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# Employee Debt: Expert Views

During the late twentieth century there was a swift change in the public's attitude towards debt. What was once seen as unacceptable and socially undesirable is now a staple part of daily life. Perhaps this is the cause of what has been commonly noted as a 'growing culture of indebtedness'. Since the economic downturn of 2008, consumer debt has been thrust back into the media limelight. With employees feeling the strain of their financial burdens, it is of no surprise that organisations are experiencing the negative impact. Lost working hours, lower productivity, fractured working relationships and reduced innovation are but a few of the negative consequences which an organisation will be subjected to when their employees suffer with debt problems.

Human Potential Accounting has spoken to some of the leading experts in the field to find out their views on how research can help us to deal with this issue, on the effects of the recession and on what organisations can do to protect themselves as well as their employees against this problem. Their views are quoted extensively below.

## Main themes or trends

Considering this is a relatively new field of research, the main themes are quite well focused. Three over-arching topics were mentioned by the experts. The first of these was the "links between financial capability and well-being" (*Annette Cox, Associate Director of the Institute for Employment Studies*). This concept can often be referred to as financial distress. *Aimee Prawitz, of the Personal Finance Employee Education Foundation and Professor at Northern Illinois University,* suggests that "financial distress as a result of increased employee debt" is an increasingly important topic of interest. Stress has been noted as a frequent outcome of financial distress. *Tom Garman, Professor Emeritus and Fellow of Virginia Tech University and President of the Personal Finance Employee Education Foundation,* highlights that "stress is substantial" when dealing with financial burdens. "One of the drivers making organisations look at this issue [employee debt] was around the problem of stress that individuals face if they have debt problems which impacts on organisational performance" (*Charles Cotton, CIPD's Adviser in Reward and Employment Conditions*).

The effect of debt on employee and organisational performance was another commonly mentioned theme. "Current research focuses on [...] negative outcomes in the workplace that are related to employee debt, including work time wasted, increased absenteeism and turnover" (*Prawitz*). *Cox* also highlighted that "research from the IES examines [...] the relationship between financial well-being and individual productivity".

In light of the fact that an increasing amount of work illustrates how employees suffering with debt can cost the organisation, it is of no surprise that the third most popular topic of research focuses on how organisations can reduce this effect. "There is substantial research on the employer's return on investment for providing employees easy access to quality financial programs" (*Garman*). *Prawitz* pointed out that work is under way on the "effect of workplace financial education on employee financial distress and changes in financial behaviours."

## Linking employee debt research to the real world

The research carried out on employee debt, while limited, tends to follow an applied focus. There was general consensus between the experts that research "gives us pointers to the kinds of impact that debt has on employee well-being, so managers can be better informed about how the signs of debt problems might show up in employees" (*Cox*). Research indicates that these signs can include "higher absence or worse presenteeism, meaning you are thinking about handling your bills and talking to your friends about the bills at the water cooler, you have more industrial accidents and the list goes on" (*Garman*). Nearly all of the symptoms associated with employee debt are costly and counterproductive to an organisation's performance.

As well as being able to identify the symptoms of employee debt, presumably for referral purposes, research helps us understand what remedial techniques we should use and how effective they are. For example, an organisation's "workplace financial education improves their own bottom line. Positive outcomes include a reduction in employee financial distress, and subsequent reductions in work time wasted, absenteeism, and turnover" (*Prawitz*). The Personal Finance Employee Education Foundation recently developed a new return on investment model which allows the organisation to see the true impact of employee debt and the way in which financial education programs can help.

In contrast to the idea that research is helping to deal with this issue in real life, *Garman* suggests that the economic crisis might actually be currently responsible for people managing their money in a more controlled manner. "As far as employees' debt [is concerned], their debts are getting more and more under control because of this crisis. Those who still have jobs are able to pay off their bills and are more focused on getting their finances in order" (*Garman*). Having said that, it is difficult to predict whether this effect will continue once the downturn has weakened: "This is hopefully not a temporary situation - hopefully this will be a cultural change" (*Garman*).

While the economic crisis may be helping in the fight against employee debt, the influence of research upon this issue cannot go unnoticed. Studies have helped us to understand and unpick the whole life-cycle of employee debt, from the costs, both to the individual and to the organisation, to the symptoms and finally to the effectiveness of interventions.

