# ViewPoint

## Financial Preparedness

## Workers Remain Financially Unprepared for the Unexpected

America's workers continue to feel the aftershocks of the 2008 recession. Workers have experienced cut backs on employer-paid health care costs, raises, and bonuses while at the same time they were handing the impact of employers' shifting costs, freezing their pay and introducing furloughs.  These unavoidable consequences of the economic downturn have not only affected employee morale and loyalty, but have also created a mentally stressed-out and financially vulnerable workforce.

What's more, multiple generations are coping with varying degrees of financial strife. While Generation Y has transitioned into a down workforce as they struggle to pay off student loans , Gen X has faced lay offs and a loss of raises or bonuses. Baby Boomers have also faced massive layoffs and are struggling to recover their nest eggs and eroded retirement savings, a result of the Wall Street shake-up and a steady decline in the housing market. Even the 65 and up Traditionalist generation has had to forego retirement, as they are working longer to become financially secure enough to retire.

The consequences for employers are massive. An increasingly stressed out workforce may make it more difficult to retain quality talent in the future, and companies are experiencing a significant loss in worker productivity, affecting their bottom line.

## Workers are Financially Unprepared

American workers are facing an uphill battle when it comes to their financial health. The impact of recent economic downturns, corporate layoffs, hiring and pay freezes have left the workforce vulnerable and unprepared to handle the unexpected. At the same time, companies have been preoccupied with maintaining profitability and have often disregarded the long-term value of a financially stable worker.

The facts from the 2013 Aflac WorkForces Report are revealing:

### Emergency Preparedness

- Nearly 6-in-10 workers (58%) don't have a financial plan in place to handle the unexpected and the same amount either don't consider health insurance a part of their financial plan or consider it a minor part.
- 66% of employees said they would be unable to adjust to the large financial costs associated with a serious injury or illness.
- Only 10% of employees understand extremely well the total cost associated with an injury or illness when considering medical, household and out-of-pocket costs; 62% understand these costs only somewhat well or not very/not at all.
- Only 16% of employees say they are very/extremely prepared to pay for out-of-pocket expenses, not covered by major medical/health insurance, related to an unexpected serious illness or accident.

- In the event of an immediate unexpected serious illness or accident 40% of workers would need to borrow from friends, family or their 401(k) to pay for unexpected costs.
- Nearly one-third of workers (30%) have less than $500 saved for an emergency.

### Health Care Reform

- 82% of workers at least somewhat agree that they believe the medical costs they are responsible for will increase; yet only 20% of employees are wiling to accept financial responsibility for rising health care costs.

### Retirement

- 66% of workers say that have delayed retirement because they don't believe they are financially prepared.
- More than one-third (34%) of employees feel that their dreams are not protected; only 4% completely agree that they feel their dreams are financially protected.

As American struggle to build (or rebuild) their nest eggs and plan for retirement, it's clear that cutting benefits and shifting health care costs to workers will greatly increase employee anxiety. And, as the Aflac study shows, a stressed-out workforce has a significant impact on their employers' bottom line.

## A Generational Perspective

Findings from the Aflac WorkForces Report has uncovered distinct differences in how age, education, life experiences and even personality characteristics affect financial stability, insurance coverage needs, and preference in communication styles vary greatly between the generations.

### Generation Y (18-24 Years Old)

Generation Y as a whole is undergoing a period of transition – both in terms of life decisions and in terms of the effects of the recession and how the current economy is impacting their financial decisions.

While Gen Y workers are typically finishing their education and are in a position to enter the workforce, findings from the 2013 Aflac WorkForces Report show that members of Gen Y lack employment opportunities. In addition to the employment problems they are generally in a state of financial distress as they cope with debt with little to no savings or external financial support in case of an unexpected medical emergency.

**Nearly half (42 percent) of Generation Y workers are employed part-time... As such, many Gen Y workers are either not offered health insurance or are financially unequipped to enroll.**

Nearly half (42 percent) of Generation Y workers are employed part-time, with 2-out-of-10 currently working in the retail industry. As such, many Gen Y workers are either not offered health insurance or are financially unequipped to enroll. According to Aflac research, only 69 percent are offered major medical insurance and of those, fewer than 62 percent are enrolled, the least amount of any generation. This leaves 4-in-10 Generation Y workers without major medical coverage.

America's young workers seem to feel invincible; Aflac's research finds that nearly all Gen Y employees feel it is not at all likely they will experience serious medical events (figure 1).

