The Negative Impact Of Employee Poor Personal Financial Behaviors On Employers

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This article demonstrates that there are substantial costs to employers caused by the stresses associated with poor personal financial behaviors of employees. Approximately 15% of workers in the United States are currently experiencing stress from poor financial behaviors to the extent that it negatively impacts their productivity. The proportion of workers experiencing financial problems that negatively impact productivity for a single employer could range as high as 40 to 50% depending upon certain factors. The costs of reduced employee productivity because of poor personal financial behaviors are substantial. The full extent of the costs to employers is unknown.
KEY WORDS*: absenteeism, employee assistance program, employee productivity, personal financial behavior, stress, substance abuse*

Seventeen years ago Brown (1979a; 1979b) reported that the personal financial problems of workers negatively affect their employers. As a pastoral counselor for a large company providing well above national average pay and benefits, Brown observed that the money problems of employees were frequently costly for the employer. Because of the poor financial behaviors of employees, some compensatory measures employers are forced to pay include "insurance premiums, hospital bills, production down-time, materials that needed redoing, and the training of an inexperienced replacement" (1979b, p.32). Brown's research revealed that the number of employees experiencing financial difficulties was approximately 10%.

Household spending, credit use, and stress have changed enormously in recent decades. Anecdotal evidence and media reports today suggest that a much higher proportion of people are experiencing stress about financial matters. A national survey revealed that 3 out of 4 Americans faced at least one significant financial problem recently, such as being unable to save for future needs, delaying medical care, or having problems with a collection agency (Chandler & Morin, 1996). Consumer credit card delinquencies are at an historic high (Credit card delinquencies rise, 1996; Singletary, 1996) and frequent news reports indicate that personal bankruptcies are expected to reach all-time highs in 1996—over 1.1 million (Greenwald, 1996; Hansell, 1996).

According to a survey conducted among corporate human resource executives, the financial illiteracy of workers "is considered the most critical unaddressed workplace issue" (Cambridge Human Resource Group, 1995, p.1). Thirty-two percent of the executives ranked the "toll on productivity caused by personal financial problems as the most pressing overlooked workplace issue" (p.1).

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Employers today are taking the issue of employee stress seriously as indicated by the facts that approximately 25% of workers feel stressed at work every day and about 40% of employers offer on-the-job assistance for handling stress (Schellhardt, 1996). However, employers do not know how job stress and money problems are related. Also unknown is the employer's cost of their employees' personal financial problems. This study was undertaken to review the literature to gain updated information and insights about the frequency and severity of personal financial mistakes and careless behaviors of employees that may lead to serious problems negatively affecting an employer.

Methodology

The literature review began with an Internet search of over 12,500 journals, dissertations and books using a variety of key words and phrases. This was followed with a similar computer search of additional thousands of journals, newspapers, and the *Congressional Record* using Infotrak. The computer searches used such key terms as "finance," "personal finance," "credit," "bankruptcy," "substance abuse," "productivity," "accidents," and "stress."

Three manual searches of published books and proceedings also occurred: one of various library reference indexes which led to a number of journals, and a second of the personal libraries of the researchers, which included a number of unpublished conference proceedings. A number of telephone calls were made to selected researchers in order to find some of the more-difficult-to-locate publications. While several hundred sources were reviewed, only about 200 were found to be potentially useful, and from that only about 60 were found to actually be useful.

Personal Financial Mistakes and Careless Behaviors

People travel the pathways of life experiencing a number of normal events that cause stress, such as moving from one home to another, hospitalization for an injury or illness, marriage, death of family members, and occasional loss of income while between jobs. Many of these events which occur normally negatively impact one's personal and family finances. These events, while common, also cause stress in people's lives.[a] The media often reports that at any point in time about one-third of American adults are concerned about their ability to pay the next month's bills. Table 1 provides examples of personal financial mistakes and careless behaviors of employees that may lead to serious problems that negatively impact one's employer.

Table 1
Personal Financial Mistakes and Careless Behaviors

1. Occasionally spending too much money
2. Occasionally overusing credit
3. Occasionally reaching the maximum limit on a credit card
4. Occasionally running out of money
5. Occasionally writing a check with insufficient funds
6. Occasionally having a low or non-existent emergency fund
7. Occasionally being unable to pay due bills (e.g., utilities, rent, child care, credit cards)
8. Occasionally being unable to repay installment debts
9. Occasionally receiving "overdue notices" from creditors
10. Occasionally paying late some due bills and installment debts
11. Occasionally relying on a second income to pay living expenses and debts
12. Occasionally being denied additional credit, perhaps because of a lack of a sufficient positive credit history
13. Occasionally borrowing, perhaps by obtaining a cash advance from a line of credit on a credit card or advance pay from an employer, to pay for living expenses and/or other debts
14. Occasionally obtaining a debt-consolidation loan
15. Occasionally having liabilities in excess of assets
16. Occasionally not contributing to a pension plan
17. Occasionally losing money to ripoffs and frauds
18. Occasionally losing money by gambling or buying lottery tickets
19. Allowing an insurance policy to lapse (e.g., vehicle, renter's/homeowner's, medical, life)
20. Occasionally making a request for welfare (e.g., cash grants, food stamps, subsidized housing)
21. Occasionally feeling emotionally stressed about money matters
22. Occasionally worrying about the security of one's job

