Championing better work and working lives

REWARD MANAGEMENT SURVEY

Employee financial wellbeing

Survey report
February 2021

The CIPD is the professional body for HR and people development. The registered charity champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 150,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

1 Employee financial wellbeing

About this report

This report is one in a series of six reports based on findings from the CIPD's seventeenth annual *Reward Management* survey. The survey focused on the impact of the COVID-19 pandemic on reward practices in the UK. Each report explores a different aspect of reward management:

- The impact of COVID-19 on finances, pay decisions and forecasts
- Management of base pay, variable rewards and recognition
- **Employee financial wellbeing**
- Employee benefits
- Reward fairness
- The Living Wage

The survey took place in October 2020 and garnered insights from 420 reward professionals spanning the private (67%), public (15%) and voluntary (16%) sectors. Survey responses were complemented by focus group discussions with expert practitioners, to delve into the stories behind the numbers.

The aim of this research is to provide readers with a benchmarking and information resource on current and emerging practice in reward management.

Overview

The CIPD's 2017 research into employee financial wellbeing found that employee money worries can result in fatigue due to a lack of sleep, difficulty in concentrating at work, time spent dealing with financial problems (both at and away from the workplace) and poor health and wellbeing. This same research found that one in four employees reported that money concerns had affected their ability to do their job. For employers, this has implications for productivity, customer service, innovation and, ultimately, the bottom line.

In our latest reward survey, 68% of organisations told us their employees' financial wellbeing had worsened since the pandemic – a finding supported by our research into the impact of COVID-19 on working lives which found that 35% of all workers surveyed reported a fall in their financial security, especially those who had been on furlough (52%) or seen a change in their caring responsibilities (44%).

Our reward management survey shows that there has been an increase in activity in response to COVID-19 and the economic crisis, with 42% of respondents exploring – or making plans to explore – how it has impacted their employees financially, while the proportion of employers with a financial policy is set to have increased by March 2021.

However, almost half of employers do not have an employee financial wellbeing policy, either with or without a budget. Whether more introduce a policy over the coming years will depend on HR professionals helping their organisations to overcome several barriers, such as senior management not seeing it as a priority (whether due to a lack of resources or certainty as to whether employees even want one).

Impact of COVID-19 and the economic crisis

We asked respondents what impact they thought COVID-19 and the economic crisis had been having on their employees' financial wellbeing. Table 1 shows that, in total, 68% of organisations reported there being a negative impact, 13% a positive one, and 19% no impact.

There are variations by sector. For instance, 28% of firms in the retail, hospitality, catering, leisure and cleaning sub-sector (a sector that has been particularly hard hit by the economic restrictions) reported that their employees' financial wellbeing had been 'very negatively' impacted by recent events, while 18% of companies in the legal, financial, technology and other professional services sub-sector (18%) reported that there had been a positive impact (this possibly reflects savings in commuting costs, since these types of jobs can be done from home). Thirty-three per cent of voluntary sector employers reported that there'd been no financial impact on their staff, which possibly reflects the financial support from their employer or the Government's furlough scheme.

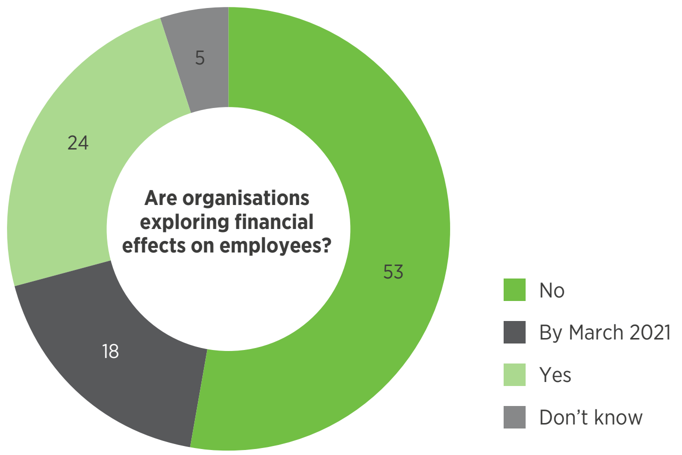
Table 1: What effect has COVID-19 and the subsequent economic crisis had on employees' financial wellbeing? (%)

