November 2023

Spotlight on UK financial wellbeing

Close Brothers Asset Management

About us

We have been helping employees for some of the UK's best-known organisations to improve their financial wellbeing for over 50 years.

We're passionate about helping people resolve their money worries and take control of their finances now and for their future.

Our workplace financial wellbeing services provide employees with end-to-end support via financial education, financial guidance, financial planning advice, savings and investments.

Whether you want to implement a 'hire to retire' strategy or start by providing tailored support to specific employee groups, our services drive engagement across every area of financial wellbeing.

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Introduction

Jeanette Makings
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In recent years, UK financial wellbeing has faced an onslaught of challenges: the pandemic, employees and organisations adapting to more hybrid working, the highest rate of inflation in decades, significant rises in our cost of living, continued market volatility and mortgage rates at their highest rates since the late nineties. Whilst these changes are difficult enough to deal with in themselves, the fact that most are unforeseen, inflicted upon us and so outside of our control, has also added financial worry, impacting mental wellbeing as well as financial wellbeing.

Against this backdrop, this research turns a spotlight on UK financial wellbeing, seeking out the true impact of the difficulties faced in recent years, to find the biggest issues currently facing organisations and their employees and to map out how employers support employee financial wellbeing. And importantly, to see four years on, what progress has been made.

More than a quarter (28%) of employees are unhappy with their finances, the same as in the 2019 Financial Wellbeing Index research. Now 96% of employees worry about money, a 4% increase on 2019. It goes without saying that this impacts individuals, with 22% of employees confirming it affects their mental health and 19% impacting their sleep, for example. But there's also a knock-on effect on the workplace with 87% of employees confirming that these money worries affect their work.

Despite the challenges to personal finances, the increased focus and effort on improving financial wellbeing has made a difference. The financial wellbeing index shows an improvement (6%) overall compared to 2019, with significant improvements in some categories; 37% increase in budgeting and planning and 26% in protection.

From this research, five key themes emerge that go some way to explaining why the progress (or lack of it) in tackling financial wellbeing is perhaps not reflective of the effort to date: **insight, communication, benefits matching, breadth and expertise**.

There is a distinct difference between employee and corporate priorities; what's not clear is why and whether this is down to a lack of **insight** or a genuine divergence. This research shows that the biggest financial concern employees currently face is to keep up with normal living costs, but this comes in at only eighth on the corporate priority list.

Whilst three quarters of workplaces now have a wellbeing strategy in place, only half have a financial wellbeing strategy. Even for those with a financial wellbeing strategy, this support is clearly not being recognised by employees, as 45% don't know whether their workplace has a financial wellbeing strategy or not. Successful employee **communication** and lasting engagement is a known and ongoing challenge in the workplace.

As well as solving this communication disconnect, there seems to be a distinct gap when **matching the benefits** employees want to help them to improve financial health with what workplaces currently provide.

For most people, their rent or mortgage will be their single biggest monthly cost. So finding a better deal to help reduce that cost will make the biggest difference to their monthly outgoings. Yet only 17% of workplaces currently offer a mortgage advice service.

Similarly, when comparing the top 10 most important benefits ranked by employees to help with their financial wellbeing against the top 10 benefits currently provided in the workplace, only half appear on both lists and in terms of priority, there's only one benefit with the same ranking. This poses the question, are the workplace benefits currently on offer a true reflection of what employees need or are some benefit choices now out of date with current needs or reflective of a lack of insight, as a result of provider push, or because it's easier or cheaper for organisations to implement them?

Overall financial wellbeing addresses all areas of personal finance, not just one or two, such as pensions or debt. Yet in terms of current financial wellbeing providers, 41% are provided either by a pension provider or a benefits provider – both of whom will only focus on the pension or benefit they provide rather than the **breadth** of all workplace benefits, and all areas of personal finance.

And so the spotlight turns to the **expertise behind** what's being provided. When it comes to money, especially in these straitened times, employees want specific help from trusted experts and in many cases they want advice not just guidance. Yet that isn't what's being offered. After workplace pensions and private medical insurance, access to financial advice is the third highest-ranking benefit that employees feel is important to help improve financial wellbeing. Excepting mortgage advice services (17%), only 15% of workplaces offer financial advice. And given trust is a huge factor when considering money, employees are very clear about who they trust to deliver financial guidance; a financial adviser (46%), their pension provider (for their workplace pension) (40%), a specialist financial education provider selected by their employer (37%), and the employer themselves (25%). Despite the proliferation of other financial wellbeing providers, only 3% of employees trust a fintech financial education platform, a workplace loan provider or financial coaching (delivered by coaches who are not regulated financial advisers).

This spotlight research seeks to provide true insight examining in detail where UK employees stand in every aspect of their financial wellbeing, including any differences for gender, age, sector and location. It aims to illustrate the biggest issues facing both employees and organisations and the changes being felt as retirement plans have shifted in recent years in response to the challenging financial landscape. Finally, it paints a picture of UK workplace benefits and how well these match up to what employees need to truly improve their financial health. It's a good read but a tough one, and for organisations that are serious about wanting to help drive a shift in their employee's financial wellbeing, it's a must!

> "Five key themes emerge that go some way to explaining why the progress (or lack of it) in tackling financial wellbeing is perhaps not reflective of the effort to date: insight, communication, benefits matching, breadth and expertise."

Chapter 1: UK financial wellbeing index

"It's clear that the increased effort and focus on workplace financial wellbeing is having a positive effect on UK financial wellbeing especially in some areas."

At a time when the rising cost of living is colliding with market volatility, changes in working patterns, high inflation and interest rates, it is perhaps surprising to find that overall financial wellbeing has actually improved since 2019. It appears that an increased focus and effort in workplace financial wellbeing programmes have made a discernible difference, but there are still notable areas of vulnerability.

Our financial wellbeing index shows an improvement (6%) overall compared to 2019. However, the aggregate score masks greater complexity underneath. While there were significant improvements in some categories - a 37% increase in budgeting and planning, for example, and 26% in protection – there were three areas where the index has fallen: money worries, savings and investments, and retirement. In particular, retirement fell significantly.

The areas that saw most improvement may be a positive legacy from the pandemic. The insecurity created by lockdowns focused people's attention on their financial wellbeing, and many people have taken steps to bolster their safety net with an increase in their emergency fund, income protection or critical illness cover. Equally, it may have been the catalyst to take hold of budgeting and planning, which is why these areas have seen such a significant improvement. In 2023, 56% of people have a financial plan, up from 45% in 2019.

Spotlight on UK financial wellbeing

Money worries

However, it is impossible to overlook the extent to which the last three years and the current economic environment and market volatility has dented people's financial confidence. Money worries have increased, with the overall score falling six points from 56 to 50, an 11% drop.

