percent of women say they are comfortable with the amount of non-mortgage debt they have versus 71 percent of men.

The key demographic groups most vulnerable to financial stress are:

Women

Employees age 30 to 44

Middle-income workers making $60,000 - $74,999 per year

Single employees

FINANCIAL STRESS IS UNHEALTHY

Financial stress can cause illness and unhealthy behaviors, resulting in more healthcare visits, claims and overall higher healthcare costs for both the employer and the employee. It is a leading cause of illnesses such as migraines, back pain, anxiety, depression, insomnia, ulcers, weight gain and heart attack.[12]

A recent poll of AOL employees shows the toll that owing money takes on people – even on different parts of the body. Stomach ulcers occurred in 27 percent of people with high levels of financial stress as opposed to 8 percent with low levels. Migraine and other types of headaches occurred in 44 percent of people with high financial stress levels compared to 15 percent with low levels. Severe anxiety affected 29 percent of those with high stress levels versus 4 percent of those with low levels.[13]

The American Psychological Association (APA) recognizes financial stress as the leading cause of unhealthy behaviors like smoking, weight gain, and alcohol and drug abuse. Other behaviors linked to financial stress are gambling and overextending credit balances. Each time employees turn to these temporary stress relievers, the APA concludes that the stress returns and often at even greater intensity.

The message is clear: reduce financial stress and the cost of healthcare for that employee is reduced.

VOLUNTARY EMPLOYEE PURCHASE PROGRAMS AS A SOLUTION

Employees want their employers to help. In fact, 49 percent of employees say that because of the economy, they are counting on their employer's benefits programs to help with their financial needs.

Voluntary benefits – both traditional and non-traditional – are a great way for employers to expand their employee benefits package. Offering employee purchase programs as a voluntary benefit can help employees ease fiscal stress and aid them in getting back on a firmer financial footing.

Through employee purchase programs, workers can acquire a variety of household items including computers, appliances and furniture through payroll deduction. The best employee purchase programs are viable, cost-effective alternatives to other consumer purchase plans, such as employer discounts, layaway, rent-to-own and even credit cards, which often come with high interest rates or tight access to credit.

With employee purchase programs, workers can buy products they need in a disciplined manner using a 12-month payment plan through automatic payroll deductions with no late fees or ballooning interest, making budgeting easy. Employee purchase programs give employees access to items they need when cash and credit aren't available, thus helping to reduce financial stress.

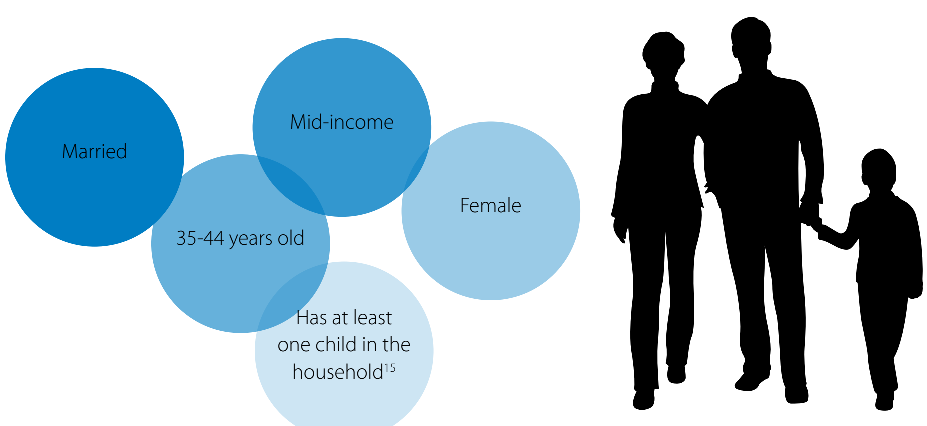
Bill Cheeks, personal finance expert and ABBA Associates president, recommends employee purchase programs as an advantageous way for employees to obtain needed household items in a disciplined buying manner when cash is not an option.

