HEALTH WEALTH CAREER

FINANCIAL WELLNESS BY MERCER

Inside employees' minds™

Examining the diversity of financial well-being

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Contents

Inside employees' minds: examining the diversity of financial well-being

As employers recognize the need to support the total well-being of their workforce, employees' financial wellness has become a key pillar of an effective benefits strategy.

In this paper, we examine the diversity of financial wellness among US employees using the findings of our national *Inside Employees' Minds™: Financial Wellness* survey. We conclude that:

- Using a single employee characteristic to generalize can be misleading.
- Adding a segmented persona framework, which addresses a multitude of characteristics and circumstances, is a more effective and informative way to segment an employee population.

To develop an effective financial wellness strategy, we believe employers must take into account the diversity of employees' circumstances. This means meeting employees where they are, increasing the prospects for engagement, providing the right resource to the right person at the right time and, ultimately, driving real behavior change and improved outcomes.

What does diversity mean to employers today?

Employers of all sizes, industries and histories value their diverse workforces. In addition to demographic measurements of diversity — such as ethnicity, gender, age and income level/variability — employees have diverse lifestyle factors. These lifestyle factors can vary significantly among workers and can include family structure (marital status, number of dependents, household character), home neighborhood and geographic location.

These factors, among others, mean that individuals have varying personalities, preferences and challenges, and so there is no "one size fits all" approach to addressing financial wellness. While carefully avoiding broad stereotypes, we can examine the financial priorities and struggles for workers from diverse groups. Employers can use these findings to strategize how to offer appropriate benefits, develop effective communication strategies and deliver the right benefit at the right time to a diverse workforce.

Our research found that segmenting survey respondents by any one of these individual factors can provide insight into financial wellness experiences, though in many cases that insight appears overly simplistic. For example, in the first paper of this series, *Inside Employees' Minds: Financial Wellness*, we examined the correlation between financial wellness and household income. Although we identified a trend of higher-paid employees having higher levels of financial wellness, many employees with high incomes have low financial wellness. We also saw evidence of the opposite: low-paid employees with high financial wellness. Examining the results by a one-dimensional factor (such as salary) does not paint a full picture of which employees are financially the healthiest. In order to add more depth, we researched using multi-dimensional cuts to the workforce based on a variety of factors. This framework can be used as a tool for predictive analytics.

Mercer uses big data analytics to segment your workforce into groupings of people based on shared characteristics. The different segments can then be targeted with tailored solutions to increase financial wellness.

Based on the results of our *Inside Employees' Minds: Financial Wellness* survey, we developed six segments representing survey respondents. The segments are fairly broad and may not fully represent the clusters of employees present within certain employers; simply put, every workforce is demographically unique. However, our segments are a good basis for exploring the diversity of employee personas in the US workforce. We recommend developing statistically significant segments and building personas tailored to the heterogeneity in your organization.

The 2017 report *Inside Employees' Minds™: Women and Wealth*, produced by Mercer's Inside Employees' Minds/When Women Thrive joint venture, described some of the differences between men's and women's financial health. The report included an analysis of "financial courage," engagement with employer programs and payroll risk specific to female workers.

This report supplements the findings of the 2017 report by examining other diversity factors. Gender is a key lens for considering financial wellness of employees; however, as we demonstrate in this report, other significant lenses warrant study and it is important to consider more than one factor.

Our research showed that confidence in tackling financial issues — what we call "financial courage" — has a significant impact on an individual's financial wellness. To measure employees' confidence in their ability to engage in financial transactions, we created the **Mercer Financial Courage Index**, which evaluates individuals in terms of their willingness to engage in financial planning and other financial matters.

Workforce segments

The goals of an effective employee financial wellness strategy are to drive appropriate behavior by participants and provide access to resources that are applicable to employees' lives. To precipitate desired actions, employees need simple, specific, actionable steps that meet them where they are. To reveal the messages and actions that resonate most, employers must understand individual needs and contextualize messages for individual circumstances.

The objective of our segmentation process is to identify natural groups in the workforce that can be targeted in customized ways to improve member experience and behavioral outcomes.

Segmentation of survey respondents

The table below shows the segmentation of survey respondents.

Segment	Starting Out on My Own	Growing Families	Building Healthy Wealth	Living Large	Time to Catch up in Third Act	Affluent Empty-Nesters
	Youngest segment, single, no kids	Young, married, kids, lower income	Thirties, married, kids, lifestyle-focused	Forties, married, one kid, high income	Fifties, single, underwent later-life event	Most experienced, married, thinking about post-employment
Percentage of survey respondents	24%	27%	9%	8%	25%	7%

Starting Out on My Own

"I'm still figuring it out — what my priorities are, what my life and career will look like."

Employees in the youngest segment are unmarried and have no dependents. This is one of the most ethnically diverse segments and has the highest percentage of females. The biggest financial priority of this segment is keeping up with monthly expenses. These employees have low retirement-savings balances, and most have saved less than $35,000, which is a point of concern since they are less likely than older segments to have pension benefits.