It is interesting to note that the one area where concerns aren't yet showing is around mortgages, in spite of the highest mortgage rates in decades. To offer some insight, our 2021 Expect the Unexpected findings show that people are now paying off mortgages rather than increasing them as part of their resilience planning. It may also be that the pain is still to come for many homeowners as more fixed rates expire.

The current crisis has impacted retirement and savings and investments scores, which are currently showing a dip compared to 2019, 30% down for retirement. A range of short-term factors may have dented confidence – from volatile markets, to less investable income, as money is diverted to meet cost of living increases.

There are also some long-term factors at work. More people are now reliant on defined contribution pensions, in which market volatility is more evident. With employees now making decisions about when to retire, large falls in pensions and other savings are worrying and more people are now deferring retirement plans until markets stabilise, see chapter 3. Pension providers may need to work harder to ensure people understand market volatility and how to respond to it, rather than it scaring them off making critical decisions.

Areas of vulnerability

Those with the greatest financial vulnerability follow a recognisable pattern. The most worried are women, index score of 48 and those aged 18-30, index score of 47. However, in spite of the prevailing narrative for young people, our survey found younger employees are more money-focused and are often doing more than older workers on financial 'good housekeeping' areas, such as budgeting and planning, with 16-30 year olds scoring 71 compared to a score of 66 for those aged 31 to 54.

Unsurprisingly, financial wellbeing scores improve broadly in line with increasing salary levels on all categories. However, there are some pockets where scores dip in some categories for those earning £50,000-£60,000 and £80,000-£90,000. It may be that is a common salary level for those in their thirties and forties, where debt levels and financial commitments are often at their highest.

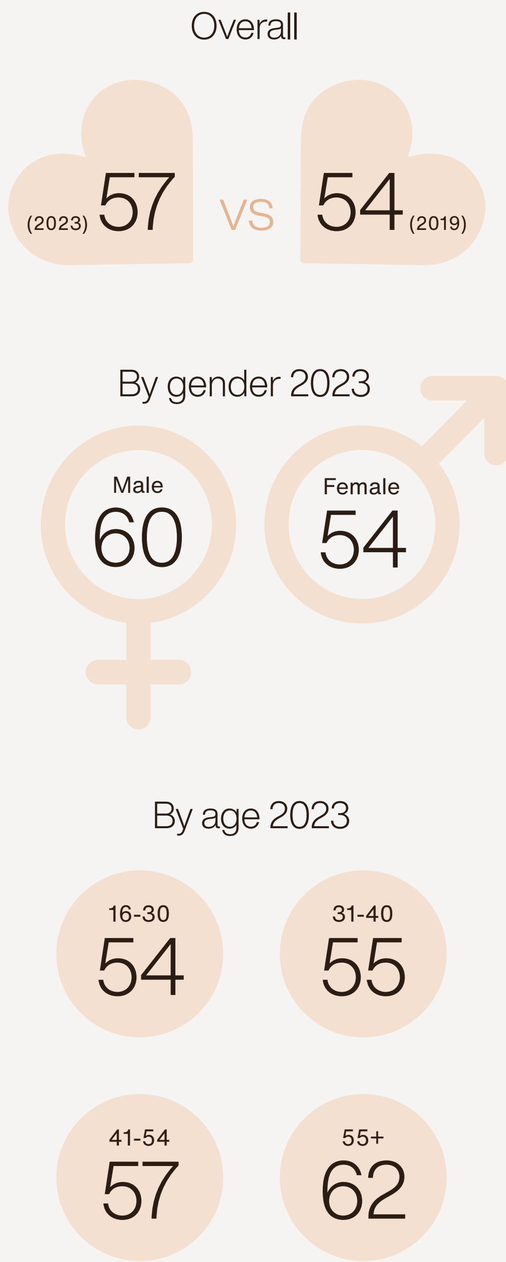
In 2019 12% of employees said debt was a significant issue. In spite of higher interest rates, in 2023 this has shrunk to 7%, with 50% saying debt is not an issue at all and a further 42% saying it is an issue, but is under control or they are taking steps to manage it.

While the debt situation has improved, the savings situation has deteriorated. In 2023, more than half (55%) of employees have a sufficient emergency fund set aside to cover three months or more of normal monthly costs. In 2019, this was 70%, showing that over the last few years emergency savings have been used and not yet refilled.

While people's financial wellbeing has improved, there are still pockets of real vulnerability. Some of these have been created by the cost of living crisis, while others are more long-term in nature. It's clear that the increased effort and focus on workplace financial wellbeing is having a positive effect on UK financial wellbeing, especially in some areas, but there are still key areas that are being missed.

Financial wellbeing index

	2023	2019	Change
Overall score	57	54	+6%
Money worries	50	56	-11%
Budgeting and planning	67	49	+37%
Debt	73	68	+7%
Protection	54	43	+26%
Savings and investments	52	54	-4%
Property and mortgages	69	61	+13%
Retirement	35	50	-30%
Tax	60	49	+22%



Chapter 2:
The biggest issues

“Employees’ biggest issue comes only 8th on the corporate agenda.”

It has been a uniquely precarious period for personal finances. Having emerged from the insecurities of the pandemic, individuals have been hit with the double blow of inflation and higher interest rates. While many recognised that the era of cheap money needed to come to an end at some point, the reality of its impact has been more painful than many dared imagine.

This is set against a changing landscape for long-term saving. People are working longer, retiring flexibly and pensions, whilst still important, are no longer the only source of income in retirement. Careers are now likely to include many different workplaces, periods of self-employment, entrepreneurship or retraining. Financial markets have also created complexity, with investment portfolios having to adapt to a new interest rate regime after a period of rocketing inflation.

Our survey uncovers a real mismatch of employee and corporate priorities. While employees are focused on managing normal living costs in the cost of living crisis, employers are not targeting either their strategic priorities or their workplace benefits to fit these priorities. Over a third (36%) of employees are struggling to keep up with normal living costs, with 35% worried about not being able to retire and 32% worried about rising mortgage and rental costs.

For employers, talent attraction and retention remains the main priority (35%). Helping employees tackle their financial difficulties more effectively would seem an open goal, a clear route to attracting and retaining employees. But the lack of joined up thinking doesn't stop there as managing pay expectations is a top three priority for business, 28%. However, supporting staff with their cost of living issues is just 8th on the list of employer priorities, failing to recognise that helping with one will reduce the pressure on the others.

Widespread worry

Financial worries are widespread. Around 28% of employees are currently unhappy with their finances, with women (32%) and those aged 35-44 (31%) particularly hard hit. It is perhaps no surprise that the highest unhappiness is to be found in the South East (35%), where living costs are at their highest.

