American employees have financial problems. Half say that they are facing financial difficulties or trying to reduce their debt. For 25% of the workforce, this financial distress is serious, and 30% bring their financial stresses to the workplace, resulting in reduced productivity. They are running to stay in place financially, living paycheck-to-paycheck, stressed about both immediate personal finances and their ability to afford retirement, and with little confidence in their ability to recover and manage their personal finances. No employees—not even the well educated and highly compensated—are immune from these problems.

Why should employers concern themselves with employees’ financial well-being? The consensus from award-winning academic research, professional and trade associations, media, and leading employers is that employee financial problems negatively impact the employer’s bottom line. Employers who provide employees access to information and resources to increase their personal financial literacy and money management behaviors improve their profitability.

The strong correlations among personal finances, stress levels, health, and family relationships are well established. So are the correlations between financial well-being and the direct employee costs of absenteeism, administration, lost productivity, and turnover. An employee’s financial well-being conditions his or her job satisfaction, engagement, and productivity. Low engagement from just one employee impairs the productivity of co-workers.

Employers with a vested interest in the retirement preparedness and general financial well-being of individuals should consider using the Personal Finance Well-Being scale to benchmark the financial health of employees and help employees track their progress. It is in an employer’s self-interest to help employees improve their financial well-being, including saving and investing for retirement. At a time when the market for skilled and experienced employees is tightening, smart employers take advantage of opportunities to engage employees, maximize their output, and build their loyalty.

**Personal Finance Well-Being Scale**
The Personal Finance Well-Being scale (PFW), also known as the InCharge Financial Distress/Financial Well-Being scale, is a self-report measure of the attributes of perceived financial distress/financial well-being. Questions on the PFW require people to evaluate their current financial situation as well as their reactions to that state of economic affairs. A PFW score is a personalized assessment of one’s financial health.

Over twenty years in development and topped off in recent years with extensive research by the InCharge Education Foundation, the scale is an efficient, valid, and reliable measure of personal financial well-being. Factor analysis statistics show that the PFW measures a single factor, and the Cronbach Alpha reliability coefficient is a very robust 0.956. The numerical indices of the PFW are capable of assessing subtle differences, and details are presented in the Fall 2006 issue of the prestigious academic journal Financial Counseling and Planning (www.AFCPE.org).

The Personal Finance Well-Being scale can be used to benchmark the financial health of large populations, as well as to assess the outcomes of treatments designed to reduce financial distress and improve financial well-being. Employers also could make the PFW available to employees so individuals can track their financial progress. A PFW score can alert individuals about what might have
been previously undetected financial difficulties. PFW scores and feedback could be obtained via an employer-based Internet or interactive computer-assisted telephone system.

Each of the eight PFW questions is rated on a 10-point scale, so the range of scores is from 8 to 80, and dividing one’s total score by 8 readily converts the result back to a simple-to-understand 10-point score of financial wellness. Each score is interpreted using concise descriptors of financial health that range from “zero financial distress/highest financial well-being” for a 10, to “overwhelming financial distress/lowest financial well-being” for a score of 1.

**National Norms and Score Interpretation**

The items making up the FWS scale are un-weighted, so the instrument is easy to work with. The instrument is concise, can be administered quickly, and the results can be calculated readily. One needs only sum the number of points for each of the eight items, and divide the total by 8 (the total number of items) to calculate a score. Individual scores can range from 1.0 (one point for each item) to 10.0 (10 points for each item). For example, if an individual scored a total of 28 on the summation of all points for the 8 items, that individual’s score on the scale would be 28/8 = 3.5.

National norms for the general population of adults in the United States have been established to provide data for initial norms to interpret scores. The average mean score of 5.7 (SD = 2.4) for the general population was located at approximately the midpoint on the continuum, between 5 and 6. Thirty percent of the people scored between 1 and 4 while 42% scored between 7 and 10 and 28% clustered around the midpoint markers of 5 and 6 on the continuum. Descriptive terminology to interpret specific scores on the 10-point FWB scale is suggested below.