Growing Families

"I have a lot on my plate at work and at home. I'll take any help I can get."

Those in the next youngest segment have a spouse or life partner and dependents at home. The median household pay of these employees is between $50,000 and $100,000 and estimated household net worth is $60,000. This segment is most likely to participate in a financial wellness program when available. Half of employees in this segment are supervisors or mid-level managers.

Building Healthy Wealth

"I'm planning for the future and living within my means."

This is the wealthiest segment — over half have retirement savings more than $75,000. The majority of employees in this segment have a college degree or higher and own a home. These employees cite saving for retirement as their top financial priority, which is in contrast to the other two segments that comprise employees of around the same age.

Living Large

"I'm really enjoying the lifestyle that my high income affords me. I may be spending too much, but I feel confident about my family's future."

This segment is the highest paid, but members may be lavish spenders rather than careful savers. Employees in this segment are the least likely to own a home. Almost all employees in this segment have a college degree or higher, and most are in senior job functions.

Time to Catch up in Third Act

"I'm going through a life transition. My kids are out of the house, but my financial health isn't as strong as I'd like it to be."

This older segment does not have dependents at home, and half of the segment is unmarried. Low levels of financial courage are present, and employees in this segment are unlikely to work with a financial advisor or participate in employer-provided financial wellness programs.

Affluent Empty-Nesters

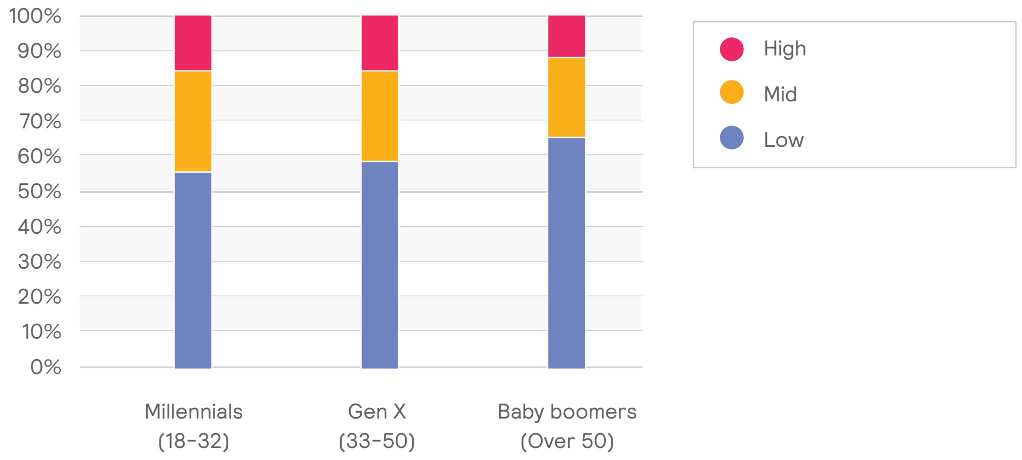
"I've set myself up to have a successful last phase of my career, and I have a solid financial base."

Employees in the oldest segment are late in their careers with no dependents at home. Of all the segments, this one spends the least time worrying about finances while at work.

Diversity of financial courage

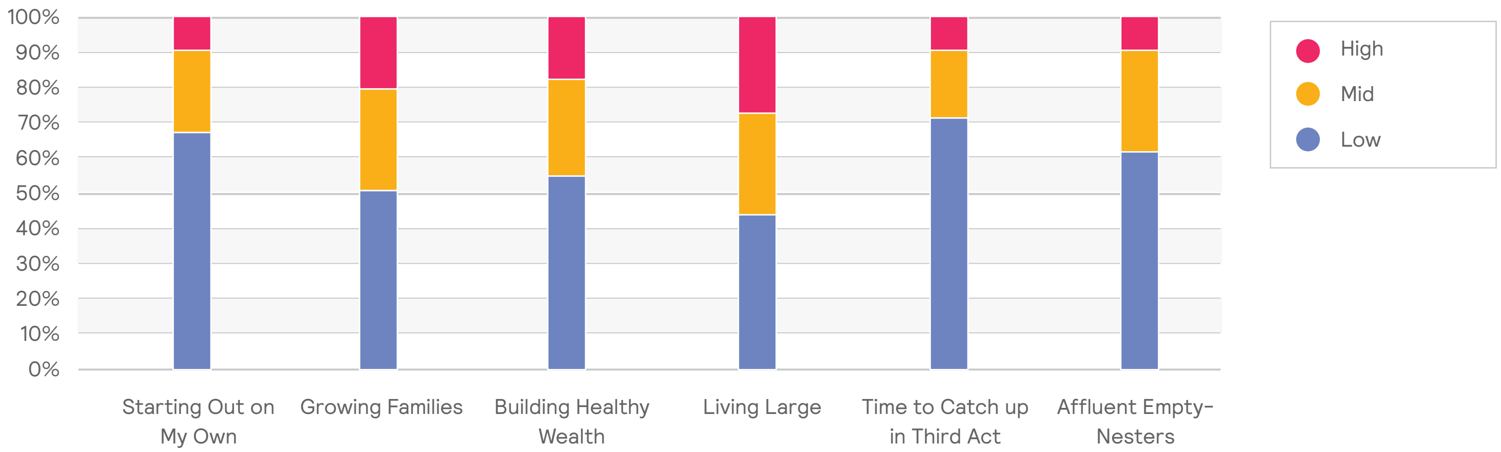
We examined the level of financial courage by various demographic cuts, including generation, neighborhood type and family structure, which raised many interesting observations. Though we naturally think that segmentation by generation is essential, our research revealed that millennials and Gen Xers have very similar distributions of financial courage, and baby boomers have a slightly lower, but generally not very different, level of financial courage.