## What should future research cover?

There were clear differences of opinion between experts from the UK and those from America on what kinds of further investigation are needed. This is partly due to the fact that American research on the topic of employee debt is much further developed. *Cotton* suggested that one reason for this might be that "to a certain extent there is restraint in the UK on talking about money while there seems to be more acceptance in the US." "US firms have done more about financial education and awareness than there has been in the UK, so we need to catch up."

There was consensus among the UK experts regarding the development of industry and sector based research. Employee debt "has a bigger impact in certain industries than it will in others. So for instance if you were in a safety critical environment like transport, if somebody has money worries and it impacts their performance and there is a train crash, that has a bigger impact than possibly in a retail environment" (*Cotton*). If we know what sectors are most likely to suffer from the negative effects of employee debt we can target these groups. "We still don't know a lot about the kinds of occupations or sectors in which employees are more likely to incur debts, which would be helpful in targeting financial education campaigns and support" (*Cox*). Understanding the types of individuals that tend to work in a certain occupation can also help to target groups. "Links between people's attitudes to risk and saving/spending behaviours are evident in some of the literature and it would be interesting to see whether people with particular traits work in particular kinds of occupations and sectors. Again this would help with targeting financial advice" (*Cox*).

Whereas American researchers have been trying to scientifically link employee debt with negative consequences to the organisation, UK managers have tended to rely on intuition. Our UK experts agreed that this was a problem. "The links between employee well-being and performance in the workplace aren't fully demonstrated" (*Cox*). "In the UK I suppose people intuitively know that if people are stressed over money worries they are probably going to be less productive, but there isn't a link showing that the impact of money worries means you will actually lose 2%, 3% or 4% of performance" (*Cotton*).

A final bone of contention for the UK experts was the type, and effectiveness, of the financial education programmes used. "There is still a need for research into what kind of financial education, in what format, employees find most credible and is most likely to influence their behaviour". "The return on investments that employers get from providing workplace financial education in different forms needs exploring, so what works for whom and why?" (*Cox*).

In contrast, our American counterparts were more interested in developing the theoretical and methodological aspects. This is sensible considering that America has already produced strong practical research. *Garman* promotes the use of short self-perception questionnaires in employee financial well-being research. He suggests that previously used measures of assets and liabilities are "too slow, they are too broad a measure and too slow to change" or capture changes. The main advantage of using the questionnaire measure is that it gives you data very quickly rather than having to wait months or years.

*Prawitz* suggests that the development of theoretically based research can help us understand why individuals find themselves in debt and how to help them. She highlighted the theoretical model of behavioural change in particular. "The model helps researchers and practitioners determine employee's stage of readiness for change, then target change strategies useful to that particular stage. Increased use of this model in helping employees reduce debt would be helpful."

## Straightforward advice about employee debt in the workplace

When asked this question the majority of experts suggested workplace initiatives which help both the individual and the organisation. "If we accept the hypothesis that employee debt is the employers' debt, i.e. is an enemy of the employers' profits, then the advice would be for the employers to seek out ways to help employees deal with their debt" (*Garman*).

The Financial Services Authority (FSA) was commonly reported as a very useful source for advice in the UK. "The FSA provides [...] different forms of advice to help employees manage their money. These include CD ROMs and leaflets in addition to independent seminars that they will run on an employer's premises" (*Cox*). *Diane Watson, specialist counsellor at PayPlan,* suggests that "Companies should avail themselves of helplines that can point employees in the direction of organisations such as Citizens Advice Bureaux, PayPlan, etc"; other recommendations included the Consumer Credit Counselling Service and the National Debtline. Any of these free debt advice organisations can be used as part of an employee assistance programme.

*Watson* goes on to suggest that companies should "offer the chance to have a Debt Advice Surgery perhaps once or twice a month that employees can attend". However the key to reducing this problem might not be throwing as much money as possible at it, but choosing what fits your organisation best. "The offerings can differ between organisations. It tends to be larger organisations that offer more, [they may] even have their own credit union for their employees so they have access to loans at a reasonable rate." (*Cotton*)

As well as helping individuals to manage their money matters, interventions such as those described above may also increase engagement levels. "By offering access to financial education and awareness programmes it shows to the employee that the organisation does care about its staff, either to deal with their debts or [to give] advice on how to deal with their money so they don't get debts" (*Cotton*).