It is also worth noting that this is not just hitting the lowest earners. While 30% of employees earning £30,000-£40,000 say money worries affect their work, 29% of those earning £80,000-£90,000 say the same. The greatest pain is being felt by those with the greatest financial commitments – those in their thirties with large mortgages, children and high bills.

Biggest issues – employees

1. 36% keeping up with normal living costs
2. 35% not being able to afford to retire
3. 32% rising mortgage/ rent costs
4. 29% general money worries
5. 27% not being able to save for my future goals

=6 25% losing my job

=6 25% coping financially if I became ill

8 22% how my savings/investments are performing

9 20% paying off debt

10 18% not making the most of my finances

Biggest issues – employers

1. 35% talent attraction and retention
2. 28% managing pay expectations
3. 27% mental wellbeing
4. 23% employee engagement

=5 22% people development

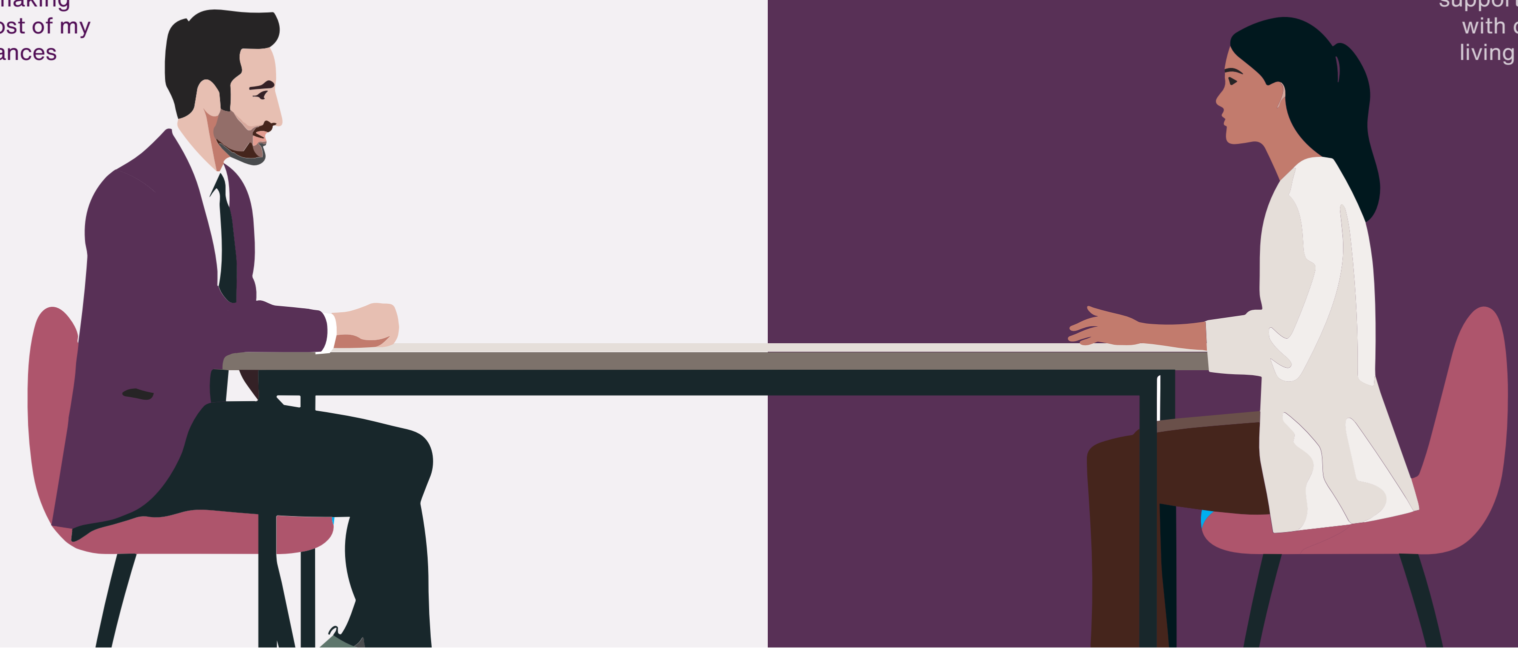
=5 22% talent development

=5 22% lack of resources in your team

=8 19% lack of budget

=8 19% hybrid working

=8 19% supporting staff with cost of living issues



Impact on mental wellbeing and business performance

The effect on wellbeing is clear: 36% of employees worry about money always or often. Again, women are more worried than men (42%). Those aged 25-34 worry most, with 51% often or always worried about money. Employees admit to bringing these worries into the workplace, with around a quarter (24%) saying money worries affect their work a lot.

This is particularly evident among the young (36%), and bucking some of the usual money trends, men more affected than women, 26% versus 22%.

The effect on business performance is also clear: 43% of employees say money worries make them anxious, 22% saying it affects their mental health, almost one in five (19%) lose sleep over money worries and 13% struggle more with decision making.

The role of financial wellbeing

Employers recognise their role in helping people manage their general wellbeing, not least because they understand the impact on employees' ability to do their jobs effectively.

Companies have made great strides in putting wellbeing plans in place, but financial wellbeing still remains well behind the front runners. Yet money worries are a key enemy of mental wellbeing, affecting not only financial and mental wellbeing but overall wellbeing[1] too, and also impacting business health as they are a significant drain on productivity.

Three quarters of businesses have a wellbeing strategy and over a quarter (27%) see managing the mental wellbeing of their staff as a significant responsibility. However, there appears to be a distinct disconnect in the approach to managing mental wellbeing, with strategies focusing on treating it in isolation i.e. the symptoms, rather than treating some of the root causes i.e. money worries. In failing to recognise the role of financial wellbeing in their wider wellbeing strategies and benefits mix, with only half (50%) having a financial wellbeing strategy the best-laid wellbeing plans may be rendered ineffective.

> "Poor financial wellbeing is already depressing productivity and business performance."

[1]www.mentalhealth.org.uk/about-us/news/financial-strain-driving-uks-anxiety

Chapter 3: Changing retirement plans

"Almost half (45%) of companies have seen changes in retirement behaviour since 2020."

Retirement is now firmly in the hands of every individual. This is a daunting responsibility and the perils of getting it wrong are significant. The uncertainties of the past three years, from the pandemic to the cost of living crisis, have created even greater insecurity around retirement decision-making, and in the last 12 months, 36% of those aged 55+ have changed their retirement plans, most pushing back their original retirement date. Without the right information, guidance, support and advice, it is clear that many people won't make the best decision, or any decision at all, leaving companies unable to plan recruitment and succession effectively.

These changes to retirement plans are already causing problems for companies. They are creating blocks on succession (22%), without the turnover of senior personnel necessary to incentivise young, talented staff members. They are also creating difficulties for planning, in talent development and in the efficient running of a business. And bringing higher average payroll (23%), and healthcare costs (18%), as a result of carrying a higher proportion of older workers for longer.