Figure 1. Financial courage by age



When examining financial courage by segment, we see a more significant disparity than in a one-dimensional cut.

Figure 2. Financial courage by segment

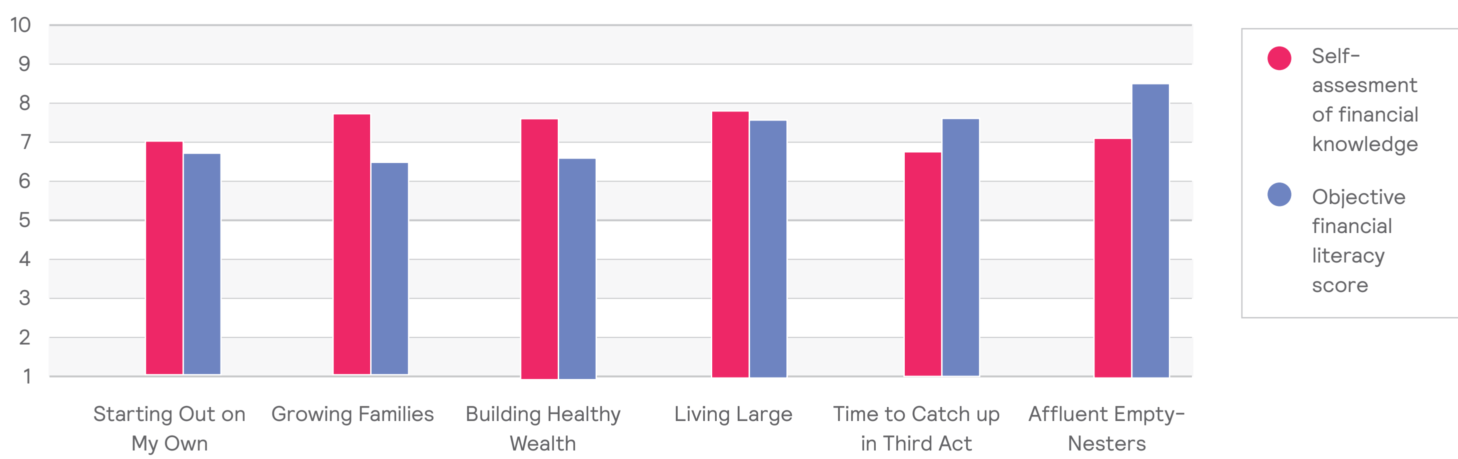


For example, consider the Time to Catch Up in Third Act segment. Though they have median pay in line with that of a few of the other segments and have a net worth around the middle of the road, these employees have the least financial courage. The self-assessment of their own financial knowledge is low, and they say they are unable to understand investing or retirement savings. They do not spend many hours worrying about their finances during working hours compared to other segments, indicating that they are not taking advantage of available tools. These employees have low trust in their employers and do not use financial advisors. Their need for financial wellness help is high, but they will struggle to engage with solutions that are not provided within a supportive context. Employers who want to help this segment should consider confidence-boosting program elements.

Now let's compare the two youngest segments in Figure 2, Starting Out on My Own and Growing Families. Though the two segments have similar household pay and estimated net worth, employees in the Growing Families segment have greater financial courage. Importantly, across the board, segments with dependents at home tend to have higher financial courage scores.

We compared the segments' self-assessment of their financial knowledge with their objective literacy scores.[1] The survey respondents who fall into the four younger segments tended to overrate their financial knowledge, whereas the two older segments underrated their knowledge. Neither objective nor self-assessed financial knowledge appear to correlate with household pay or net worth; however, segments with dependents at home tended to rate themselves as more financially knowledgeable than segments without dependents. In this example, the most informative cut may be the age of the employees.