<table>
<thead>
<tr>
<th>Score</th>
<th>Descriptive Terminology</th>
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<tbody>
<tr>
<td>1.0</td>
<td>Overwhelming financial distress/lowest financial well-being</td>
</tr>
<tr>
<td>2.0</td>
<td>Extremely high financial distress/extremely low financial well-being</td>
</tr>
<tr>
<td>3.0</td>
<td>Very high financial distress/very poor financial well-being</td>
</tr>
<tr>
<td>4.0</td>
<td>High financial distress/poor financial well-being</td>
</tr>
<tr>
<td>5.0</td>
<td>Average financial distress/average financial well-being</td>
</tr>
<tr>
<td>6.0</td>
<td>Moderate financial distress/moderate financial well-being</td>
</tr>
<tr>
<td>7.0</td>
<td>Low financial distress/good financial well-being</td>
</tr>
<tr>
<td>8.0</td>
<td>Very low financial distress/very good financial well-being</td>
</tr>
<tr>
<td>9.0</td>
<td>Extremely low financial distress/extremely high financial well-being</td>
</tr>
<tr>
<td>10.0</td>
<td>No financial distress/highest financial well-being</td>
</tr>
</tbody>
</table>

**Using the PFW to Assess Financial Distress, Establish Benchmarks, Track Progress and Evaluate Outcomes**

The scale questions to appraise people’s financial wellness are widely used by organizations such as employers, credit unions, creditors, military, labor groups, foundations, houses of worship, and other voluntary associations. Those involved include human resource professionals, financial educators, employee assistance personnel, marriage therapists, mental health counselors, financial planners, credit counselors, researchers, and military counselors.

The PFW scale may be used to:
- Assess the financial health of employees
- Screen potential new hires to avoid those who are financially troubled
- Determine the financial education needs of individuals and groups
- Evaluate outcomes of treatments (e.g., information, education, counseling, advice) designed to reduce financial distress and improve financial well-being
- Document low-cost techniques for enabling employees to decrease their financial distress and improve their financial well-being
• Predict which employees are likely to report poor health, poor family relationships, and poor job outcomes
• Ascertained relationships between health and personal finances
• Demonstrate relationships between personal finances and work outcomes
• Assess relationships between engagement and personal finances
• Confirm resulting changes in personal financial behaviors, such as spending habits, savings rate, benefit choices, and investment decisions
• Identify and/or predict employees needing appropriately targeted assistance, interventions and referrals (e.g., mental health counseling, employee assistance program counseling, marriage counseling, pastoral counseling, credit counseling, financial planning)
• Track the financial condition of employees over time
• Identify employees needing assistance in retirement preparedness
• Reduce retention and recruitment costs
• Assess productivity benefits to employers who improve their employees’ financial distress and financial well-being.
• Measure the payoff of improved employee productivity as a return on investment
• Provide evidence to support being a best-practices employer
• Compare scale scores against the national norms
• Create norms for a single industry

It is Easy for Employers to “Prove-It-Yourself” About the Impact of Poor Financial Well-Being on Profits
The human resources director and the employer’s financial education provider both are in excellent positions to determine the impact of poor employee financial well-being on profitability. For example, the financial health appraisal scores for a large group of people, such as hospital employees, can be readily arrayed in a distribution on a 10-point scale. A number of employees will report their financial well-being scores in the middle with 5’s and 6’s and many others are likely to report above average financial well-being in the 7 to 10 range. Substantial numbers also will self-report their personal finances as poor with scores between 1 and 4.

Following these steps, perhaps in less than one’s day of effort, will prove the negative impact of poor employee financial well-being on profitability: (1) Array the PFW scores of employees from low to high and then divide them into 5 groups of personal financial well-being with 20% of the respondents in each group; (2) Isolate the upper 20% group with the highest financial well-being scores and the 20% group with the lowest scores; (3) Using employee identification numbers examine the personnel records of the two groups (upper and lower 20% of scores); (4) Compare the two groups of employees using last year’s personnel records on one or more of the follow factors, absenteeism, short-term disability, job performance rating, health care costs, participation in employer’s high- or low-cost health plan, wage garnishments, accidents, workers’ compensation claims, and participation in 125 plan (saving employer’s portion of Social Security taxes); (4) Report finding to top management; and (5) Discuss with financial education provider how to better increase employee financial literacy and improve their personal money management behaviors so that it results in improved PFW scores and better bottom-line results for the employer.

Pricing and Permission to Use PFW Scale
Use of the PFW scale is free, although permission is required. The PFW instrument may be administered in standard as well as online format. Approval for use may be obtained from E. Thomas Garman, Author, Advisor and President, Personal Finance Employee Education Foundation, Inc.; Fellow and Professor Emeritus, Virginia Tech University; 9402 SE 174th Loop, Summerfield, FL 34491, USA; Tele/Fax: 352-347-1345; E-mail: ethomasgarman@yahoo.com; Web: www.PFEEFoundation.org and www.EthomasGarman.net.