He provides this example: when an employee is looking to purchase a $900 computer, the best way would be to save up and pay cash – but that may not be a feasible way to do it, so it's important to find a responsible purchasing solution. If the worker purchases that computer through an employee purchase program by payroll deduction over 12 months, the cost would be $1,050 – the cost is fixed, predictable and is paid off in one year. Next, he illustrates what the cost would be using a variable cost financing option. Making purchases on credit cards generally cost more, depending on how much is paid each month and what the interest rate is. So putting that $900 computer on a credit card with an interest rate of 19.99 percent, or using retail store financing (assuming the employee can qualify for it), will cost $1,204. However, he points out that many workers could get caught in the "minimum payment trap." By paying only the minimum payment, it will take eight years to pay off and the total will be $1,636 – almost twice the cost of the computer.

"An employee purchase program as a voluntary benefit provides a way for hardworking employees to buy merchandise they need through an employee benefit at their place of employment. It gives employees access to name brand products with a disciplined way to pay through payroll deduction with no hidden fees like credit cards."

Bill Cheeks, personal finance expert and ABBA Associates president.

Some businesses are hesitant to initiate employee purchase programs, believing that such programs may not be needed or valued by workers in their organization. But a nationwide study of who is using employee purchase programs sheds light on who those workers are and it may be surprising to some employers. According to a study earlier this year, the typical employee who uses an employee purchase program is:



When employers choose an employee purchase program to add to their benefits package, selecting one with a comprehensive product and services offering will best benefit their employees. The leading employee purchase programs today offer computers, appliances, electronics, furniture, home and outdoor products, fitness and recreation items, baby gear and even educational services. With a wide variety of product offerings, employees can truly personalize their benefits by acquiring items that meet their individual needs: a new washing machine to replace a broken one; a laptop for a son or daughter going off to college; nursery furniture for the new addition to the family.

The more innovative employee purchase programs now are offering a way to pay for education at competitive pricing without building debt so employees and/or their children can graduate debt-free. Among the educational opportunities now available through employee purchase programs are tutoring, test preparation, continuing education courses and online degree programs. Tuition reimbursement programs historically offered by employers have decreased and are less funded, yet employers are highly supportive of education for either the employee or their family. With educational programs and courses available through an employee purchase program, employers also are able to provide educational benefits for their workforce, and employees have the opportunity to graduate debt free.

THE VALUE OF EMPLOYEE PURCHASE PROGRAMS: IN THEIR OWN WORDS

Employees who utilize employee purchase programs describe in their own words what having an employee purchase program available through their employer has meant to them.

Single mom, divorced, what else?

"When you are a divorced, single mom and your credit is wacked, how else do you buy stuff? Not at a retail store. An employee purchase program gave me the chance to get an HDTV, new computer, and now a new mattress for my son. How great is that? And the best part is I paid just a few dollars more each pay period and paid the TV off sooner than the 12-months. So now I have the extra cash to get my son that really nice new mattress that he really needs. No more second hand!"

A God-send!!!

"About a year ago I started using our employee purchase program and it has really helped me financially to acquire different products for my home that may have taken me a while to purchase. The ability to pay via payroll allotment has really helped me to stretch my dollars and acquire great products at the same time. More companies need to adopt this approach in this current economy because it will help people like me to make purchases."

Recession Buster

"I discovered my company's employee purchase program at a time when my family was in need of a few essentials. Neither my wife nor I had the discretionary income to go out and purchase these items and pay for them. I price-shopped the products prior to making my purchases and discovered that the employee purchase program offers really competitive prices, products are delivered to your door, and there's no talk of interest rates or credit approval. I have always been thankful for my employment and my career but to have a benefit like an employee purchase program makes it all the sweeter."

OTHER WAYS EMPLOYERS CAN HELP WITH FINANCIAL HEALTH

The current trend in employee well-being is for organizations to take a more integrated approach in their wellness initiatives beyond one that is just health-related to include other aspects such as financial health, which can affect employee's physical well-being. The integrated well-being approach typically includes physical health, mental/emotional health, financial health and even spiritual health.

Financial wellness comes in different sizes and shapes. Employers are a trusted source of financial education for their employees. In addition to employee purchase programs, employers can offer internal group programs, online self-help resources and credit counseling service referrals.