Figure 3. Objective versus self-assessed financial knowledge

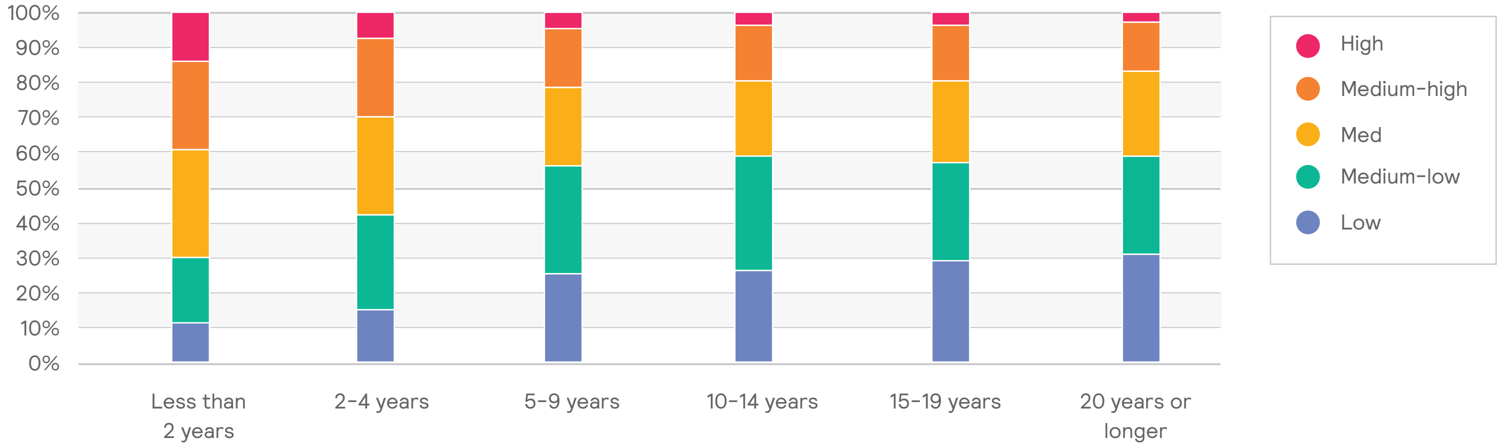


1 As assessed using the three questions in Lusardi A, Mitchell OS. *How Ordinary Consumers Make Complex Economic Decisions: Financial Literacy and Retirement Readiness*, 2009.

Diversity of financial wellness

We examined the Mercer Financial Wellness Index results by various demographic cuts and some have been included in our previous reports on this topic. Some compelling observations include the tendency of lower-tenured employees to have higher Mercer Financial Wellness Index scores, as do married employees.

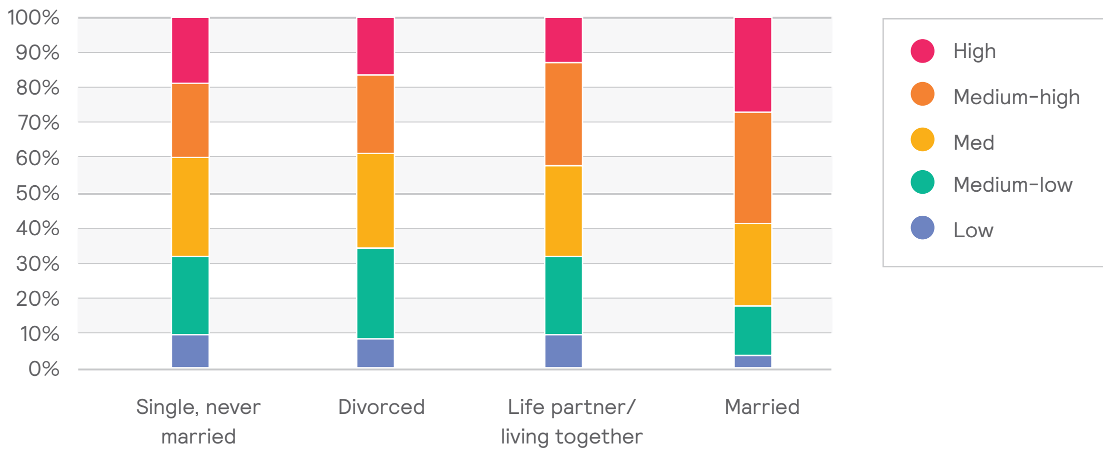
Figure 4. Financial wellness by job tenure



The term "financial wellness" is frequently used to describe an individual's current and perceived financial state. Control of day-to-day and month-to-month finances is a critical component, but not the only element that determines financial health. Other factors that profoundly contribute to financial wellness include one's level of financial stress, level of indebtedness and ability to absorb a financial shock.