## The effect of the current economic climate on employee debt in organisations

The recession has acted like a pressure cooker for those who are suffering with debt and financial troubles. According to a recent IES report, "a fifth of employees in our survey of just under 2000 people are finding it difficult to sleep at night and around 10% think that worrying about money is affecting their health and their performance at work" (*Cox*). "Psychologically [employees] probably haven't been this focused on their debts since the recession in the early 1980's" (*Garman*).

"People have a hard time compartmentalising the different facets of their lives, so worries about personal financial problems spill over into the workplace" (*Prawitz*). This is not only true of the workplace but can also affect all other parts of an individual's personal life. "It's good that employees are focused on the problem, they have to deal with their [debt] problem but it's certainly messing up other parts of their lives" (*Garman*).

As well as highlighting the impact of the economic downturn on the individual, the experts also noted a range of effects expected within the organisation. "You're going to see issues around performance and you're going to see issues around risk. Those are the two main concerns for employers" (*Cotton*). "Stress over financial worries will lead to absenteeism at work. Employees who can't concentrate on their jobs leads to reduced productivity, strained relationships with colleagues and managers which can lead to disciplinary issues" (*Watson*). "Financially distressed employees, for example, may experience distractions from their duties, including worrying, talking with co-workers about their financial problems, taking calls from creditors and talking to others on the phone about their financial woes" (*Prawitz*). "In general employees are more likely to be stressed and anxious in the workplace, so organisations are likely to find morale and productivity are affected" (*Cox*).

Taking a slightly more positive outlook on the situation, *Cotton* thought that the economic climate may actually help people with financial problems. "Interest rates are historically low so hopefully debt management for people who are in work should be a lot easier. Research shows that many people are now taking the opportunity of the low interest rates to try and pay off as much of their outstanding debts as possible". Sharing this more positive viewpoint, *Garman* highlights another effect of this crisis - that employees are actually more productive. "People are having their hours cut back and they're still more productive, we had productivity numbers come out yesterday from our government; 5.6%, the largest increase in some years" (*Garman*).

These differing views illustrate the contrasting effects of financial distress and the fallout from the recession. While money worries may well be affecting an individual's work life, employees are attempting to do everything they can to keep hold of their jobs, due to the fragility of continuous work during the downturn. So what does this mean once the recession has passed and people are left with their financial woes?

## Changes to the employee debt situation in the next 18 months

Again, opinions were divided on how the effects of employee debt will change over the next 18 months, with the recession still biting. Most experts said that they believed the situation would only get worse for both the individual and the employer. "If unemployment continues to rise, there will be an increased number of employees struggling to cope with their finances" (*Watson*). "We are already seeing the effects of the recession through statistics like home repossessions increasing and as more people lose their jobs, this is likely to continue. We must also remember the indirect effects that redundancy can have on people still in work. If your partner has lost their job, you might experience the pressures of being the sole breadwinner" (*Cox*). *Watson* also points out that this high level of redundancy will result in reduced morale and higher stress levels of those still in the organisation.

In the long term, however, this situation will allow people to learn to live within their means rather than relying on loans. *Garman* argues that "in the next 12 months I expect [indebted employees] will make progress on paying down their debts and increasing their savings and feel more self-confidence about being able to handle their own personal financial affairs." "People are now relearning how to live with a reasonable amount of debt and some people are getting smart and getting out of debt altogether and paying off their home more readily and in fewer years" (*Garman*).

## Strategies for improving employee debt in organisations

When thinking about possible strategies for organisations to adopt, most of the experts suggested three areas to focus on; intervention availability, accessibility and effectiveness. A number of different services, such as debt counselling services, the FSA, local IFA's and bespoke services, were thought to be effective. To ensure an organisation is not placed in an unfavourable legal situation, "advice given to employees needs to be from an independent source to ensure the employer is not legally liable for the action employees take as a result" (*Cox*).

Merely investing in these services is not enough, however. "Think really carefully about how you pitch and market advice, as people with debts may not want to confront their problems. The FSA slogan for example 'Making the Most of Your Money' is more attractive to people than 'Coping with Debt'" (*Cox*). "Time needs to be allowed for employees to access this advice, perhaps through a debt surgery linked through work" (*Watson*). Organisations need to be careful when planning on how to make this advice available to all of their employees. "IES research showed that people who did not have standard working hours, or who had a disability or long-term health condition were less likely to attend financial education seminars, possibly because they could not attend them easily" (*Cox*).