**Figure 1**

## Generation Y In Denial About Likelihood to Experience Serious Medical Events[1]

**"I'm not at all likely to…"**

| | |
|---|---|
| …be diagnosed with chronic illness | 71% |
| …require a long-term hospital stay | 78% |
| …have a need for long-term care | 79% |
| …become disabled | 61% |
| …be diagnosed with cancer | 79% |
| …have a car accident | 84% |

What's more, is that Gen Y workers are not prepared to deal with the financial effects of a serious illness or accident and are worried about those financial ramifications – more so than any other generation. Gen Y named "how much it would cost" as the first thing they would think of if they had a serious illness or accident (46 percent), followed by "how I would pay for my monthly expenses" (25 percent). This sense of worry among Gen Y workers is justified, as a mere eight percent has confidence in their ability to cope with the financial impact of a serious medical event. Just 2-in-10 Gen Yers feel their family would be financially protected, and nearly half (47 percent) say they would be unable to adjust to the financial costs associated with a serious illness or accident[1].

Perhaps the most startling element is the lack of resources to cover out-of-pocket expenses from serious illnesses or accidents, with more than three-quarters (76 percent) saying they have less than $1,000 to pay for such expenses[1].

## Generation X (25-44 Years Old)

Generation X workers, along side their older Baby Boomer cohort, have been the most scarred by the 2008 recession. This group has the highest unemployment rates, and is one of the most stressed of the generations, according to the 2013 Aflac WorkForces Report[1].

**With only 4-in-10 Gen X workers enrolled in disability and 37 percent not covered by life insurance, many are risking the income protection needed for themselves and their growing families.**

Although Generation X workers had a better footing in their financial and career outlooks before the start of the recession, their circumstances and life stage meant they also had greater responsibilities, such as homeownership and providing for young children. Therefore, they were far more impacted by lay offs and a reduction in raises or bonuses.

Generation X workers are at a point in their lives where they are building their assets, while also building a family with young dependents. As such, they generally have more debt, such as mortgages, car payments, education costs and more. Simply put, they have substantially more to lose financially if something should happen to their income (figure 2). With only 4-in-10 Gen X workers enrolled in disability and 37 percent not covered by life insurance, many are risking the income protection needed for themselves and their growing families[1].

The ability to earn an income is paramount to short and long-term financial stability, yet a disabling accident or illness is arguably the most threating event to erode the ability to earn an income. That

Figure 2

## With Much To Lose, Gen X Still Doubts They Will Experience a Major Medical Emergency[1]

**"I'm not at all likely to…"**

| | |
|---|---|
| …be diagnosed with chronic illness | 63% |
| …require a long-term hospital stay | 73% |
| …have a need for long-term care | 71% |
| …become disabled | 78% |
| …be diagnosed with cancer | 65% |
| …have a car accident | 65% |

said, Generation X workers are among the least likely of generations to think they will become disabled – with 78 percent saying it is not at all likely[1]. The reality is that just over 1-in-4 of today's workers will become disabled before they retire[7].

Longer life spans for Generation X also mean more medical bills and a greater need for earlier retirement planning. With nearly half (45 percent) of Gen Xers married, and 35 percent with children under 18 living at home, these workers find themselves in need of long-term savings strategies and yet they are not adequately protecting their income. According to the 2012 Insured Retirement Institute study, during the recession 15 percent of Gen Xers made early withdrawals from their 401(k) plans, 23 percent stopped contributing to their retirement accounts and 22 percent stopped contributing to college savings plans[8.5]. Of those surveyed for the 2013 Aflac WorkForces Report, only 19 percent agree that they are well prepared for retirement[1].

The Aflac report also finds that most young workers have little faith in Social Security benefits being available when they retire. A famous study from the Employee Benefits Research Institute shockingly found that members of Generation X are more likely to believe in the existence of UFOs than they are that Social Security will be around for them when they retire[8]. Concurrently, the projected retirement costs for these workers are much higher than their older counterparts. A recent survey by Aon Hewitt found that Gen Xers will need about 16 times their final salary to pay for retirement, and roughly $2 million to maintain their standard of living[6].

## Baby Boomers (45-64 Years Old)

There is arguably no other generation that has been more affected by the 2008 recession than Baby Boomers. Upon the brink of mass retirement, Baby Boomers found themselves drastically altering their retirement plans when the economic downturn began. Massive layoffs, Wall Street shake-ups and a steady decline in the housing market have eroded the nest eggs and retirement plans that most Baby Boomers' worked most of their lives to accumulate. Now, a substantial portion of these workers are working longer than expected to recoup what they lost, or by choice as a way to remain active.