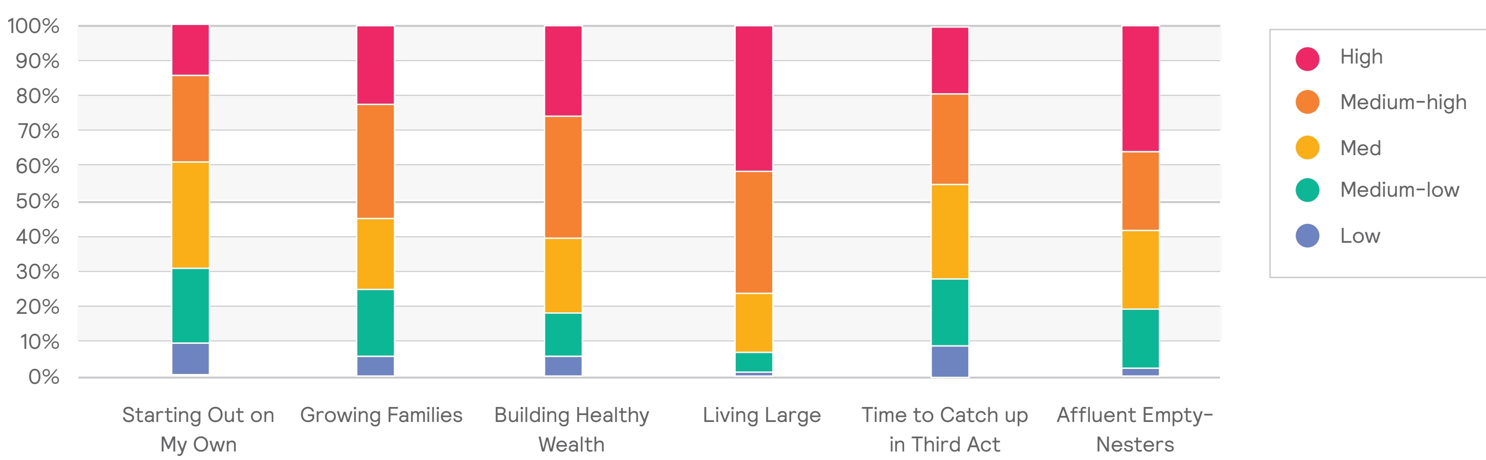
The Mercer Financial Wellness Index captures these factors and makes it possible to measure financial wellness levels across different employee segments.

Figure 5. Financial wellness by marital status



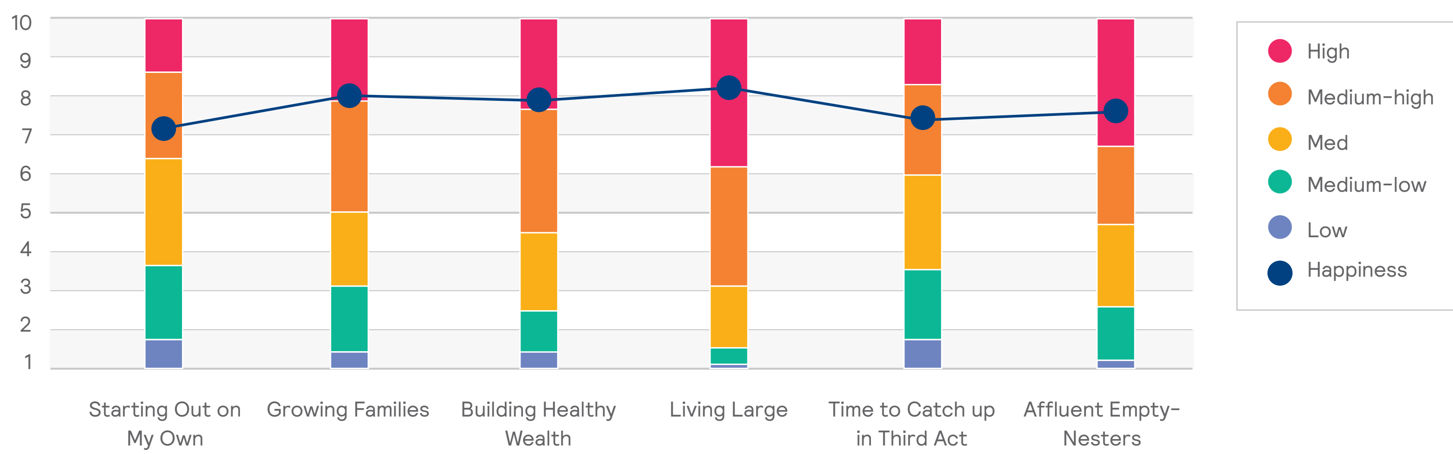
When we examine financial wellness scores by segment, we see more significant variations. Living Large, the highest-paid segment, has the highest levels of financial wellness. Compare this to Starting Out on My Own, Growing Families and Time to Catch Up in Third Act — these segments have approximately the same median pay, and although Growing Families has the lowest estimated net worth of the three, employees in this segment have higher financial wellness scores than employees in the other two segments. Employees in the Growing Families segment are more likely to say that they love to engage in financial planning and trust their employer to provide programs for retirement savings and financial health. They rate themselves higher in terms of financial knowledge and comfort in engaging with financial planning. In general, Growing Families employees have higher financial courage than the other two segments with the same household income.

Figure 6. Financial wellness by segment



Another topical finding is the correlation between higher financial wellness with overall happiness in life. Survey respondents were asked to rate their overall happiness on a scale of 0 to 10 and, when we examine results by segment, we see that segments with the highest levels of financial wellness are happier than segments with low financial wellness.