	Very negative	Slightly negative	No effect	Slightly positive	Very positive
All	17	51	19	11	2
By sector					
Manufacturing and production	9	57	21	11	2
Private sector services, of which:	17	56	16	11	1
Retail, hospitality, catering, leisure and cleaning	28	62	3	3	3
Legal, financial, technology and other professional services	13	51	18	18	0
Other private sector	17	59	19	6	0
Public sector	11	52	23	11	2
Voluntary, community and not-for-profit	12	41	33	14	0

However, as shown in Figure 1, more than half of employers admitted they hadn't actually explored (through, for example, employee surveys or focus groups) how their employees had been impacted by COVID-19 and the economic crisis, nor had plans to do so. Only a quarter had already done this by September 2020, with a further fifth planning to do so before March 2021.

Table A1 in the Appendix shows that 48% of employers in the public sector are likely to have examined (or had plans to examine) the impact of COVID-19 and the economic crisis on their workers, followed by 43% of private sector service firms, 42% of voluntary sector organisations, and 30% of manufacturing and production firms. Larger employers are more likely than SMEs to have explored this issue, or plan to do so by March 2021 (47% and 36% respectively).

Figure 1: Have employers been exploring how the COVID-19 and economic crisis have impacted their employees financially? (%)



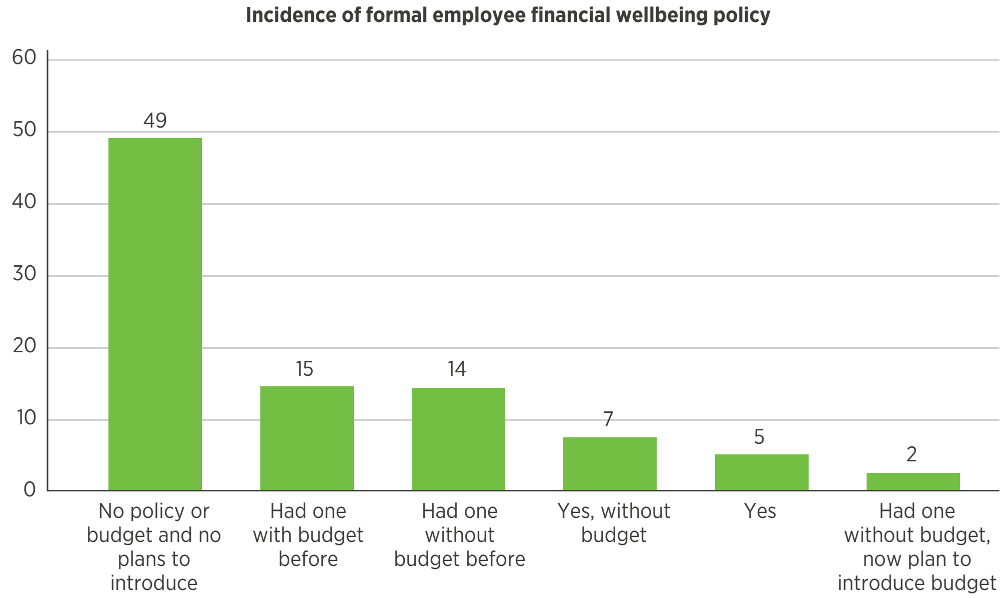
Base: n=326

We also asked respondents whether, due to the COVID-19 emergency and economic crisis, their employer had already introduced a formal employee financial wellbeing policy *with* a budget, is in the process of introducing one, or had made plans to do so by the end of March 2021. Figure 2 shows that 5% of employers answered 'yes', while a further 7% said 'yes', but explained that this is *without* a budget. In addition, a small number (2%) previously had a policy without a budget but are now intending to fund it.