Factors listed in Table 1 do not necessarily lead to poor financial behaviors. In fact, most people go through life periodically experiencing many of these personal financial mistakes and careless behaviors. In reality, these are some of the normal and quite typical financial practices, experiences, and concerns of living in a modern society. However, when an excessive number of these personal financial mistakes and careless behaviors or factors occur or accumulate in combination with other events and catalysts, they collectively can result in poor financial behaviors.

Genuine Indicators of Poor Financial Behavior

Poor financial behaviors are personal and family money management practices that have consequential, detrimental and negative impacts on one's life at home and/or work. Writing a check with insufficient funds in the account may be classified as a personal financial mistake or careless behavior, however, when it occurs along with similar mistakes this is poor financial behavior. For example, a single episode, such as gambling away one's entire paycheck, could eliminate any possibility of paying one's monthly rent or making a vehicle loan payment in a timely manner. In addition, there are a number of other actions, such as garnishment of wages, that are always indicators of poor financial behavior.

Table 2 provides examples of poor financial behaviors that negatively impact one's family life (e.g., relationships with relatives and friends) and/or one's employment (e.g., job performance). Note that the first 22 factors are the same as those listed in Table 1 as examples of personal financial mistakes and careless behaviors; however, here they occur in excess, as is true of the remaining 14 behaviors.

Table 2
Poor Financial Behaviors

1. Regularly spending too much money[b]
2. Regularly overusing credit[c]
3. Regularly reaching the maximum limit on a credit card
4. Regularly running out of money
5. Regularly writing "bad checks" (e.g., ones with insufficient funds in the account which results in additional bank/vendor charges and perhaps other penalties)
6. Typically having a low or non-existent emergency fund savings account
7. Regularly being unable to pay due bills (e.g., utilities, rent, child care, credit cards)[d]
8. Regularly being unable to repay installment debts
9. Habitually receiving "overdue notices" from creditors
10. Regularly paying late some due bills and installment debts
11. Regularly relying on a second income to pay living expenses and debts
12. Being denied additional credit because of a poor credit history
13. Regularly borrowing, perhaps by obtaining a cash advance from a line of credit on a credit card or advance pay from an employer, to pay for living expenses and/or other debts
14. Regularly obtaining debt-consolidation loans
15. Typically having liabilities in excess of assets
16. Typically not contributing to a pension plan
17. Regularly losing money to ripoffs and frauds[e]
18. Regularly losing money by gambling or buying lottery tickets and/or gambling in an attempt to "fix" one's financial situation[f]
19. Regularly allowing insurance to lapse (e.g., vehicle, renter's/homeowner's, medical, life)
20. Regularly making a request for welfare (e.g., cash grants, food stamps, subsidized housing)[g]
21. Regularly feeling emotionally stressed about money matters
22. Regularly worrying about the security of one's job
23. Regularly receiving communications from collection agencies[h]
24. Being sued for financial reasons
25. Having property securing a debt repossessed
26. Having utility service cut off
27. Being evicted from rental housing or having one's home foreclosed
28. Having a lien placed on one's personal or real property
29. Having one's tax refund intercepted by a government agency or court order
30. Having one's wages garnished
31. Filing for personal bankruptcy
32. Being referred by an employer for credit and budget counseling because of poor job performance associated with poor financial behavior
33. Exhibiting unethical and/or criminal behavior (e.g., employee theft, embezzlement, check fraud, income tax evasion, expense account fraud, filing deceptive loan statements)
34. Being disciplined or fired by one's employer for poor financial behavior
35. Being imprisoned for financial reasons

Poor Personal Financial Behaviors that Negatively Impact Employers

There are many substantive areas of costs associated with poor financial behaviors. Poor financial behaviors negatively impact both families and employers. A person's poor financial behaviors impact on family life and lead to losses of transportation, housing, ability to obtain credit for needed goods and services, arguments with relatives, heavy emotional stress, spouse/child abuse, and divorce. Poor financial behaviors result in extremely high costs that are incurred by employers, including:

1. Absenteeism[i]
2. Tardiness
3. Fighting with co-workers and supervisors
4. Sabotaging the work of co-workers
5. Job stress
6. Reduced employee productivity[j]
7. Lowered employee morale
8. Loss of customers who seek better service
9. Loss of revenue from sales not made
10. Accidents and increased risk taking[k]
11. Disability and worker compensation claims
12. Substance abuse
13. Suicide and murder[l].
14. Increased use of available health care resources by the employee and relatives[m]
15. Thefts from employers
16. Loss of security clearance
17. Nondeployment of employee to an overseas' operation
18. Lack of employee focus on the strategic goals of the employer
19. Greater use of employee assistance program services, including those for spouse and child abuse
20. Employer time to deal with poor financial behaviors of employees[n]
21. Loss of trained personnel (both for workday losses due to temporary suspension from duties as well as for termination of employment).

Poor Financial Behaviors and Stress are Interlinked and Cumulative

It is apparent that the factors contributing to poor financial behavior are interlinking and cumulative. Holmes' list of 43 stress producing items, cited in Holmes and Rahe (1967), which is used to predict medical problems, clearly illustrates the cumulative effect. As stress increases the Holmes score increases, along with the likelihood of the occurrence of major health problems.

This relationship is also true regarding various personal financial mistakes and careless behaviors. As the number and intensity of personal financial mistakes and careless behaviors escalate, the likelihood of serious negative consequences, both at home and/or work, increases. The widely accepted Hill ABCX family crisis model (Hill, 1949; Hill, 1958), particularly as redefined by McCubbin and Patterson (1983), shows that family maladaptation is characterized by family instability and deterioration of health that has both short- and long-term consequences.

It is crucial for individuals, families, and employers to understand that most people go through their lives effectively "handling" all the stressors of modern life, occasionally exhibiting poor financial behaviors. Most families struggle with change; adapt, and utilize creative techniques to manage the demands of life. This is the graphic circular flow of living where things attain a sort of balance, graphically illustrated as "within the circle," as shown in Figure 1. Here individuals and families experience a variety of financial difficulties as well as health problems, relationship stresses, and problems at work, but they continue living all the while generally keeping life in balance.

Sometimes one or more of these factors becomes severe enough to create an imbalance. Serious marital problems, difficulties with a co-worker, harassment from creditors, and unexpected medical expenses are some of the things that can throw one's life out of balance, perhaps to an oblong, egg-shaped sphere, as shown in Figure 2. These occasions may be the most advantageous time for successful intervention—before the problem(s) get totally out of control. Years ago, Brown (1979b) found that financial problems comprise about one-fourth of employee counseling cases, and this proportion may be higher today.

Figure 1
Within the Circle

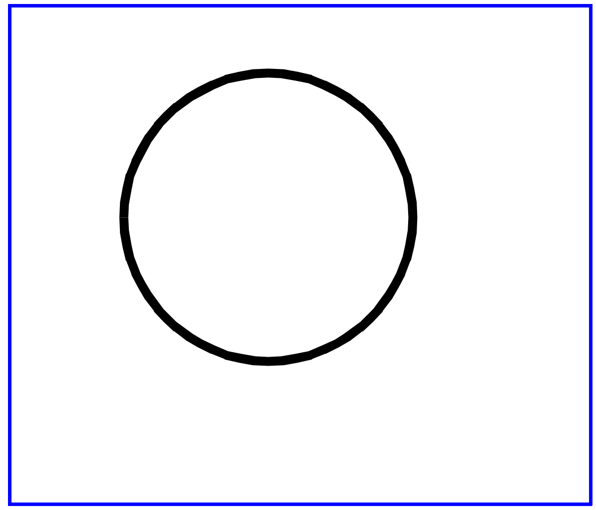
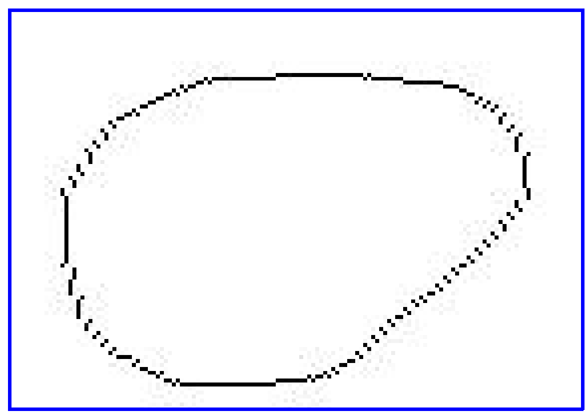