A third of companies say these changes are a significant cause of uncertainty and undoubtedly there will be a lag between the changes happening at employee level and the full effect of these trends being recognised and felt at organisation level. Almost a quarter (22%) of companies don't have data for the number of retirees in their business each year. Almost one in five (18%) don't know whether the last few years' turbulence has impacted the number of retirees.

45%

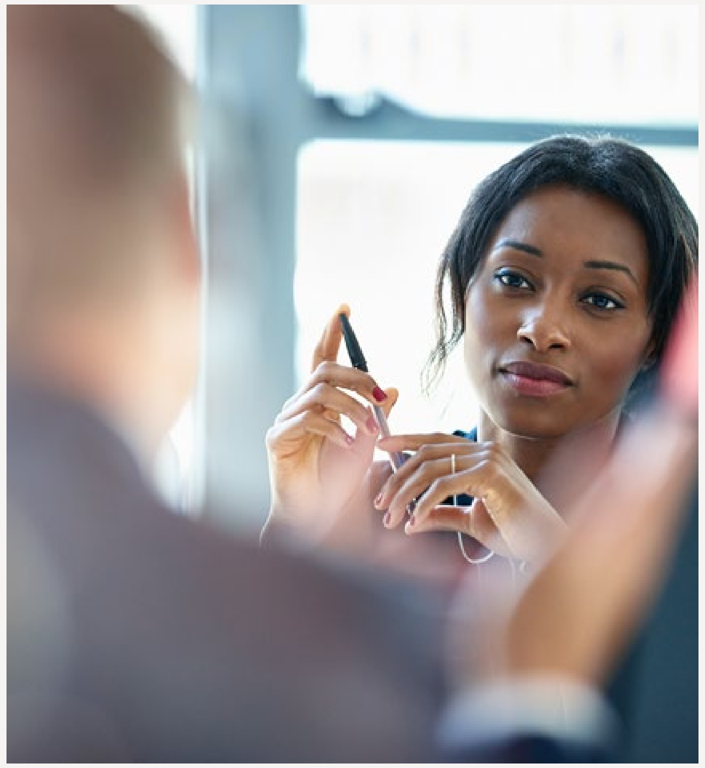
companies have seen changes in retirement behaviour since 2020

Changing retirement behaviours

For many people, retirement has ceased to be a point in time. Instead, it comes when they feel they have the financial confidence to do it. And while pensions are part of that, they are far from the only element in retirement planning. More people still have debt going into retirement, more people work beyond natural retirement age, and more people also have other sources of income, such as ISAs or buy to let property.

Other elements have made the decision more complex. The pandemic, hybrid working, inflation levels, market volatility and the high cost of living have disrupted established retirement patterns. Not being able to afford to retire is the biggest financial concern for 41% of UK employees aged 45 to 54, while 36% of employees aged 55+ have either delayed their retirement date or retired earlier in the last few years, with a further 9% being left undecided, uncertain and anxious.

> "Contrary to popular narratives, only 39% of 18-24 year olds feel retirement is too far away to plan for – meaning almost two thirds (61%) are actively engaged in retirement planning."



Insecurity

This has created a lot of insecurity around retirement decision-making. People have spent their whole career building up their retirement savings and their lifestyle in the 20-30+ years of retirement relies on them getting that decision right. Even if the numbers have been crunched, retirement is an emotional wrench. It isn't always easy to hit the retirement button, not least because many people don't have the confidence that they are aware of all the choices available and will make the best decisions. One in four (25%) employees admit their retirement plans are not on track, while 15% don't know whether they are on track and 10% say they have no retirement plans.

This insecurity is writ large in our survey. Almost a quarter of all employees (23%) have changed their retirement date recently, with 18% deferring it, 5% bringing it forward and 11% confused, undecided and anxious. For those aged 55+ the statistics are more dramatic still – with over a third (36%) changing their retirement plans - 32% making it later, 4% sooner, 9% undecided.

Where employees have decided to retire earlier, for the majority (43%) it is because they have realised "life is too short". Only 15% said it is because they can afford it and, notably, only 15% are retiring because of health issues. For those pushing their retirement date back, money is the swing factor - 34% can't afford to retire, while 15% say there is too much uncertainty in the economic environment. It is worth noting that 54% of respondents said knowing if they can afford to retire or when would bring certainty and security. This is particularly true for women (66%).

Our study showed only 40% have a planned retirement age in mind – 41% don't and 7% are undecided. Women are particularly vulnerable to uncertainty – only 33% of women have a planned date, compared to 45% of men. Challenging the popular narratives about younger people not being engaged with retirement planning, only 39% of 18-24 feel retirement is too far away to plan.

> "Over half (54%) of employees say certainty about the affordability of retirement will help them decide."

What can companies do?

Pensions are still the most important (retirement planning) benefit most companies provide – reaching over four-fifths (83%) of employees. Many employers spend a lot of time trying to get it right and our research shows that a workplace pension is still a highly valued benefit by employees (52%). However, there are a number of areas where companies could do more.

The first is ensuring that employees stay engaged with their pension scheme throughout their career. The consequences of disengagement can be significant. There is a growing body of evidence to show that people are cutting back on their retirement savings[1] to meet short term needs. While understandable in the current environment, the implications of this strategy need to be understood and employees need help to get back on track: our research suggests one-third of people (35%) already fear not being able to retire. This was the second highest financial concern reported in our survey and moves to a top financial concern for all employees, no matter their age, as respondents looked beyond the current market turmoil.

Even relatively short-term breaks in pension contributions can have a significant effect over the longer-term. Research by pension provider Aegon found that for an employee on £20,000 (the average graduate starting salary), taking a break from contributions for just one year at 25 will save them £622 but could mean losing £7,300 from their total pension fund when they reach state pension age.

Equally, there needs to be a recognition that retirement planning goes beyond the provision of the current workplace pension. Increasingly, employees need more support with multiple pensions and incorporating other (non-pensions) savings and investments into their retirement income planning. Employers need to examine whether their current provisions are giving the right breadth of support.