Financial literacy is so critically important to working Americans. It can make them more productive and less vulnerable to major economic uncertainty, but a recent survey shows that only about half of employers provide basic workplace financial education. The survey findings also suggest most organizations that pass benefit costs on to their employees feel obligated to provide ongoing financial education to help them make appropriate financial decisions.

When we think of financial education, group programs are usually what come to mind. Staff members gather together and learn about topics such as budgeting, intelligent use of credit, and savings either at a webinar or as part of a live speaker's audience. However, financial education can also take place on an individual basis and should be an essential component of an employer's commitment to a financially healthy workforce. A referral process to a qualified credit counseling agency can be a useful adjunct to the group financial education programs.

Employers also can offer financial self-help resources to help employees get on the right financial track, such as websites like Quizzle.com. Many credit reports contain errors that can negatively impact credit scores and on Quizzle, employees can look at their credit reports and scores for free and dispute errors online.

BOOSTING EMPLOYEES' FINANCIAL HEALTH PAYS OFF FOR EMPLOYERS

Employers can play a key role in helping employees handle financial stress and get back on firmer financial footing. In addition to traditional methods of financial education, many employers are going the extra step of financial counseling for employees and introducing comprehensive employee purchase programs where automatic payroll deductions and short-term payback make budgeting easy and reduce stress for employees. Companies that are providing these types of financial health offerings are seeing the results – lower healthcare costs, a boost in productivity and consequently an improved bottom line.

Companies who have instituted employee purchase programs are not only helping their workforce acquire needed items but are experiencing more productive employees. Workers cite the following as the top-three most important benefits they get from their employee purchase programs:

57% can access products they otherwise could not afford

51% can implement a more disciplined budget

46% can be more productive at work.[18]

Employers who invest in educating their employees in personal finance will see a significant return on their investment (ROI). The Personal Finance Employee Education Foundation reports that the ROI is at least 3 to 1. Thus, investing $250 in an employee's financial education yields a $750 return.

There are significant differences in company healthcare savings between employees considered heavy users of financial education (three or more interactions with any of the financial services available within a year) and those considered light or non-users.[19]

For many companies, employee financial wellness is the missing piece to maximizing the effectiveness of existing wellness programs and fully contained healthcare costs. It also fosters a workforce of healthier, happier and more productive employees who are engaged and empowered.

ABOUT PURCHASING POWER

Headquartered in Atlanta, GA, Purchasing Power, LLC was founded in 2001 and offers customers an alternative way to purchase a variety of name brand products, and pay for them over 12 months through payroll deduction. Purchasing Power differentiates itself from traditional e-commerce retailers through its unique payment plan value proposition, strategic benefit broker partnerships, internal marketing expertise and superior customer service. The company has serviced more than 800,000 orders for employees of companies and organizations including Fortune 500 and government agencies. For more information, visit www.PurchasingPower.com/employers/.

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Methodology

This survey was conducted online within the United States between January 25h and 27th, 2012 among 2,099 adults (aged 18 and over) by Harris Interactive on behalf of Purchasing Power, LLC. via its Quick Query omnibus product. Figures for age, sex, race/ethnicity, education, region and household income were weighted where necessary to bring them into line with their actual proportions in the population. Propensity score weighting was used to adjust for respondents' propensity to be online.

All sample surveys and polls, whether or not they use probability sampling, are subject to multiple sources of error which are most often not possible to quantify or estimate, including sampling error, coverage error, error associated with nonresponse, error associated with question wording and response options, and post-survey weighting and adjustments. Therefore, Harris Interactive avoids the words "margin of error" as they are misleading. All that can be calculated are different possible sampling errors with different probabilities for pure, unweighted, random samples with 100% response rates. These are only theoretical because no published polls come close to this ideal.

Respondents for this survey were selected from among those who have agreed to participate in Harris Interactive surveys. The data have been weighted to reflect the composition of the adult population. Because the sample is based on those who agreed to participate in the Harris Interactive panel, no estimates of theoretical sampling error can be calculated.

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