Figure 2

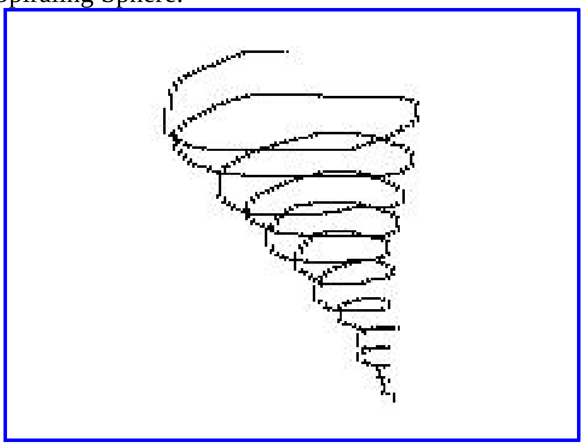


Out of Balance

When "financial problems arise, it is in the workplace that they are likely to surface first" (Kellar & Nolf, 1984, p. 1). Among five risk stressors in life (relationships, work, health, crime/violence, and personal finance), personal finance was rated by workers in one study as the number one source of stress; concerns about personal finance are five times those regarding health (Cash, 1996). Among one homogeneous population, 4 of the top 10 identified needs were financial (Darby, 1996). Such stress suggests that many people are experiencing a substantive degree of economic insecurity, "where there is considerable worry, fear, anxiety, and psychological discomfort" (Rejda, 1984, p. 3).

When employees' various life events and factors get out of control, including personal, financial and work, the high degree of economic insecurity can be graphically represented as a spiraling sphere shape, as shown in Figure 3. Here people experience failure in family life, personal finances, and/or employment as their lives seem to spin out of control. Events such as eviction, divorce, wage garnishment, or loss of employment may occur.

Figure 3
Spiraling Sphere.



Factors such as failure of a personal relationship, poor financial behaviors, and substandard job performance, are related. While research may have not yet demonstrated a statistical relationship of linearity between variables, there certainly exists a substantive correlation. Thus, while a direct cause and effect may not be demonstrated, there is a great amount of evidence that strongly suggests these factors are related. Brown (1979b) found that 84% of employees with financial problems also needed counseling for other problems. Further, one-third of employees counseled for problem drinking also had money problems.

Brown's more recent research (RJR, 1991) shows that problems of employees include family problems, financial problems, substance abuse problems, legal problems, worker compensation claims, and accident and sickness disability claims. In an early study, Brown (1979b) found "that 1 in every 30 employees at some point becomes so desperate over a personal problem or because of mental illness or intoxication that the employee contemplates suicide, or homicide, or functions as a hazard on the job" (p. 32).

Sporakowski (1979) observes that sex and money are the two most frequently presented problems in a marriage counselor's office, and "that they frequently result from a combination of ignorance or lack of information; differing attitudes, values and expectations; sensitive feelings; difficulties in interpersonal communication; and factors external to the individuals or relationships that result in a feeling of helplessness or lack of control" (p. 75).

Some examples illustrate the combined and cumulative aspect of poor financial behaviors that result in an out-of-control spiraling of life for individuals and families:

* When an employee is involved in an on-the-job accident, fact finding may reveal that other factors are involved, such as pending legal action due to financial problems and/or substance abuse;
* When an employee steals from an employer, analysis may reveal that other factors are involved, such as overuse of credit, caused by uninsured health costs and gambling to attempt to "fix" the financial crisis;
* When an employee's work productivity drops off sharply, analysis may reveal that other factors are involved, such as emotional stress from financial problems caused by marital instability and substance abuse;
* When an employee commits spousal abuse, counseling may reveal that other factors are involved, such as serious debt problems and emotional stress; and
* When an employee's wages are garnished, investigation may reveal poor financial management practices and marital problems.

Poor Personal Financial Behaviors Are Often Manifested as Stress Which Reduces Employee Productivity

Stress has been documented as resulting in lower employee productivity. According to Tang and Hammontree (1992), stress costs businesses between $100 and $150 billion a year in lost employee productivity. Thirty percent of all adults report high work stress; 11 million people report health-endangering levels of work stress (Hickox, 1994)º

A key question is, "Which variables are related to stress?" Literature on the question is actually quite clear. According to Kirkcaldy, Cooper, and Ruffalo (1995), a combination of mental and physical factors influence work stress. These variables include alcohol, drugs, gambling, absenteeism, family relations, hazardous working conditions, threat of injury on the job, personal health (Leigh, 1991), and poor financial management. Interestingly, many of these variables not only cause stress but result in stress as well.