[1]https://corporate-adviser.com/one-in-five-cut-back-on-pension-contributions/

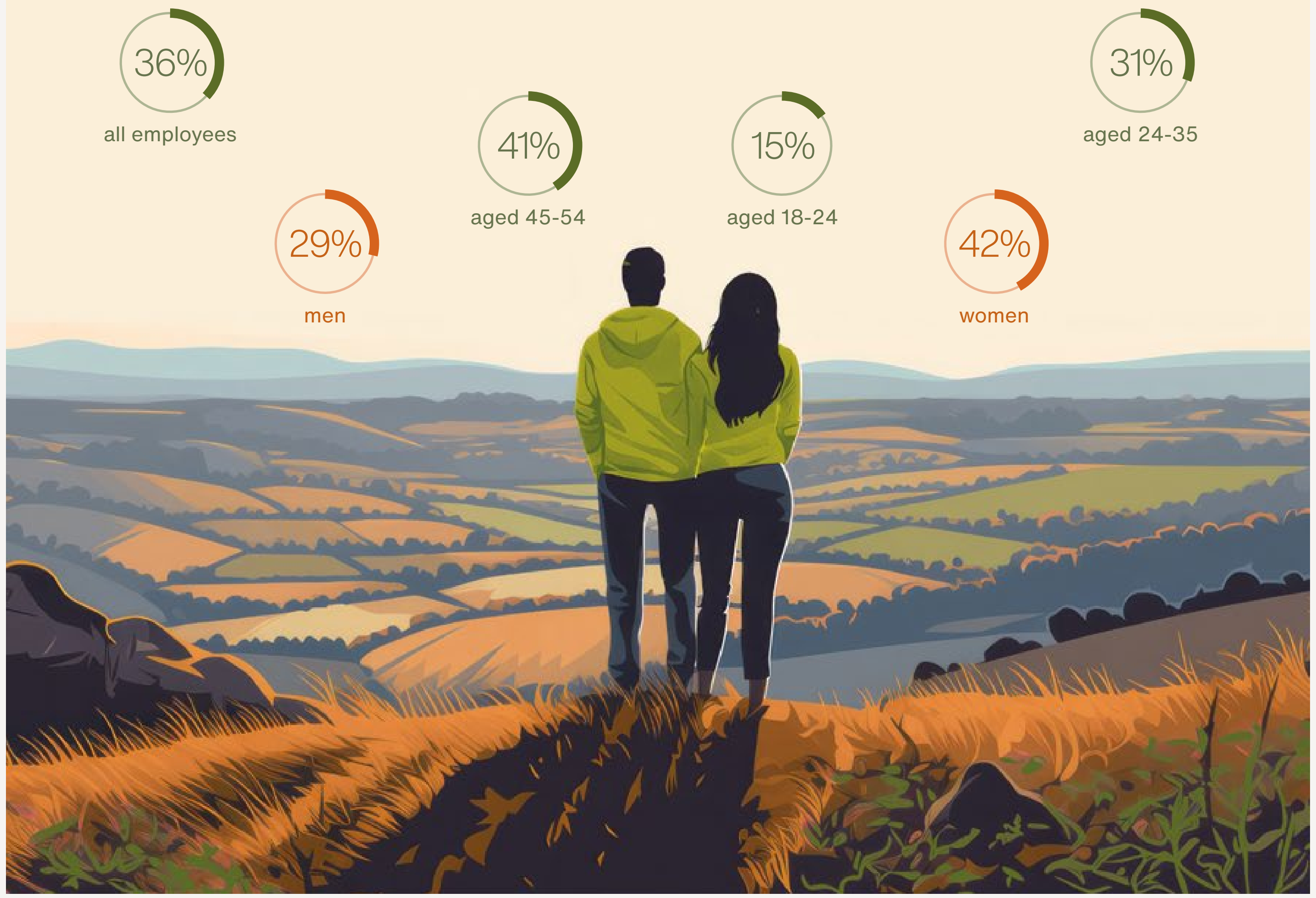
Providing certainty

How can employers help their employees make good decisions around retirement? Certainty and financial confidence are key. Over half (54%) of those surveyed said they were looking for certainty that they could afford to retire or when they can afford to retire. This was particularly important for women (66% versus 45% for men).

It is clear that companies could be doing more to ensure that employees engage with their pension and plan for retirement. Many companies are doing the bare minimum, providing some literature (31% annual pension statement, 20% pre-retirement pack with pension provider). But, even for those that do more, employees aren't aware with them believing only 13% of workplaces provide a helpline to a pension provider and only 10% offer financial advice with a pension provider. Also evident is that the majority of support is provided by the current pension provider, which has obvious limitations on the breadth of the retirement planning solution and its ability to extend beyond only the current workplace pension. Only 9% offer a talk from a workplace pension team. Even where they do provide this support, people don't necessarily know about it: 34% of employees say they don't know what their employer provides. This isn't going to provide employees with the confidence they need to make proper decisions. This is where some independence in retirement advice can make a significant difference. Employees rate financial advice as one of the most important benefits to help improve their financial wellbeing, yet only 15% of workplaces offer it. We explore this in more detail in chapter 6.

Employers need to understand changing retirement patterns and tailor their support accordingly. That means recognising that retirement has changed, retirement is no longer only about a pension and that employees now need a lot more guidance with the complex choices and decision-making. Employers spend a lot of money on their workplace pension schemes, but need to do more to ensure that their employees are fully informed, fully engaged and fully supported.

Employees worried they won't be able to afford to retire



Chapter 4: The shape of financial wellbeing in UK workplaces

75% of companies have wellbeing strategies, 67% of those have financial wellbeing strategies

Wellbeing is multi-faceted, comprising physical, mental, financial and social considerations. Each is important in its own right, but each also affects the other. While many companies have well-developed strategies in place to support physical and mental wellbeing, financial wellbeing is often neglected. Without a coherent financial wellbeing strategy, an overall wellbeing strategy is likely to be much less effective.

Financial wellbeing is still way down the priority list for many companies. It is listed only 12th on the biggest issues facing companies at the moment. In contrast, mental wellbeing comes in third place and overall wellbeing comes in at 11th place. This is reflected in the strategy for many companies: three quarters of companies have a wellbeing strategy (75%), yet only 67% of those (only half of all companies) also have defined financial wellbeing strategies. Without a joined up approach, companies risk treating the symptoms and not the cause.

It also appears that financial wellbeing strategies are not communicated as effectively as other types of wellbeing strategy. While 61% of employees believe their workplace has a wellbeing strategy, only 28% believe their workplace has a financial wellbeing strategy. There is a major disconnect between what employers are offering and what employees believe is being offered. There is a question over whether this is a communications failure or whether it shows that what is being offered is not resonating with employees.

The key pillars of a financial wellbeing strategy

In the wake of the pandemic, and the cost of living crisis, employees needs have changed. Of the top 30 workplace benefits offered by companies, some now appear outdated or of limited relevance. Are season ticket loans, or cycle to work schemes as relevant at a time when many people are now working remotely, at least for part of their working week?

Managing pay expectations was a priority for 28% of companies, while the top issue facing employees (36%) is keeping up with normal living costs. At the same time, many companies don't offer the benefits that could make the biggest differences to employees' personal budgets, such as employees shopping discount schemes, 37% of companies, 26% holiday purchase/sellback, 19% hardship loans and 17% mortgage advice service

> "Two of the biggest cost items in everyone's personal budgets are housing costs and food. Yet the workplace benefits that could make the biggest difference with these only appear in some companies benefits - 37% employee shopping discount scheme and 17% mortgage advice service."