Baby Boomers are in a unique situation, compared to that of Generation X, Gen Y and the older, Traditionalist generation. A growing number of Baby Boomers still have children living in their home or are caring for younger children. According to the Aflac study, 19 percent of Boomers still have children under the age of 18 living in their household. In an analysis of U.S. Census Bureau data by the Pew

Research Center, one child in 10 in the U.S. lives with a grandparent, a share that has increased slowly over the past decade and rose sharply the first year of the recession. Additionally, another 13 percent are currently caring for or coping with a serious health issue of a parent[9].

Since 2007, household income has fallen by 10 percent for adults ages 55 to 64, which makes it more difficult for this group to prepare for retirement or cover additional expenses resulting from their current set of circumstance. In 2010, about one-third of workers age 65 and older were in low-wage jobs that paid less than $11 per hour. The proportion of part-time workers age 55 and older would prefer full-time work nearly doubled over the same time period, from 9 percent to 17 percent[12]. The AARP Public Policy Institute also found that one quarter of adults age 50 and older say they exhausted their savings, and 12 percent lost health insurance coverage[3].

Rising health care costs will also likely stand in the way of the ability for Baby Boomers to build retirement savings (figure 3). Despite having major medical insurance, out-of-pocket costs not covered by these programs are expected to increase relative to income growth. According to a 2010 report from the Urban Institute, between 2010 and 2040, median annual real out-of-pocket costs for Americans age 65 and older will more than double in constant 2008 dollars, from about $2,600 to about $6,200. Nearly 1-in-10 older adults will spend more than $14,000 per year on health care in 2040. At the same time, between 2010 and 2040 the median share of household income spent on health care by Americans age 65 and older will increase from 10 to 19 percent. The share of older adults spending more than a fifth of their household income on health care will increase from 18 percent in 2010 to 35 percent in 2030 and 45 percent in 2040[13]. This is already a reality for Boomers today. The Aflac study found that 43 percent of Baby Boomers agree that they would be unable to adjust to the large financial costs associated with a serious illness or injury[1].

**Figure 3**

### Retirement Far From View for Baby Boomers[1]

| | |
|---|---|
| 34% | agree they are not well prepared for retirement |
| 24% | are confident in their financial future |
| 40% | feel not very/not at all prepared to pay for out-of-pocket expenses |
| 67% | have less than $1,000 to pay for out-of-pocket medical expenses |

## Traditionalists (65+ Years Old)

Traditionalists are often overlooked in generational studies and in the workplace. However, given the recession of 2008, these workers were also greatly affected financially, causing many to forego plans to retire.

Currently, Traditionalists number 70 million with approximately 25 percent still in the workplace today. According to the 2013 Aflac study, half of those in the workplace are employed part time. That being the case, when it comes to benefits coverage, Traditionalists are less than protected than their younger Boomer and Gen X counterparts. The Aflac WorkForces Report found that only 64 percent are enrolled in major medical insurance, leaving nearly 4-in-10 Traditionalists without major medical coverage (figure 4).

Figure 4

### Portrait of Traditionalists' Current Benefits Coverage[1]

| | |
|---|---|
| 64% | Major Medical Coverage |
| 45% | Disability Insurance |
| 63% | Dental Insurance |
| 28% | Voluntary Insurance |
| 48% | Life Insurance |
| 14% | Critical Illness Insurance |
| 48% | Vision Insurance |

As Traditionalists are living and working longer than previous generations, they are especially in need of adequate benefits coverage, given their age and the disappearance of employer-sponsored retiree health benefits. Additionally, most Traditionalists have delayed retirement, saying that they are not financially prepared (48 percent) and a little more than half (51 percent) say that they are currently saving for retirement.

## Worker Health and the Bottom Line

Streamlined staff levels and higher productivity expectation have left many U.S. workers lacking work/life balance. Struggles with day-to-day workload have contributed to rising stress levels and diminishing health for workers, and research establishing the connection between employee illness and the loss of productivity is abundant.

**More than one-third (36%) of workers said they typically feel tense or stressed out during their workday.**

**— American Psychological Association**

Mental stress is known to cause physical ailments, taking workers away form their desks with longer recovery time resulting from unattended medical issues resulting form stress. Individuals with high levels of stress caused by outstanding debts and unstable financial situations report incidences of ulcer and digestive problems, migraines and other headaches, anxiety, depression and even heart attacks at rates between two and three times higher than the national average. And financially stressed employees experience higher absenteeism and turnover, lower levels of job satisfaction and lower productivity.