Although 49% of respondents reported having no policy or budget (nor plans to introduce any), if it weren't for the current health and economic crisis this proportion would've been even higher at 61%.

According to Table A2 (in the Appendix), the sector most likely to have brought in a policy *with* a budget, or to have had plans to do so, was the manufacturing and production sector (9%). The sector most likely to have introduced one *without* a budget, or to have had plans to do so, is the retail, hospitality, catering, leisure and cleaning sub-sector (14%).

Figure 2: Have employers introduced an employee financial wellbeing policy because of COVID-19 and the economic crisis? (%)



Base: n=328

Around half of all public sector organisations already had a policy in place prior to COVID-19 and the financial crisis, either *with* (22%) or *without* (27%) a budget. By contrast, private sector services employers were least likely to already have in place a policy *with* (11%) or *without* (11%) a budget, and 57% of employers in this sector were likely to say there isn't a policy in place, and have no plans to introduce one.

We also asked those due to have a policy in place by March 2021 whether they intended to assess its impact both on the organisation and its people. While two-thirds of these organisations do intend to undertake this kind of assessment, a third do not.

Barriers to employee financial wellbeing policies

We also asked those respondents whose employers didn't have a policy (nor had plans to introduce one), what they thought were the main reasons for this. Despite the fall in employee financial wellbeing due to the COVID-19 and economic crisis, Figure 3 shows that the most common reason given for not having a policy in place (49%) was that senior management don't see this as a priority. In contrast, over a quarter of respondents (27%) reported that senior management *do* see the need for one, but don't have the time, money or expertise to create one.

Around one in five suggested that senior management:

- aren't sure whether employees would want such a policy (21%)
- aren't sure whether such a policy would contribute to employees' wellbeing (20%)
- don't trust that a policy would improve their organisation's performance (19%).

It is striking that where employers *have* explored the financial impact of recent events on their staff, the proportion who say they are not sure whether their employees would want such a policy falls from 21% to just 11%.

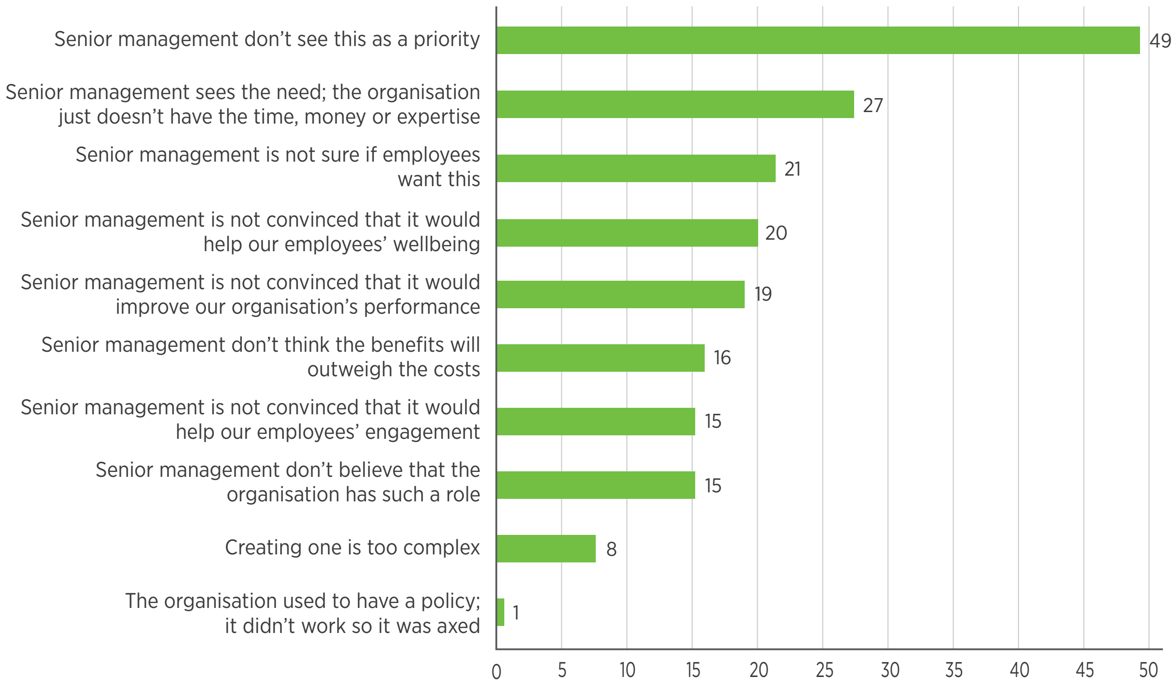
Table A3 in the Appendix shows that these findings vary by sector and employer size. For instance, 65% of firms in the manufacturing and production sector and 64% in the retail, hospitality, catering, leisure and cleaning sub-sector were likely to report that senior management don't see a policy as a priority; this is possibly influenced by other urgent matters, such as dealing with the business fallout from COVID-19 or Brexit.