A major source of lower employee productivity resulting from stress is absenteeism (Bruner & Cooper, 1991; Chaudhury & Ng, 1992; Garrett, 1993; Hager, 1994; Mughal, Walsh & Wilding, 1996; Tang & Hammontree, 1992). Employee stress about personal financial matters, as demonstrated above, is a reality in the workplace. A survey of 301 employees of IDS Financial Services found that "personal finance worries may indeed affect the job performance of more than one-third of America's corporate workforce and may lead to unwanted turnover" (Harris, 1987, p. 6). Thirty-eight percent said "money worries sometimes hamper job performance," and 33% under age 35 said they "would have to change jobs to meet financial goals" (p. 6).

Many employees take time off work to deal with their financial problems. For example, workers take time away from productive labor to telephone creditors, seek sources of additional credit, converse with co-workers about stresses, talk with supervisors about financial problems, and place gambling wagers. They also take occasional extended work breaks, supposedly to use the toilet or to eat a meal, but instead spend the time dealing with financial stresses. Employees sometimes even call in sick to their employers so they can make court appearances, talk with attorneys, and meet with others concerning financial problems.

Since 1973 the number of lost workday cases, or frequency per 100 full-time workers, has increased more than 12% (Waddell, 1996). Unscheduled absenteeism cost companies $688 per worker per year on average, and last year unscheduled absenteeism rose for the fourth time in a row (Waddell, 1996). A primary reason for these trends is stress in the workplace (Kottage, 1992). Chronic absenteeism has become the number one workplace problem according to some experts (Perry, 1996).

It has been estimated that 70% or more of all job absenteeism is a direct result of stress-induced illness (Tang & Hammontree, 1992). These absences have a direct and devastating impact on worker productivity and customer satisfaction, according to Perry (1996). Costs include lowered morale among other employees who must shoulder extra work loads, lost revenue from sales not made, loss of customers who flee to competitors for better service, and decline in business reputation.

External responsibilities were the third most important determinant on absenteeism in a study of Australian blue-collar employees conducted by Deery, Erwin, Iverson and Ambrose (1995). Personal financial difficulties are an example of external responsibilities.

The costs of absenteeism are staggering, and it is not surprising that high costs are universal. According to Rogers and Herting (1993), sick leave among employees has increased from an average of 64.9 hours per employee in 1975 to 73.9 hours in 1981. Results of recent surveys indicate that only 35% of respondents use sick leave when they are "really" sick (Rogers and Herting).

Absenteeism costs have been estimated to be between $9 and $13 billion a year in England (Watkins, 1994), and in Canada absenteeism results in 53.4 million hours of lost employee productivity (Chaudhury & Ng, 1992). Fifteen years ago, in 1981 it was estimated that business lost between $3 to $5 billion annually from family violence-related absenteeism and $100 billion in abuse-related medical costs (Deming, 1991).

Direct costs of absenteeism in the U.S. are estimated to be between $25 and $35 billion a year in lost employee productivity, half of which is paid sick leave (Rogers & Herting, 1993; Tang & Hammontree, 1992). Dalton and Mesch (1991) report that the total productivity lost in the United States each year to absenteeism is nearly $40 billion. Others have estimated these costs to be over $300 billion per year, which represent between 9 and 15% of total wage bills (see Karasek & Theorell, 1990). Losses associated with job stress are currently estimated to be as large as $150 billion per year (Karasek & Theorell, 1990).

Stress, Substance Abuse, and Employee Productivity
The relationship between stress, substance abuse, and lost employee productivity is especially alarming. Stress, including that caused by financial problems, leads some people to abuse alcohol and drugs. Ten million persons are addicted to alcohol and 3 million persons are addicted to drugs. Of these, approximately 7 million are employed (Callery, 1994). In other words, 12 to 15% of all workers are experiencing some sort of

personal problem, and at least one half of these problems involve chemical abuse (Callery, 1994). According to Callery there is a consistent relationship between chemical abuse and poor employee performance, including lowered production, decreased efficiency, tardiness, as well as increased use of employer fringe benefits such as sick time, disability, and workers' compensation. Substance abuse causes absenteeism, accidents, health care costs, loss of trained personnel, employee theft, and lost job productivity (Minter, 1990).

Employers pay dearly for drug abuse problems in the workplace. Drug abuse seriously erodes an employer's financial standing and reduces a company's ability to compete, costing businesses $60 billion each year (Lipman, 1995). Further, recreational drug users are 2.2 times more likely to request early dismissal or time off; 2.5 times more likely to have absences of eight days or more per year; 3.6 times more likely to be injured on the job; and five times more likely to file a workers' compensation claim (Lipman, 1995). Recreational drug users are 7 times more likely to have wage garnishments and they are one-third less productive on the job (Lipman, 1995). Fifty-nine percent of financial costs associated with alcoholism and drug abuse result from losses in the work world (Goldberg, 1994). The annual cost to society of substance abuse and mental illness is more than $190 billion (Minter, 1990). Drug and alcohol abuse cost the American economy at least $177 billion a year, including $99 billion in lost employee productivity (Staroba, 1990).