As it stands, pensions are by far the most common benefit with over four-fifths (83%) of employees receiving one. This is mandated by law, so employers' greatest responsibility is around ensuring that their employees understand and engage with those schemes and make good decisions regarding their choices throughout their careers and particularly, when approaching retirement.

Yet this doesn't appear to happen as effectively as it should. Only 31% provide an annual pension statement, and 26% a pension portal. This leaves many employees on their own in terms of understanding the value of their pension, what they need to do and where to go for further help. Only 22% of organisations offer financial advice with the pension provider, and 16% offer pre-retirement seminars.

Beyond pensions

After pensions, benefits become more piecemeal. Salary sacrifice programs are offered by 41% of employers, while almost a third (30%) offer employee share ownership, and 24% Save As You Earn share save schemes.

Many companies offer financial protection and insurance benefits: death in service cover (57%) is the most common. Beyond this, private medical insurance (48%), life assurance (42%) and the provision of eye tests (37%), are most popular.

However, relatively few employers offer benefits that could have a real impact on employees' day to day finances. Backup care, essential for those with young families and with caring responsibilities, is near the bottom of the list, only 16% of companies. Mortgage advice is offered by just 17% of employers, although it is the greatest expense many employees face and, with rising interest rates, could be their biggest financial headache. Hardship loans are only offered by 19% of respondents and workplace loans by 16%.

After pensions, and death in service cover, the most commonly offered benefit is a "Cycle to Work" scheme (55%). But schemes that could really help all employees, such as shopping discount schemes (37%) and dental insurance (25%) are only offered by a small proportion of employers.

As well as offering workplace benefits that can directly impact personal finances, such as pensions, share plans and discount schemes, companies also offer financial wellbeing programmes to support employees to make the most of all benefits and to make better-informed decisions. Of these, 28% provide financial education/guidance platforms, 25% a financial guidance helpline and 21% provide an ongoing financial education programme. Interestingly, whilst only 15% provide financial advice, 32% offer one-to-one financial guidance, clinics or coaching, highlighting that there is still a reluctance to bridge the gap between guidance and advice, despite employees valuing financial advice in their top three benefits to help improve financial wellbeing, see chapter 5.

It's clear that of the top 30 benefits offered, some are now outdated and may only be of relevance to a limited number of employees. Whilst employees needs have moved with the times, see chapter 5, many workplace benefits haven't. At a time of financial hardship, by failing to align their benefits to employee need, employers are not capitalising on their benefits spend and are likely to be missing a trick to improve retention and productivity.

Some benefits to help with cost of living

37% of companies offer employee shopping discount schemes

33% season ticket loans

32% financial guidance/clinics/coaching

30% car leasing scheme

28% income protection

27% gym membership

26% holiday purchase/sell back

21% financial education programme

19% hardship loan

17% mortgage advice service

16% back up care

16% workplace loans

Spotlight on UK financial wellbeing

Chapter 5: Improving financial wellbeing: what do employees want?

"There's currently a significant mismatch between the benefits employees have prioritised to help improve their financial wellbeing and those on offer in UK workplaces."

The events of the last three years have wrought a seismic change on working patterns and household finances. The pandemic saw people take stock and focus on their lives, which inevitably brought a reappraisal of their financial situation. They recognised the importance of having an emergency fund, and wider financial protection for their family. It also prompted an increase in hybrid working, which saw people move house, or change their lifestyle.

It is increasingly clear that workplace benefits and financial wellbeing programmes have failed to keep pace with this shift. At a moment when employees are more engaged than they have ever been with their financial wellbeing, employers have been slow to respond. There is a clear disconnect between employee and employer priorities and employers need to think harder about how they close the gap.

A yawning gap

Financial wellbeing isn't a new concept, but it has evolved, and employers have expanded their support in recent years, adding services such as will writing, coaching and workplace loans. Yet despite the increased focus from employers and the proliferation of providers, employees aren't feeling the benefit and we need to examine why.

Most financial wellbeing programmes combine benefits, such as pensions or gym membership, protection, such as death-in-service or medical insurance, with – more rarely - some form of advice. While these are undoubtedly worthwhile benefits, it may be time for employers to think more creatively about how they really help employees to understand and use them.

Financial safety

It is clear that the pandemic, economic volatility and cost of living pressures have focused employee attention on financial safety. Of the top ten priorities for employees, five are protection based (two focused on physical health – private medical care and dental), and three on financial protection (death in service, critical illness, income protection). Employees' greatest challenge is just meeting normal living costs, so benefits that either bring more money in or reduce their normal costs are a priority.

All employees value advice. It is the third ranked priority benefit for all employees, a clear message that they need help across the breadth of their finances and not just at retirement. Our survey shows that, when considering the elements of a financial wellbeing programme, 43% of employees value pensions advice, 29% financial advice and 26% mortgage advice. Yet only 17% of employers provide mortgage advice and 15% provide financial advice. Astonishingly, only 22% provide financial advice with a pension provider as part of their retirement planning support, in spite of the complexity of this decision.

There are areas where employees and employers align: 74% of employers provide a pension and 57% provide death in service. Yet few employees are asking for cycle to work schemes, and still 55% of employers provide it. Employee shopping discounts feature as priorities for both employees and employers, and while there are top 10 benefits common to both employee and employer lists, some such as holiday purchase/sell back only just make it into the employer top 20, with just a quarter (26%) of companies offering it. Critical illness cover, fourth in employee priorities (34%), barely feature among the list of benefits offered by employers. While employees are struggling to manage normal living costs, employers put this as eighth on their list of priorities. This disconnect urgently needs to be addressed.

Better quality guidance

Offering financial guidance and advice alongside workplace benefits aims to improve financial understanding and confidence, encourage wider benefits engagement and support employees to make better-informed decisions.

When it comes to a financial wellbeing programme, employees have voted with their feet; they value advice over guidance, with advice representing four of the top five most valued services. Even when it comes to guidance, employees trust regulated financial advisers, 22%, above those that do not, 6%.

Employers need to tune in

The world has changed. There is no point offering season ticket loans for people who no longer buy season tickets. Employers need to adapt their benefits packages to a new reality and communicate those changes effectively.

They also need to look at the areas causing most financial distress for employees. For example, those in their thirties and forties[1] are often struggling with mortgage debt, having taken out significant borrowing in response to high house prices and lower interest rates. This segment of the workforce may also be balancing young children. Targeted mortgage advice could make a real difference. At a time when employers are struggling to bring employees back into the office, benefits that offer support with childcare, such as back-up care, are an obvious lure and may help employers balance their workforces over the long term.