## A Stressed Out Workforce May Make it Difficult to Retain Employees in the Future

According to a recent study by the Society of Human Resource Management (SHRM), the majority of HR professionals and mangers surveyed agree that turnover will rise significantly once the job market improves, a trend, which is already beginning to occur[11]. A PwC/Sarasoga report identifies higher voluntary separating rates in 2013, higher than what they've seen in the past eight years. During 2011, a year characterized by high unemployment rates, we saw a 19 percent increase in high performers that left their jobs from 2009[10].

The 2013 Aflac WorkForces Report found that stress plays a major role in an employees' decision to leave his or her job in the immediate future. The Aflac report found that workers who said they are stress out are more likely (43 percent vs. 30 percent) to leave their jobs compared to workers who are not stressed. Another quarter (28 percent) of employees who are extremely likely to leave their jobs in the next year say they don't have peace of mind[1].

The report also found that workers most likely to leave their jobs are considering doing so because of financial concerns (figure 5). Nearly half (49 percent) of employees likely to consider new employment believe their families will not be financially secure in the event of an unexpected emergency, and 17 percent believe the financial condition of their household will worsen in the next 12 months[1].

**Figure 5**

| Influence of Worker Financial Health on Decision to Leave[1] | Not Very/Not At All Likely to Leave Job in Next 12 Months | Extremely/Very Likely to Leave Job in Next 12 Months |
|---|---|---|
| I am not at all/not very prepared to pay for out-of-pocket expenses not covered by major medical insurance. | 61% | 38% |
| My family is financially prepared in the event of a medical or unexpected emergency. | 25% | 45% |
| I have confidence in my ability to cope with a financial crisis. | 26% | 45% |
| I feel protected by my current insurance coverage. | 31% | 54% |
| I have less than $500 to pay for out-of-pocket expenses not covered by major medical insurance. | 41% | 22% |

## Companies May Experience a Loss of Productivity Due to Worker Stress

What's the impact? Companies are experiencing higher productivity losses due to distracted workers. 49 percent of companies estimated their average productivity loss stemming from employee's concerns over personal issues is between 11 and 30 percent.

**67 percent of employees say that an overall benefits package is extremely or very important to their work productivity.**

Workers agree that personal issues have a significant effect on their productivity at work. Individuals with stress caused by large outstanding debts and unstable financial situations report incidences of ulcers and digestive problems, migraine and other headaches, anxiety, depression and even heart attacks at rates between two and three times the national average[4]. More than one-quarter of workers who have experienced a personal issue that impacted their ability to get work done said it was due to health issues specifically. More than half (56 percent) of those said it decreased their work productivity at work[2].

The average productivity loss for companies amounts to 18.6 percent. This can amount to more than 200 hours per week in lost productivity for a small company with just 100 employees[2].

Employees have been exposed to a variety of strategies designed to make them as productive as possible, such as special training, career development and employee incentives. Yet, many employers fail to recognize the correlation between employee work productivity and a satisfactory


benefits package despite it becoming ever more apparent to workers. The 2013 Aflac Workforces Report found that 67 percent of employees say that an overall benefits package is extremely or very important to their work productivity, a 12 percent point increase from 2012 (figure 6). 47 percent of workers say that adequate insurance benefits have a strong/very strong impact on helping them cope with a personal issue[1].

**Figure 6** Growing Importance of Benefits on Productivity

| | 2012 | 2013 |
|---|---|---|
| An overall benefits package is extremely/very important to work productivity. | 58% | 67% |
| Adequate insurance benefits have a strong/very strong impact on helping them cope with personal issues. | 47% | 53% |

## How Employers Can Better Stabilize Their Workforce

Effective business leaders know they need focused, dedicated employees to be competitive and productive in the marketplace.

### Financial Education

Establishing a healthy workforces requires thinking of not only the physical health of an employee, but also the other factors that influence their health and well-being. Traditionally, HR departments have sought narrow health solutions, most often disregarding the important role that financial security can plan in overall employee wellness.

Promoting financial health in employees through education is one way that companies can strengthen their workforce:

- Go beyond general retirement planning or employer-sponsored savings account programs. Implement education programs, seminars or online courses to emphasize the prevention of financial problems through money-management skills, such as credit use, budgeting and tax planning.
- Produce employee newsletters or lunch and learn sessions to provide ongoing financial guidance to workers.

- » Consider offering credit counseling and debt management services to your workers or refer them to nonprofit or community-sponsored programs that may be available to them.