According to Scanlon (1986), employee alcoholism and drug abuse are estimated to cost American business at least $26 billion total; ($16 billion and $10 billion respectively), with $16 billion of this total cost directly related to lost employee productivity, absenteeism, medical expenses, disability claims, and corporate theft. Furthermore, more recent data show that drinking problems cost employers $2,500 per employee per year in productivity losses, absenteeism, and disability benefit claims, amounting to $15 to $20 billion a year (Scanlon, 1991). All of these costs are ultimately passed on to consumers in the form of higher prices and/or higher taxes.

Per capita expenses to both private and public organizations are equally alarming (Scanlon, 1986). Costs to all organizations works out to $4,200 per worker per year in 1986 dollars. Inflated to 1996 dollars, the figure is $5,600 per worker. Drinking, exclusive of drug abuse, costs employers $2,500 per worker per year in lost employee productivity, absenteeism, and disability benefit claims. The total costs of corporate alcoholism are estimated to be between $15 and $25 billion each year.

Stress, Poor Financial Management, and Employee Productivity

Stress-related variables tend to impact each other. According to Williams (1982), financial problems result from unexpected changes which necessitate reevaluation of the use of resources. It is not surprising that many of the "situations" outlined by Williams are also stress-related variables. For example, situations which may create severe financial problems include: changes in family income, changes in employment status, unscrupulous or fraudulent schemes, adverse job politics, loss of ability to fulfill home responsibilities, need to support parent or other persons, premature death of spouse, birth of child, illness or disability, accidents, divorce, major unexpected bills, lawsuits, and changes in consumer prices.

According to Williams (1982), specific situations that cause financial stress include: underestimating expenses because of inexperience or poor records, overestimating income, lack of family communications, being overwhelmed with bills and expenses to the point of being afraid, inability to say "no", lack of planning, buying products and services on credit, poor money handling skills, credit overextension, using money for emotional reasons, not having a cash reserve for emergencies, and not controlling expenses such as gambling, alcohol, tobacco, and drugs.

Stress inducing variables eventually have an impact on a family's financial well-being, which in turn, influences individual response to stressful situations. For example, an individual who faces increasing levels of stress will, according to the literature, be more likely to miss work on a regular basis. This action tends to increase feelings of guilt, resentment, and loss of hope. Many such individuals turn to alcohol, gambling, tobacco, or drugs to dampen the effects of stress in their lives. Factors contributing to stress are cumulative and interlinking. Consequently, when employees exceed their coping threshold for stress, it is likely that workers' compensation claims—both legitimate and fraudulent—will increase (Gilmore, 1994).

Unfortunately, these activities force reallocation of financial resources towards the maintenance of unhealthy habits. In turn, poor financial management leads to increasing levels of stress, which tend to support other types of behavior, further reducing employee productivity. In other words, the relationship between stress, stress-related variables, poor financial management, and overall reduced employee productivity is not linear; it is, in fact, a spiralling sphere which ultimately leads to physical, financial, and employment failure.

Employers Pay the Costs for Reduced Employee Productivity

Mental illness and substance abuse cost the nation an estimated $273 billion annually in treatment expenses, lost and reduced employee productivity, law enforcement efforts, and other related costs. Mental illness costs the country $129.3 billion; alcohol abuse $85.8 billion; abuse of other drugs, $58.3 billion. Employers assume a large portion of the costs attributed to mental illness and substance abuse in the form of treatment benefits and prevention programs, lost work days, and reduced employee productivity (Caldwell, 1991).

For example, it is estimated that 25% of the chemical-dependent employee's earnings can be applied to the cost of lost employee productivity and poor job performance (Scanlon, 1991). Six to ten percent of a workforce abuses alcohol and other drugs to the extent that work is disrupted. Employees who are problem drinkers cost their employer approximately one-fourth of their average annual salary per year (Brown, 1979b).

Brown (1993) reports that 10% is a very conservative estimate of the number of employees in the workplace with financial difficulties. Brown's formula for calculating the cost of employee financial problems to an employer can be conservatively estimated as follows: take the 10% of the workforce which is currently experiencing financial problems and multiply that by a 10% average annual wage loss in employee productivity; that equals the cost of an employer doing nothing (RJR, 1991). For example, consider an employer of 1,000 employees with an average wage of $30,000 who has 100 workers experiencing financial problems to the extent that their productivity is reduced by 10%. That calculates to $300,000 in annual lost productivity ($30,000 [annual employee wage] X .10) = $3,000 per financially troubled employee] X 100 [current number of financially troubled employees]). This $300,000 annual productivity loss for an employer with 1,000 employees is a conservative estimate.