By contrast, 50% of public and 38% of voluntary sector employers were likely to state that senior management *do* see the need for a policy, but lack the time, money or expertise to create one; this probably reflects that both sectors have limited resources.

While 36% of firms in the legal, financial, technology and other professional services sub-sector replied that senior management are not sure whether employees would want a policy in place, not a single public sector respondent felt this to be true.

More information by employer size and sector can be found in the Appendix.

Figure 3: What are the reasons for not having a financial wellbeing policy? (%)



Base: n=132

Note: Percentage of those organisations not introducing a wellbeing policy. Respondents could select more than one option.

Other action

As reported in our chapter on employee benefits, activities have been introduced to help support employee financial wellbeing. Among the 35% making benefit changes, some of these changes will help with employee financial wellbeing. For instance:

- 54% have introduced, or have plans to introduce, financial support for those self-isolating/shielding
- 45% are alerting employees to financial scams
- 18% now have a financial allowance for those staff working from home
- 11% have brought in early pay access (where employees can get their pay when they need it rather than when their pay period ends, also known as salary advance schemes).

To help combat poor employee financial wellbeing, the Resolution Foundation has proposed that those working for employers with 250 or more staff should have the right to choose how often they're paid. So, instead of being paid at the end of each month, individuals could select to be paid weekly. This would help individuals avoid a sudden financial emergency as they would be able to access their pay cheque quicker.

If this proposal were to become law, we asked respondents with 250 or more workers how much they thought it would increase their payroll administration costs to implement: 20% reported that there would be little or no extra cost, 18% said there would be moderate additional costs, 30% thought there would be significant cost implications, while 32% were unsure. Thirty-three per cent in the voluntary sector and 38% in the manufacturing and production sector were most likely to expect costs to rise significantly. However, 41% of respondents in the retail, hospitality, catering, leisure and cleaning sub-sector expect their costs to be increased significantly.

Conclusion

Given the impact of the pandemic and the subsequent business restrictions on the economy, it isn't too surprising to find that over two-thirds of organisations think that their employees' financial wellbeing has probably worsened since March 2020 – even though the majority admit that they haven't checked with their workers what effect the current crisis is having on their finances.

The assumption that employees' financial security has worsened is backed up by CIPD research looking at the impact of COVID-19 on UK working lives, which finds that 2.5 times more workers reported that their financial security has worsened than said that it has improved.