Employers can also empower their workers to seek out their own financial accountability. Just as consumers should plan for retirement and the cost of their children's higher-education expenses, they must also plan for unexpected health events and the potential impact those events will have on their financial plans. Yet, most consumers don't perform regular check ups on their overall financial and health insurance protection, as this process can seem confusing, overwhelming or flat out daunting.

Last year Aflac introduced a new, user-friendly tool to help consumers easily and quickly determined whether their existing insurance coverage provides adequate financial protection for anticipated and unexpected expenses. The online Benefits Assessment Tool from Aflac uses extensive date and an exhaustive analysis of benefits for employees across a wide range of industries and employer size. The result is one of five profiles that offer uses realistic advice and actions to consider.

### Voluntary Benefits

One way employers can ensure that employees are adequately protected is to offer a wide range of benefits offerings. Workers are more likely to take advantage of benefits programs that meet their needs, and they want options that are tailored to them.

Voluntary insurance policies, such as short- and long-term disability and critical illness, help individuals cover costs that major medical doesn't pay. These policies work to help close the gaps left by major health coverage – in essence, providing financial safety nets to help protect income and savings in the event of a personal disaster.

Many providers offer supplemental insurance policies at no direct cost to the company and at a competitive rate to workers. Adding voluntary plans to a company's offerings can help companies build robust benefits packages while staying within budget/cost constraints.

Voluntary benefits are also a win-win for employees, as many voluntary insurance providers offer a range of products that fit most budgets, and at no direct cost to employees.

## Just The Facts

- » 67% of employees would be more likely to take advantage of a benefits package tailored to their personal situation. Many employees also say they would be likely to apply for the voluntary benefits options of these options were made available by their employer[1].
- » 68% of employers say that offering a robust benefits package while staying within budget/cost constraints is a top challenge their company faces[2].
- » 17% of employees have the misperception that, "it costs way too much, I cannot afford voluntary insurance benefits[2]."
- » When it comes to both their health and financial futures, employees who are enrolled or who have access to voluntary insurance feel more secure and better protected[1].
- » These workers are also more likely to say that they are satisfied with their benefits package and that it meets their families' needs (55% compared to 41% of workers whose employers do not offer voluntary benefits options[1].

## Benefits Education

The 2013 Aflac WorkForces Report found that even when businesses offer robust benefits and wellness programs, they still may not be communicating their programs effectively.

Feedback from U.S. workers indicates that most companies' benefits communications and education programs aren't up to par-65 percent of workers say that their employer only communicates about benefits one or two times a year; at open enrollment or new hire enrollment. There seems to be a disconnect between employers and employees when it comes to benefits communications. As an example, the Aflac study found that 93 percent of employers believe they are at least somewhat effective at benefits communication, however 43 percent of workers say HR communicates too little[1].

In addition to communicating with employees more often, company leaders and HR decision-makers can make a concerted effort to better educate their employees about major medical insurance, including what costs it does an does not cover. Many workers incorrectly assume that major medical covers most, if not all, of workers' accident or illness expenses. Companies should provide employees with insight into the amount of out of pocket medical costs they'll face under their current plans.

## Here's What You Can Do

1. Provide online benefits portals where employees can have immediate access to their benefits plan.
2. Develop customized benefits booklets and use FAQs or other marketing pieces to advise employees on how to best utilize their benefits.
3. Keep generational differences in mind when marketing your benefits programs. While Gen Y and Gen X may be more open to online access to information, the Aflac WorkForces Report found that Baby Boomers and especially Traditionalists prefer at least supplemental information in-hand versus online.

Survey the workforce to determine specific benefits needs and offer flexible programs. Beyond diminishing financial stress, implementing flexible work arrangements is an effective way companies can decrease overall workload and physical stress for their employees while also helping to reach retention goals; nearly one-third (32 percent) of employees say offing more flexibility in their work schedules would keep them in their jobs[1]. Another 82 percent say having a flexible work schedule would have an impact on their ability to cope with personal issues and 56 percent say it would have strong/very strong impact.

## About the study

The 2013 Aflac WorkForces Report is the third annual Aflac employee benefits study examining benefit trends and attitudes. The study, conducted by Research Now between Jan. 4 and Jan. 24, 2013 captures responses from 1,884 benefits decision-makers and 5,299 employees across the U.S. Benefits Matter is one of four key themes from the 2013 study. To learn more about the Aflac WorkForces Report and to read the articles on Consumer-Driven Health Care, The Competitive Edge and Growing Need for Voluntary Products, visit AflacWorkForcesReport.com.

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