Others also report that a proportion of workers have difficulties with their personal finances to the extent that it negatively impacts their productivity. Kellar (personal communication with E. Thomas Garman, March 22, 1987) estimated that at any point in time at least 10% of U.S. Navy personnel were experiencing financial problems. Garman (1989) made a similar estimate of at least 10%. A higher estimate was made by Cash (1996) who found that 28% of workers report that personal finances have negatively impacted their productivity in the past year.

The estimates from the 1980s about the proportion of workers experiencing significant financial problems must be raised for the current times for a number of reasons. Both the number of credit cards in circulation and the use of credit cards for marketplace transactions have risen enormously since the 1980s. Further, credit card delinquencies are currently at an all-time high. Also, personal bankruptcies are projected to reach an historical high this year. Finally, as the proportion of individual and family income required to pay interest and repay debt increases, the margin of net income available for other needs and wants, including any expenditures that might stress one's budget, becomes smaller. In short, the greater use of consumer credit the less margin there is for spending errors; thus, substantially more people today are experiencing financial problems than a decade or two ago.

Therefore, it can be conservatively concluded that approximately 15% of workers in the U.S. are currently experiencing stress from personal financial mistakes and careless behaviors as well as from poor financial behaviors to the extent that productivity is negatively impacted. Depending upon such factors as employee income levels, ranges of age and stage in the life cycle, and the costs of living, the proportion of workers experiencing financial problems that negatively impact productivity for a single employer could range as high as 40 to 50%.

Furthermore, and very importantly, the productivity of workers who are experiencing stress about personal financial matters may drop by a factor or more than 10% (the percentage used in Brown's [1979b] seminal calculation). If the decline in worker productivity is actually 20%, for example, the amount of lost productivity to an employer is much greater! Consider again the above employer of 1,000 employees with an average wage of $30,000 who has 100 workers experiencing financial problems to the extent that their productivity is reduced. This time, however, the productivity loss is estimated to be 20%. That calculates to $600,000 in annual lost productivity ($30,000 [annual employee wage] X .20) = $6,000 per financially troubled employee] X 100 [current number of financially troubled employees]). This $600,000 annual productivity loss for an employer with 1,000 employees is likely a more realistic estimate of the types of costs that are incurred by employers. An employee who misses four days of work in one month, for example, causes a 20% loss in productivity, and this does not include any related costs for temporary labor, workers' compensation, employee medical care, and increased insurance premiums.

Employers Benefit When They Deal With Employee Problems

A strategy based on the joint search for worker well-being and employee productivity is at the heart of the entire quality-of-life movement (Karasek & Theorell, 1990). It pays for employers to be interested in the wellness of their employees. For every dollar spent on mental health and substance abuse treatment, $11.54 is saved in social services costs (Hickox, 1994).

Employers find that there is a five-to-one return for every dollar spent on an employee assistance program, with a substantial savings on health care benefits (Goldberg, 1994). General Motors saves $3,700 per year for each employee enrolled in its EAP, with total savings of $37 million; Northrop saves $20,000 per employee in job productivity per rehabilitated employee; New York Transit saved $1 million in paid sick leave in one year (Campbell & Graham, 1988). Employee assistance programs saved the U.S. Postal Service more than $2 million; the New York Telephone Company employee assistance program saved $1.5 million (Garman, Porter & McMillion, 1989).

A recent literature review (Williams, Lown, Haldeman, Garman, Fletcher & Cramer, 1990) concludes that there is justification for continued efforts to provide valid and reliable evidence of the impact of financial concerns on employee productivity and on the cost-benefit of employers offering financial counseling and planning to employees in an industry setting. Employers who believe in primary prevention find it smart (when dealing with drugs and alcohol in the workplace) to make help available to all employees experiencing problems impacting job performance (Campbell & Graham, 1988). One of the new wellness trends is financial health programs (Cash, 1996).

Once acquainted with financial education training at a worksite, 63% of participants are more inclined to pursue financial education on their own (Cash, 1996). In the future, employers are increasingly likely to help their employees deal with financial problems for very good reasons—it increases job productivity, reduces costs, and makes employees happier.

At Ameritech, for example, "helping employees deal with financial issues falls under the umbrella of the Employee Assistance Program (EAP)" (Cambridge Human Resource Group, 1995, p.4). By placing the financial counseling in EAP, Ameritech is assured of confidentiality and it gives employees the chance to maintain control. Ameritech's human resources-research manager says, "We've found that by giving employees the tools—without any strings attached—they can work out any problems. It's a win-win situation for Ameritech and its employees" (p. 5).

