How to Measure ROI on Employer Retirement and Financial Wellness Programs

Many employers often ask, "how can you help us to quantify the impact of an employer-sponsored retirement plan or financial wellness program?"

While there is never a hard and fast calculation, there are several aspects that a business could look at to come up with a return on their investment.

The framework below identifies key areas where a business could see potential cost savings and employee improvement, as well as to calculate those savings. The statistics cited come from the 2018 Employee Financial Wellness Survey by PricewaterhouseCoopers and Financial Finesse.

More Productive at Work

77% of those who are financially stressed say that level has increased over the past 12 months. Half (50%) say they are spending three or more hours each week dealing with personal financial issues.

So, take the number of workers, divide by half, multiply the hourly rate by 3.

Less Absenteeism

12% of employees admit to missing work occasionally due to financial concerns. In a 2017 Society of Actuaries study, a business with a financial wellness program saw a reduction in absenteeism from 13.73 hours to 10.35 hours, times their pay, times the number of workers.

3 hours/week x 46 average workweeks/year x # workers x worker pay

Less Garnishment

Financial Finesse found that for every level of improvement in an employee's financial wellness score, there is a decrease in the likelihood of garnishments (from 4.80% to 1.84% when moving from a financial wellness score of 4 to 6 on the organization's scale). Moreover, they cite an average $300 annual cost to process garnishments.

Take your current rate of garnishment, cut it by a third, and multiply it by the cost of processing garnishments ($300).

Health 'Wealth'

Roughly 28% of workers say that their health has been affected by financial worries. Financial Finesse cites a 2013 study of a Fortune 100 health care company found that employer health care costs associated with employees who used the company's financial wellness program actually decreased by 4.5%, while the costs associated with employees who never used the program increased by 19.4% – a gap that they say adds up to $271/employee.

Take $271 times the average number of employees.

Retiring on Time

Since the shift of traditional pension plans to the prevalence of defined contribution plans, there has been a growing expectation that workers would extend their tenure, continuing to work…longer.

One of the more persuasive "workforce management" claims for financial wellness is that by helping assure that workers are prepared to retire "on schedule," not only does it help employers better manage transitions, it also represents cost savings for employers for those workers who tend to be higher paid, have longer vacations, and bring with them higher health care costs.

Financial Finesse estimates that the increase in financial wellness produces a 13% improvement in savings.

Take the 13% times the percent of the workforce retiring annually times $10,000 annual savings times the number of workers.

Less Turnover

Employer-sponsored retirement plans and financial wellness programs are expected to enhance the perception of benefits and thus reduce turnover. Financial Finesse sited an example that assumes a 1% reduction in a company that has a 10% turnover rate.

Projected reduction in turnover times current turnover rate times the estimated cost of replacing a worker time the number of employees.

In Closing

Employees want help with their finances. To most people, financial wellness means financial freedom. When people can learn how to manage their finances better, it helps to reduce their stress and anxiety, which in turns provides them freedom.

As employees become more active in financial planning, they build the confidence they need to continue their financial wellness journey. While the above framework provides a rough schematic as to how you might go about quantifying the impact of an employer-sponsored retirement plan or financial wellness program, alleviating financial stress clears the way for more productive workers and ultimately yields a higher return on investment.

In an era where it is harder to retain and attract talent, an additional benefit such as a strong retirement plan and financial wellness program could be drivers that create company loyalty where employees stay through their career.

Contact us for more information about any of these best practices or to see how we may better support your company and employees with a low-cost, high service employer-sponsored retirement plan.

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