This finding is backed up with a continuous stream of evidence from various organisations revealing the impact of the pandemic on in-work poverty and the implications for people and employers. In the first few days of February 2021, for instance, we have had reports from both the Trades Union Congress (TUC) and Lane Clark & Peacock (LCP). Research from the TUC shows almost two in five workers say their household has suffered a reduction in disposable income since the start of the crisis, while the LCP report finds that almost two in five employees say that the pandemic has had a negative impact on their personal finances.

In terms of workplace consequences, the LCP report finds that three in ten employees say that money worries have affected their work performance as well as their work behaviour. Outside of work, two in five say that financial concerns have impacted on how they behave at home, something picked up by surveys showing an increase in domestic and economic abuse.

While employers recognise that poor employee financial wellbeing is a problem for people and workplaces and that the pandemic has increased the scale of the problem, they might not know what steps they can take to help improve the financial situation of their workforce.

Employers play an important role in dealing with the causes and consequences of poor financial health. As a first step, employers must recognise the risks posed by financial insecurity for employers and employees, but also the opportunities involved in improving workplace financial wellbeing.

Next, employers need to do *something* – ideally creating a workplace financial wellbeing **strategy**, **policy** and dedicated budget or, at the very least, a policy.

At a **strategic level**, employers can do the following:

- **Find the money for pay increases:** In order to improve pay levels (as well as the benefit package), reward and people professionals need to find ways to help their organisation boost employee productivity, such as by reviewing the business model, the employment model and its organisational model. In terms of the organisation model, this involves reviewing how the firm is designed as well as how work and jobs are designed and organised. One possible consequence of the changes these reviews could bring is that work itself becomes something that employees find more meaningful and worthwhile, which should also help boost their performance and commitment.
- **Get the board on board:** Senior management should show its commitment to improving employee financial wellbeing by discussing the financial health of employees on a regular basis. Leaders should also support workplace financial wellbeing, such as promoting new initiatives to employees, talking about the financial situation facing the organisation, and encouraging people to be open about their financial concerns.

- **Integrate employee financial wellbeing initiatives into broader wellbeing initiatives:** Employee financial wellbeing doesn't exist in isolation from the ways in which people are managed, developed and rewarded. For instance, focusing on employee financial wellbeing while ignoring other causes of work stress is only going to give you part of the overall picture. Employee financial wellbeing initiatives should support – and be supported by – employee wellbeing programmes (for example, the relationship between money, time, diet and productivity).

At a **policy level**, employers can do the following:

- **Pay a liveable wage:** This can involve either becoming an Accredited Living Wage Employer or simply using the Real Living Wage as a benchmark when setting pay to ensure that the lowest paid earn enough for a decent standard of living. The policy should also relate to the minimum number of hours that should be offered to low-waged staff so that they can work enough to enjoy a decent income. This may include offering flexible working so people can balance their caring responsibilities with working enough hours to comfortably pay their bills. Also, the policy could allow low-paid workers the option to choose how often they are paid; this might help them better manage their outgoings, especially unexpected ones.
- **Stretch the value of the pay packet:** This can involve providing benefits that help to extend the purchasing power of their employees' wage, such as providing loans for season tickets or bikes in order to cut their transport costs. It can also involve offering benefits that protect employee earnings should bad things happen; this could include paid bereavement leave in case of a death, or occupational sick pay in case of an illness.
- **Ensure reward fairness:** This can include being open and transparent with employees about the pay and benefits on offer, why they're provided, and what people need to do to receive them. For instance, when it comes to pay, the policy could include information on how the grading system works, pay increases are decided, and jobs valued. It could also include information on what the organisation means by fairness – not only in terms of what the employee can expect from the *employer*, but what the employer can expect from the *employee*. In addition to ensuring reward processes are fair, a policy should also involve the review of the outcomes of these processes (such as by analysing pay by gender, ethnicity and disability) to ensure that the processes are being applied as they're supposed to.
- **Provide personal and career development opportunities:** Offering low-waged workers the ability to develop skills and experience will help improve their chances of earning more by progressing through the organisation, as well as keeping their employability up to date as the economy and jobs market changes. Again, by covering this in your policy it shows your commitment to training and development, and can help make the organisation be seen as more attractive (compared with those employers that don't demonstrate such commitment).
- **Prevent employees from getting into financial difficulties in the first place:** Try to stop employees from experiencing financial hardship by offering financial education insights (such as through workshops or presentations) on how to better invest, spend and save their money, or alerting them to financial scams. This support can be provided either internally or externally, such as through an independent financial adviser, benefit providers or trusted websites (like the Money Advice Service), or through a mix of internal and external support. Prevention should use insights from behavioural science to inform *how*, *why* and *when* education is provided. For instance, targeted financial education support at key moments in working lives, for example ahead of maternity leave.