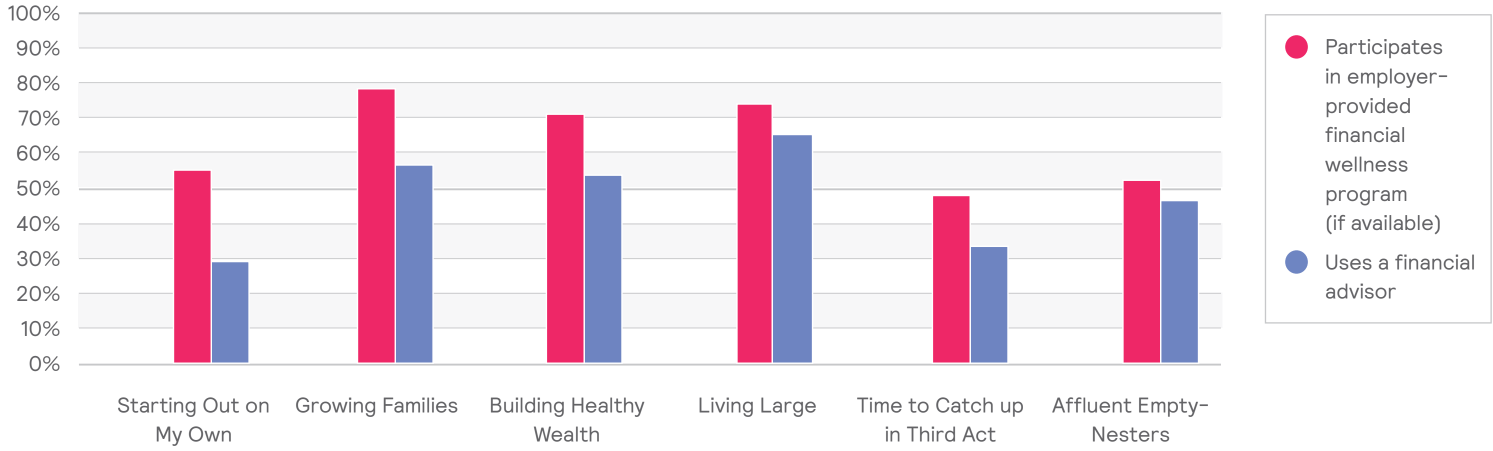
Figure 7. Financial wellness versus happiness



Diversity of Financial Behavior

One of the most useful analyses came from our review of different segments' financial behavior. Some of the differences were very significant and they inform us on how employers should engage different groups of employees.

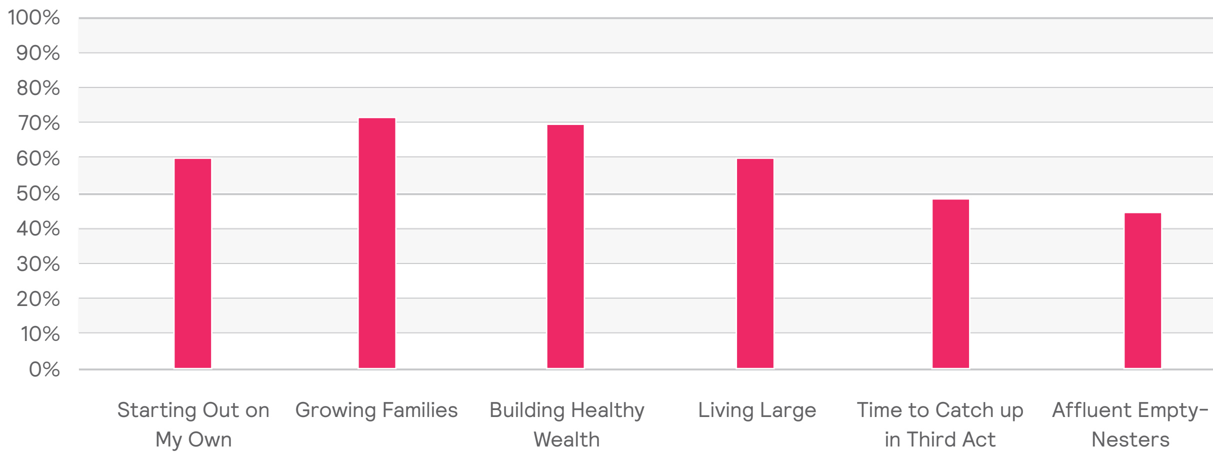
Figure 8. Financial services usage by segment



Delving into the financial behavior of each segment reveals that the Time to Catch Up in Third Act segment is least likely to participate in employer-provided financial wellness programs or engage outside financial advisors, which is concerning since this segment has fairly low net worth and retirement savings. In evaluating retirement readiness and workforce planning, this segment is likely to require special attention.