*Garman* presented a strong argument for the role of behavioural change used in strategy. He suggests that interventions which only rely on giving employees financial knowledge will not be successful. "I don't care about your knowledge, I don't care about your attitudes [...]; we want changes in financial behaviours and we also want to see increased personal financial wellness". "Many programs are cursory and largely ineffective because they perhaps only impact knowledge and attitudes, however some efforts are extremely effective. In our view the indicators of quality financial program effectiveness are changes to financial behaviour" (*Garman*).

## Organisations who are particularly strong in addressing employee debt issues

While it was agreed that many organisations are investing in programs to help minimise employee debt, only three specific examples were given. "AXA allocates an hour's working time per month for employees to manage their finances" (*Cox*). "McLeod Health is a company that is investing in the well-being of its employees. They are dedicated to the provision of workplace financial education because it is the right thing to do" (*Prawitz*). "Another company dedicated to the well-being of employees is TwoMedicine Health and Financial Fitness. This company is documenting changes in employee health as a result of the provision of financial education in the workplace" (*Prawitz*). Although no other individual cases were quoted, the experts did recognise that many organisations offer financial advice via employee assistance programmes.

## Where should we focus our attention to minimise the effects of employee debt in the workplace?

Our experts put forward a broad spectrum of ideas for how to help reduce this problem in the future. Annette Cox suggests that we need to be thinking about educating against this issue from an early age. "First we need to ensure that people leaving the education system at any stage have a good understanding of how to budget, how to manage their money and the range of different financial products available to them, with their advantages and disadvantages." "FSA research shows a shockingly poor understanding of the principles of basic financial products among the general population, only 40% of whom understand that the value of an equity-based ISA is related to the stock market for example!" (*Cox*).

A common issue highlighted by the experts was the need for senior management to buy in to the problem, and to foster an effective organisational climate. "I think it all boils down to the attitude of the employer and their interest in staff well-being" (*Watson*). "We need to convince the management team at the workplace that this is a very important topic because it contributes to the bottom line [and also] helps fulfil the responsibilities of the employer as stewards of employee well-being" (*Garman*). Organisations should also attempt to create a climate which encourages employees to seek advice. "Many employees are embarrassed to admit they are struggling, so it is important to ensure that asking for help is not seen as a sign of weakness" (*Watson*).

Finally all the experts agreed that all organisations should be offering some sort of free financial advice service. "Employers need to make sure that advice is freely and widely available through appropriate independent providers, which is simple to understand and doesn't stigmatise people who've got into difficulties with money" (*Cox*). Organisations "don't have to create their own program - they can quite easily get in the FSA, and it's not just the FSA that do these things for free" (*Cotton*). "Employee-provided basic financial education is the answer" (*Prawitz*).

## Conclusion

Through presenting the thoughts and opinions of the leading thinkers on this topic we hope we have helped educate others not only on the current situation of employee debt but also on how research needs to develop further to protect both the individual employee and the employer against this growing issue. If you have your own thoughts about research and organisational strategy in this area we would love to hear from you information@hpa-group.com.

## About the experts

Human Potential Accounting would like to thank all of the experts involved in this article for their time and opinions given. Below is a brief insight into each of the experts.

### *E. Thomas Garman*

Dr Thomas Garman is a distinguished Professor Emeritus and Fellow of Virginia Tech University. He has produced many books and published articles concerning consumer economics. Dr Garman is President of the Personal Finance Employee Education Foundation.

### *Annette Cox*

Dr Annette Cox is Associate Director of the Institute for Employment Studies (IES). Her research interests centre on the development and application of skills in the workplace, employee involvement, dimensions of well-being and reward management.

### *Charles Cotton*

Charles Cotton works for the Chartered Institute of Personnel and Development (CIPD) as an expert adviser in reward and employment conditions. Charles is currently leading an investigation into financial education. He is also responsible for managing the CIPD's annual Reward Management Survey.

### *Diane Watson*

Diane Watson is a specialist debt counsellor for PayPlan, one of the UK's leading debt advice providers, offering free debt advice and support. Diane was recently voted 'Debt Counsellor of the Year' at the Credit Today Awards 2009 in recognition of her commitment to raising awareness of debt issues.

### *Aimee Prawitz*

Dr Aimee Prawitz is the Director of Research at the Personal Financial Employee Education Foundation, and a Professor at Northern Illinois University (NIU). She serves as the Assistant to the Dean for Research in The College of Health and Human Sciences at NIU. Her research interests are focused on the effects of financial distress on employees and other populations.