- **Be open and supportive:** Staff are only going to confide in their managers about their financial worries if they know that these managers are going to be non-judgemental and helpful. To assist line managers to be non-judgemental and supportive when talking to colleagues about their money issues, the policy might need to include support from HR in terms of training, toolkits, coaching, and so on.
- **Provide support for those who do fall into financial difficulties:** One way to do this is to signpost to external sources of support, such as the Citizens Advice Bureau. If your employer has an employee assistance programme (EAP) in place, it should highlight the financial guidance it can provide staff. Another way to support those who experience financial difficulties is to offer emergency financial support, such as a financial hardship loan or early wage access, coupled with appropriate independent financial advice. The policy should include such details as how much support will be given, for how long, and under what circumstances.
- **Talk to employees:** To get an understanding of the financial challenges people face, HR teams should use a variety of mechanisms to engage with them, such as through surveys, forums, polls and webchats. This data should help inform the response of the organisation in terms of the design or refinement of the policy, as well as the assessment of its effectiveness.

However, it's important to recognise that, while employers do play an important role in employee financial wellbeing, they can't resolve all the challenges on their own. Employers might be able to improve pay prospects for low earners, but they're less able to influence their living costs, such as the price of fuel, accommodation and health. **The Government, the financial services sector and individuals all play an important role in reducing in-work poverty**.

That said, employers do have some influence on how the others behave, such as using:

- the insights from behavioural science to nudge workers into making good choices around benefit decisions
- their purchasing power to influence what's offered by providers of employee benefits
- their influence on government, such as the provision of affordable childcare.

2 Appendix

Table A1: Have employers been exploring how the COVID-19 and economic crisis has impacted their employees financially? (%)

	No	Plans to do so by March 2021	Yes	Don't know
All	53	18	24	5
By sector				
Manufacturing and production	66	15	15	4
Private sector services, of which:	52	15	28	4
Retail, hospitality, catering, leisure and cleaning	59	21	14	7
Legal, financial, technology and other professional services	51	13	33	3
Other private sector	50	17	30	4
Public sector	44	24	24	7
Voluntary, community and not-for-profit	55	22	20	2
By size				
SME (<250)	60	18	18	4
Large (250–9,999)	50	18	29	3
Very large (10,000+)	27	18	41	14
Effect of COVID-19 on organisation				
Very negative	47	20	28	4
Slightly negative	52	18	26	5
No effect	66	15	12	7
Slightly beneficial	61	17	17	6
Very beneficial	53	13	27	7
Effect of COVID-19 on employees				
Very negative	55	9	27	9
Slightly negative	47	22	27	4
No effect	63	16	17	5
Slightly beneficial	62	10	23	5
Very beneficial	33	33	33	0

Base: n=326

Table A2: Have employers introduced an employee financial wellbeing policy because of COVID-19 and the economic crisis? (%)