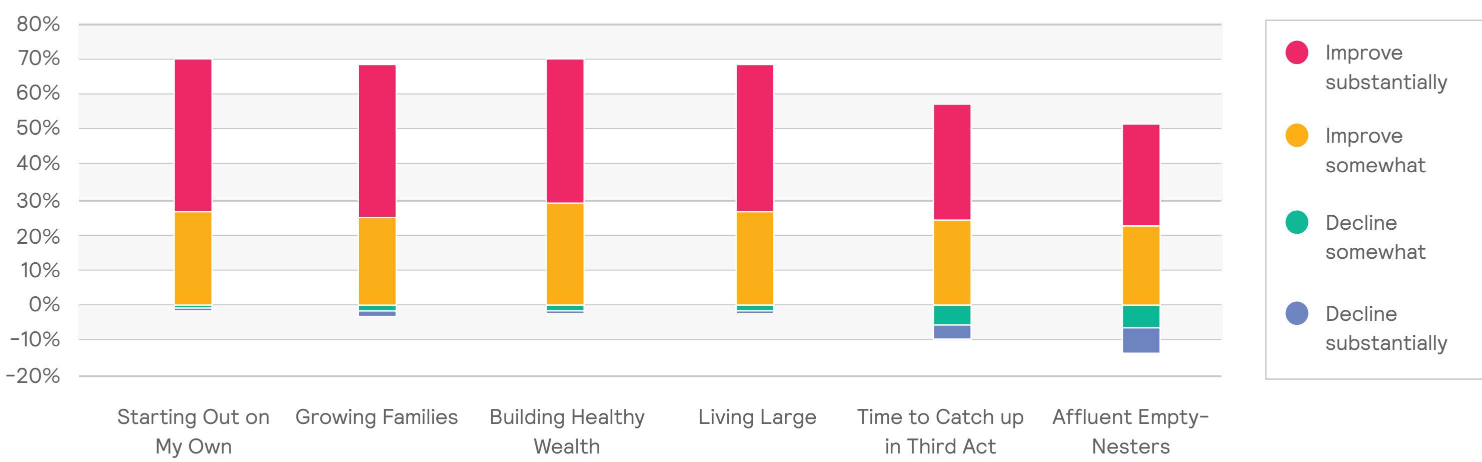
Participation in employer-provided programs or engaging outside financial advisors have similar patterns by segment. One revealing finding is that every segment is more likely to participate in an employer-provided program than they are to engage an outside financial advisor, and that this is especially true for the younger segments. The Starting Out on My Own segment is almost twice as likely to participate in an employer-provided program compared to engaging an outside financial advisor.

Figure 9. Somewhat or very comfortable sharing personal information with employers for purpose of getting financial help



Segments most likely to be comfortable sharing personal information with employers for the purpose of getting financial help are those with a higher number of dependents at home. The segments that are the least comfortable sharing personal data with employers are the oldest and longest-tenured segments.

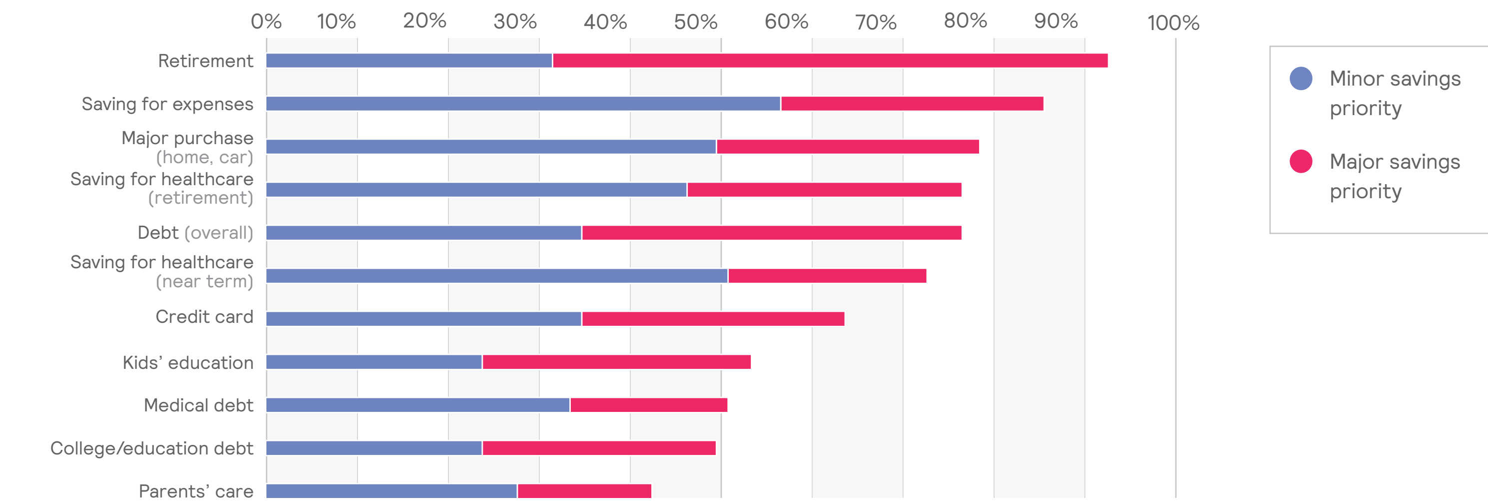
Figure 10. How each segment expects its finances to change in the next five years



Furthermore, the oldest segments are least confident about how their finances will change in the next five years. This may reflect the uncertainty that arises as employees approach retirement.