With budgets under pressure, it is critical to understand where to focus benefits spend and targeted support. A good start is to understand employee financial wellbeing and any groups and financial areas where staff are struggling most.

Our research shows almost two thirds (63%) of employees said they would answer a short survey to understand where they stand financially, particularly younger employees (under 34) and those on higher incomes. They said this type of financial fitness test would be particularly useful if scores are compared over time and if linked to a financial education hub or a programme to help improve scores. This could super-charge employers' financial wellbeing measures and help organisations to offer more targeted benefits and support programmes.

The world has changed and financial wellbeing programmes have not caught up. Employers need to take a fresh look at the benefits they offer their employees in light of changing working patterns and financial conditions. Employees are sending a clear message that benefits need to be more relevant and meaningful, and to reflect their changing needs; employers would do well to listen and respond.

[1]https://www.telegraph.co.uk/money/property/mortgages/age-group-facing-mortgage-disaster-without-even-realising/

The current benefits mismatch

Benefits employees want to help improve financial wellbeing
1. 52% pension
2. 38% private medical insurance
3. 36% financial advice
4. 34% critical illness cover
5. 31% employee shopping discount scheme
=6. 30% death in service protection
=6. 30% income protection
=8. 27% long service awards
=8. 27% dental insurance
10. 26% holiday purchase and sell back

Benefits companies currently provide
1. 74% pension
2. 57% death in service protection
3. 55% cycle to work
4. 48% private medical insurance
5. 43% Employee Assistance Programme – with debt counselling
6. 42% life assurance
7. 41% salary sacrifice/salary exchange benefits
=8. 37% employee shopping discount scheme
=8. 37% eye tests
10. 35% Employee Assistance Programme – without debt counselling

Highlights show the benefits not in employee top 10

Top 20 benefits employees want to help with their financial wellbeing

1. 52% pension
2. 38% private medical insurance
3. 36% financial advice
4. 34% critical illness cover
5. 31% employee discount scheme
6. 30% death in service
7. 30% income protection
8. 27% long service awards
9. 27% dental insurance
10. 26% holiday purchase/ sell back
11. 26% financial guidance/ financial coaching
12. 25% life assurance
13. 22% salary sacrifice/ salary exchange benefits
14. 21% share ownership plans
15. 20% will writing
16. 19% mortgage advice
17. 19% save as you earn scheme
18. 19% financial education programme
19. 19% Employee Assistance Programme with debt counselling
20. 19% gym membership

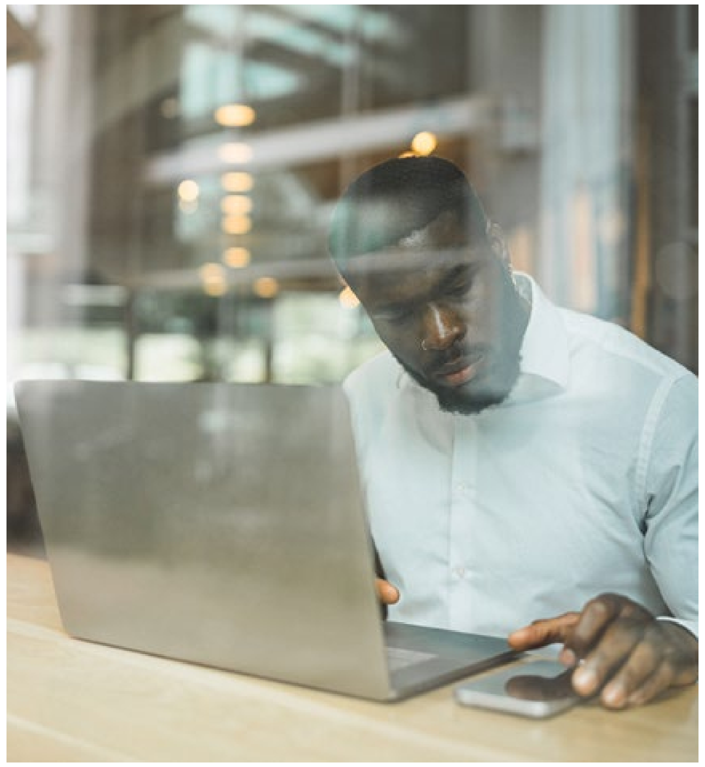
Chapter 6: Seeking expert help

"Now may be the perfect time for companies to give employees what they really want - financial advice alongside other workplace benefits."

In the current economic environment, when every penny counts, employees need access to the best quality support – from information to financial education, guidance and advice. Only then, can employees and their employers be reassured that they are supported in making better-informed decisions about their workplace benefits and wider finances.

Basic financial planning advice could go a long way to delivering greater financial wellbeing among employees. It remains the missing piece for many financial wellbeing programmes and may deliver more bang for a company's buck than many of the measures currently in place.

Yet most employers don't provide financial advice, 15%. For many that do, this is limited; for example retirement advice from a pension provider. But personal finance isn't only about one area like debt or pensions. The biggest issues facing employees at the moment are managing normal living costs, being able to afford to retire and rising mortgage and rent costs. Restricting any advice offered to only one area of personal finance will reduce its reach and impact, as not all employees can benefit.



Employees want advice

Our survey suggests many employees would value advice, and this is consistent across the various demographic groups. Employees rate financial advice as the third most important benefit to help improve their financial wellbeing (36%, behind 52% providing a pension and 38% private medical insurance). The inclination to seek financial advice is particularly high among individuals aged 25 to 34, with 42% of respondents making it a priority. Financial guidance/financial coaching is also valued as a workplace benefit by over a quarter of all employees (26%), with one in five (19%) also recognising the usefulness of financial education programmes and Employee Assistance Programmes, with debt counselling.

Financial advice is rare though - only 15% of workplaces offer it and there is a role to play for both general and specialist advice.

Pension providers are expected to be expert on their own pensions, but they are not there to help with other financial worries. For support in securing the best mortgage, specialist mortgage advice is the answer – a benefits consultant, a pension provider, a workplace loan provider or even an employer will not be able to help.

And the quality of provision is also likely to influence the success of the outcomes. Only half (56%) of one-to-one financial coaching services provided in 16% of workplaces, are delivered by coaches who are regulated financial advisers. Of the 78% of Employee Assistance Programmes in place, only half (55%) include debt counselling.

Trusted sources

Outside the workplace, when employees have money worries, they turn to Citizens Advice and similar charities (41%), family and friends (38%), an online platform such as Money Saving Expert (33%), or a financial adviser (24%). All of these, whilst great sources of information and guidance, do not provide financial advice.