	Yes	Yes, but without a budget	No, already in place with budget	No, already in place without budget	In place without budget, now planned with budget	Not in place and not planned	Prefer not to say
All	5	7	15	14	2	49	8
By sector							
Manufacturing and production	9	2	17	21	0	45	6
Private sector services, of which:	6	6	11	11	3	57	6
Retail, hospitality, catering, leisure and cleaning	0	14	10	10	0	55	10
Legal, financial, technology and other professional services	8	4	10	15	4	54	4
Other private sector	6	6	13	6	2	61	7
Public sector	4	9	22	27	2	31	4
Voluntary, community and not-for-profit	2	10	18	10	6	51	2
By size							
SME (<250)	5	3	11	8	3	63	6
Large (250–9,999)	5	9	16	23	2	42	4
Very large (10,000+)	5	18	27	14	5	18	14
Effect of COVID-19 on organisation							
Very negative	3	8	17	17	2	46	6
Slightly negative	6	8	16	13	2	48	7
No effect	2	2	12	12	5	59	7
Slightly beneficial	6	11	6	0	6	61	11
Very beneficial	13	7	7	27	0	40	7
Effect of COVID-19 on employees							
Very negative	2	9	14	18	0	43	14
Slightly negative	7	8	14	13	2	51	5
No effect	2	6	11	11	5	58	8
Slightly beneficial	5	8	23	21	3	36	5
Very beneficial	0	0	17	17	0	67	0

Base: n=328

Table A3: What are the reasons for not having a financial wellbeing policy? (%)

Senior management...	...don't see it as a priority	...sees the need; we just don't have the time, money or expertise	...is not sure if employees want this	...is not convinced it would help employees' wellbeing	...is not convinced it would improve organisation's performance
All	49	27	21	20	19
By sector					
Manufacturing and production	65	12	24	24	24
Private sector services, of which:	45	25	22	20	22
Retail, hospitality, catering, leisure and cleaning	64	14	29	7	14
Legal, financial, technology and other professional services	48	21	36	15	27
Other private sector	31	34	3	31	21
Public sector	50	50	0	25	17
Voluntary, community and not-for-profit	48	38	24	14	5
By size					
SME (<250)	49	26	28	20	20
Large (250–9,999)	46	29	7	17	17
Very large (10,000+)	50	50	0	50	0
Effect of COVID-19 on organisation					
Very negative	54	27	20	15	20
Slightly negative	49	29	19	25	20
No effect	32	26	32	21	26
Slightly beneficial	50	30	30	10	0
Very beneficial	100	0	0	0	0
Effect of COVID-19 on employees					
Very negative	41	29	12	24	24
Slightly negative	50	24	19	20	23
No effect	48	37	30	26	15
Slightly beneficial	45	27	36	0	0
Very beneficial	100	0	0	0	0

Senior management...	...doesn't think benefits will outweigh the costs	...doesn't believe organisation has such a role	...is not convinced it would help employees' engagement	Creating one is too complex	Organisation used to have a policy; it didn't work so it was axed
All	16	15	15	8	1
By sector					
Manufacturing and production	6	18	18	0	0
Private sector services, of which:	18	16	14	9	0
Retail, hospitality, catering, leisure and cleaning	14	14	7	14	0
Legal, financial, technology and other professional services	18	9	12	6	0
Other private sector	21	24	21	10	0
Public sector	33	8	25	0	0
Voluntary, community and not-for-profit	5	14	10	5	0
By size					
SME (<250)	14	18	14	6	0
Large (250–9,999)	20	10	17	7	0
Very large (10,000+)	0	0	0	0	0
Effect of COVID-19 on organisation					
Very negative	17	20	20	12	2
Slightly negative	14	12	15	5	0
No effect	32	26	16	11	0
Slightly beneficial	0	0	0	0	0
Very beneficial	0	0	0	0	0
Effect of COVID-19 on employees					
Very negative	18	24	24	12	0
Slightly negative	18	18	16	9	1
No effect	19	11	15	0	0
Slightly beneficial	0	0	0	9	0
Very beneficial	0	0	0	0	0

Base: n=132

Note: Percentage of those organisations not introducing a wellbeing policy. Respondents could select more than one option.

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