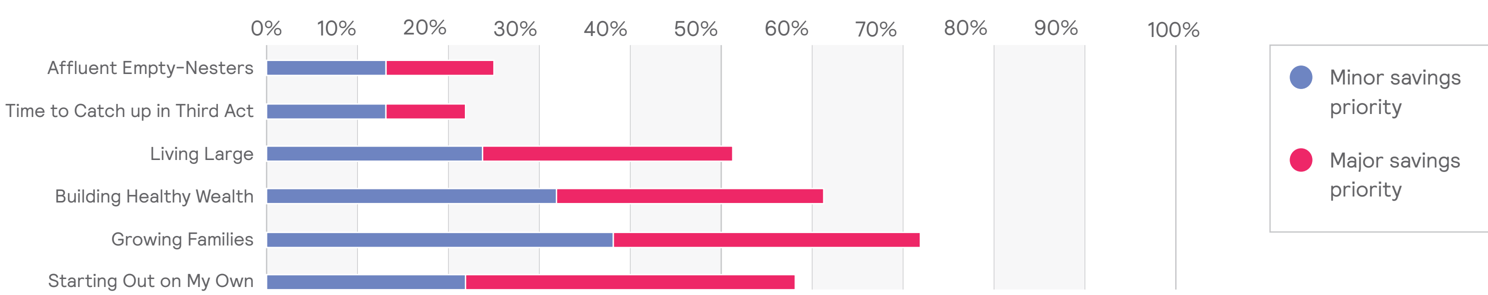
By looking at the savings priorities of the entire surveyed population, we can gain timely insight on employees' key concerns.

Figure 11. Savings priorities (all segments combined)



Let's explore the data by segments, taking the example of college/education debt. Many assume this is an issue for the younger segments in the workforce, but the research revealed that it is also a concern for the oldest segments. Almost 50% of employees report that college/education debt is either a major or minor savings priority. This should not be a total surprise — among borrowers aged 65 and older, the increase in the amount of federal student loan debt grew from more than \$2 billion in fiscal year 2005 to almost \$22 billion in fiscal year 2015, which is roughly a tenfold increase.[2]

Figure 12. College/education debt as a savings priority by segment



2 United States Government Accountability Office. *Social Security Offsets: Improvements to Program Design Could Better Assist Older Student Loan Borrowers With Obtaining Permitted Relief*, 2016, available at http://www.gao.gov/assets/690/681722.pdf.

Conclusion

Our *Inside Employees' Minds: Financial Wellness* survey shows that grouping employees by a single demographic, such as generation or job level, does not tell the whole story, and employers must consider the full picture of an individual's life and circumstances.

- At the moment, we cannot expect benefits programs to be perfectly personalized to every individual; however, programs based on a holistic picture of an employee — rather than specific conclusions from a single dimension of demographics — are likely to be more effective. Employers will uncover key insights by considering the full view of an employee's life: career, family, financial needs and goals, and behavior, among other factors.
- Our behavioral economics knowledge indicates that employees will act if given specific and simple steps to follow. Segmenting allows you to target specific actions to each persona and precipitate a sustained change in employee behavior.
- Each organization is unique and has the opportunity to understand its workforce using multiple dimensions. The segments developed in this paper are designed to help analyze your workforce. However, to best understand your specific and diverse workforce, consider running a specific segmenting process on your employees.
- By combining a comprehensively developed segmentation framework for your workforce with the findings from our national *Financial Wellness* study, you can utilize powerful tools for uncovering your employees' financial stresses, priorities and financial courage. This lens can be leveraged as a delivery mechanism to target messaging by segment and as a structure to measure the effectiveness of your program.

Armed with a segmenting approach, you can better focus your financial wellness interventions to specifically address the needs of a segment of employees. This can be far more effective than a "one size fits all" approach, which in reality may not meet any of your employees' needs.

A first step is to make a commitment to get inside your employees' minds and examine the diversity of their financial wellness. This will form the foundation of effective strategic planning and tactical implementation of financial wellness programs for your diverse employee groups. As was highlighted in Mercer's *Top Priorities for DC Plan Sponsors for 2018*, understanding employees' needs is critical to delivering an appropriate solution appropriate.

To explore how segmenting your workforce can illuminate the diversity of financial well-being challenges and opportunities for your employees, please contact your local Mercer consultant.

To see more of our research in the *Inside Employees' Minds: Financial Wellness* series, please visit https://www.mercer.com/our-thinking/wealth/inside-employees-minds.html.

Our papers in this series include:

- *Inside Employees' Minds: Financial Wellness*
- *Inside Employees' Minds: Financial Wellness, Volume 2*
- *Inside Employees' Minds: Women and Wealth*

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For more information about the ***Inside Employees' Minds™ Survey***, visit **www.mercer.com/insideemployeesminds.**

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