At work, the professionals employees trust most to provide financial education, guidance and advice are financial advisers 46%, pension providers, at 40% of employees, and 37% trust a specialist financial education provider selected by the employer. A quarter (25%) say they would trust their employer. Only 3% of employees trust a fintech financial education platform, a workplace loan provider or financial coaching delivered by coaches who are not regulated financial advisers.

As it stands workplace financial wellbeing programmes are most commonly delivered by benefits providers (24%), while 17% are provided by the employer themselves or 17% by the pension provider. Benefits providers and pension providers will know their own products but are unlikely to be able to provide a significant breadth of advice. Finance advice firms deliver 20% of this support with a further 11% delivered by a specialist financial education provider selected by the employer.

Given how seriously employers take their responsibility to ensuring quality providers for their employees, it is worrying that 27% of companies don't know who is providing financial wellbeing services to their employees.

Guidance/advice service in current workplaces

43%	EAP with debt counselling
35%	EAP without debt counselling
22%	financial guidance/ financial coaching
22%	pensions advice
21%	financial education programmes
19%	will writing
17%	mortgage advice
15%	financial advice
15%	pension consolidation advice

A way forward

Historically many companies have shied away from providing financial advice as part of workplace benefits – possibly fearing reprisal if inappropriate advice were to be given to individual employees. Some manage this potential risk by selecting, for example, two or three advice firms on a panel so individual employees can then make their own choices, but with the reassurance that the employer has selected firms with some consistency regarding credibility, quality, price and service.

There is an important question for employers to consider. Are employers happy to use financial wellbeing programmes to raise financial awareness and encourage employees to act to improve their finances, but then leave them to the vagaries of the marketplace to find suitable advice? On their own, employees may be vulnerable to considerable variation in quality, price and service.

Companies already select experts for their employees in other areas of finance, such as pensions (74% of workplaces), or corporate ISAs (26% of workplaces), plus workplace loans or financial coaching. If workplaces want to make a real difference to employee financial wellbeing, it may be time to stop ignoring financial advice and provide something that employees would really value.

Chapter 7: Sectors, regions and ages

"Employers need to ensure their financial wellbeing programmes not only include all employees but also provide targeted support to those at the point of greatest need".

Financial wellbeing is unique to every individual. It reflects not only gender, age, salary and wealth levels, but also individual attitudes to money, life goals and worry. There will also be regional variations, with living costs and housing showing considerable variation. An employee's job and sector can all influence their financial health and wellbeing.

The financial turmoil in recent years and the ongoing cost of living crisis has not hit evenly. It has created real vulnerabilities for certain segments of the population. For organisations with employees across the UK, recognising some of these differences is key to adapting their financial wellbeing programmes to ensure that there is real support to those members of their workforce that are most exposed.

Gender

Women are consistently more financially vulnerable than men, with a financial wellbeing index score of 54 compared to 60 for men. They are unhappier with the state of their finances - 32% for women, 25% for men - and they worry more - 42% women versus 32% of men. 42% of women fear not being able to afford to retire, compared to just 29% of men. Women are also more concerned about meeting day to day living costs - 46% compared to 30% of men.

In every area of day to day finances, women show more distress. 40% are worried about rising mortgage or rental costs, compared to 27% of men. 35% are struggling to save for future goals (compared to just 21% of men). They worry about coping financially if they become ill. Over half of women say money worries make them anxious (52% versus 36% of men).

"Women are notably more financially vulnerable than men".

Demographics

There has been considerable discussion in recent years over 'inter-generational' unfairness, the financial gap between wealthy boomers and younger generations. Our survey suggests a more nuanced picture. It shows those in mid-life (thirties and forties) to be the most vulnerable at the moment. They are in the eye of the storm of inflationary pressures and higher interest rates, with higher debt and rising rents. They are often juggling large mortgages with childcare costs. So, it's not surprising, that this group are the most aware when it comes to the wellbeing support offered in the workplace with 66% being aware of workplace wellbeing strategies for the 35 to 54 age bracket, and 60% for those aged 25-34.

The group most affected with money worries are those between the ages of 25-34, with 51% reporting financial distress. Those age 18-24 and 35-44 are next and report similar levels of distress (46% and 40%) respectively. Older employees show considerably less distress – 31% for the 45-54 age bracket and 26% for the 55+.

Bucking some of the usual stereotyping, it's interesting that only 39% of 18-24 year olds feel retirement is too far off have a retirement date in their plans (28% 25-34, 15% 35-44). Looking at wider workplace benefits, understandably, employee discounts or loan type benefits are less valued by older employees - 48% of the 55+ age bracket compared to 79% of those aged 25 to 34.

Financial advice is valued most among 25-34 year olds (42%) and in all salary brackets, with increasing importance as salary increases. With rising mortgage costs being a top three concern for 25-34 year olds at 50%, it's not surprising that this group value mortgage advice most, 33% compared to say 8% of those aged 55+. Understanding these topics, and priorities, will help when aligning financial wellbeing programmes to the needs of any workforce.

45% The communications sector has the highest proportion of employees unhappy with their finances

35% The South East is where employees are most unhappy with their finances

Sectors

There are certain sectors where financial vulnerability appears to be more evident. The sector with poorest financial wellbeing is communications (45%), where 47% of employees are always or often worried about their finances, a real drag on sector productivity. It also scores low on pension planning. IT professionals tend to retire sooner – 42% at 56-60, while consumer goods has the highest number of workers over 66 (31%).

Location

There is a clear link between the cost of living and wellbeing. The location with the highest financial unhappiness is the South East (35%), where housing costs are high. Money worries are more likely to affect working life in London where 41% of employees say money worries impact their day to day productivity.

Keeping up with normal living costs is the top-ranking concern in seven out of 12 regions – East of England, North East, London, West Midlands, Wales, Scotland and NI. Those living in Yorkshire and Humber have the highest percentage of people with no planned retirement date at 58%. It was also one of six areas where being able to afford to retire was a top issue.

Employers need to ensure their financial wellbeing programmes not only include all employees but also provide targeted support to those at the point of greatest need. This may mean including topical support to reflect emerging and current needs, a self-serve approach so individuals can access what matters most to them, alongside a safety net programme that ensure services to support every employee at every life stage.

Methodology

The research

Unless otherwise stated, the data referred to within the report is based on surveys conducted among 1009 employees from companies with 200 or more employees and 504 employers with 200 or more employees. The research was carried out on behalf of Close Brothers Asset Management by YouGov between the dates of 15 June and 31 July 2023.

For the Employee Financial Wellbeing Index, it examined how financially fit employees in the UK feel in eight key areas of financial wellbeing. These are money worries, budgeting and planning, debt, protection, savings and investments, retirement, properties and mortgages, and tax. Each category was assigned a score out of 100, according to a scale developed by Close Brothers Asset Management. An average of each category score delivers the overall index figure.

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