Research Needed

This literature review confirms that there are substantive costs associated with the stresses associated with poor financial behaviors. These impact the individuals involved, their families, and their employers. The full extent of the costs to employers is unknown. The costs, especially the genuine costs of reduced employee productivity, need to be quantified so that the real costs to employers of the poor personal financial behaviors of employees can be known and cost off-setting measures can be considered.

Research is needed to carefully determine if people who are writing checks with insufficient funds, having their wages garnished, and experiencing marital difficulties are likely to be the very same people who are performing poorly on the job. Trends over time need to be identified and tracked so that employers can recognize the needs and the impact of assistance provided.

Research also is needed to further identify the specific problems and the resulting negative behaviors of employees. This should be done to better understand the extent of interrelationships, to determine the associated costs to employers, and to develop methods to identify, weigh, and scale poor financial behaviors and the related stress factors. Findings should be predictive so that costeffective prevention efforts might be undertaken to reduce the negative costs of the poor financial behaviors of employees on employers. In addition to identifying the costs, research needs to be conducted to ascertain the return on investment to employers who establish employee assistance program in personal financial management.

Practioners and researchers should work together to conduct this research. Together they should design studies which will allow practitioners, and others in business, to easily collect needed data in the course of their supervisory responsibilities. Because employee problems are interrelated and tend to spiral in crisis, well designed research studies will be required.

Endnotes

a There are other stressful events that also may result in negatively affecting one's employer which are not necessarily under the control of the individual or family, such as having an exceptional child, or other family member, who requires substantial financial expenditures. Such factors are not examined in this literature review.

b. Consumers are spending $1.03 for every $1 they earn (Stern, 1995); consumers between ages 18 and 25 spend $1.17 for every $1 they earn (Garman & Forgue, in press); poor money management is identified as the main problem by 45% of clients going to a consumer credit counseling agency (Williams, 1996); a study by Visa shows that 29% of the people declaring bankruptcy last year report that overspending was the major cause for them filing bankruptcy (Singletary, 1996).

c. Two-thirds of adults have at least one Visa or MasterCard (Fulkerson, 1995); the average American has 8 to 10 credit cards, and the outstanding credit card balance for most people is over $1,700 (Stern, 1995).

d. Credit card delinquencies of more than 30 days are currently 3.66%, the highest in history (Credit card delinquencies rise, 1996; Singletary, 1996).

e. Every other telemarketing call to your home is from a crook trying to steal your money (Garman, 1996).

f. State lotteries exist in 36 states and casino gambling is legal in more than 20 states (Fulcher, 1991); there are 8 to 9 million individuals pathologically addicted to gambling (Fulcher, 1991); following the introduction of legalized gambling, the numbers of problem gamblers tripled, from 1.7% to 5.4% (America's gambling fever, 1996); problem gamblers cost society $13,200 to $30,000 per gambler (Simon, 1995); problem gamblers cost between $13,200 and $35,000 for government services (America's gambling fever, 1996): problem gamblers will write bad checks and reach the point of bankruptcy . . . often turning to illegal activities (Simon, 1995); 85% of compulsive gamblers admit to stealing from their employers, given the opportunity (Fulcher, 1991); 40% of pathological gamblers lose their jobs, 23% become alcoholics, and 63% contemplate suicide (Simon, 1995); problems caused by gambling reported by members of Gamblers Anonymous include divorce or separation (26%), quit or lost a job (34%), stolen from work to pay gambling debts (44%), bankruptcy (21%), gambling-related arrests (18%), contemplated suicide (66%), and attempted suicide (16%) (America's gambling fever, 1996).

g. Twenty-seven million Americans use food stamps (Holmstrom, 1994); workplace support was the most significant factor affecting the degree to which mothers reduced their reliance on welfare as a source of household income over a 3-year period (Parker, 1994).

h. Greninger, Kitt, Hampton and Achacoso (1996) determined this to be the best single indicator of financial insolvency.

i. Increased personal financial pressures can lead to absenteeism (Macadam, 1994).

j. The higher a salesperson's stress the lower their job productivity (Yeh, Lester & Tauber, 1986).

k. Automobile accidents cause $137 billion every year in medical expenses, lost employee productivity, and property damage, and this represents $50 billion in annual costs to employers (Chafee, 1995); accidents involving employer-owned cars cause disruption to business (Cartwright, Cooper & Barron, 1993).

l. A recent example is the infamous Susan Smith, who drove her automobile into a South Carolina lake drowning her two children, reporting that she was greatly stressed about financial matters; Smith also stated that she was separated from her husband and had just broken up with her lover.

m. These occur for both mental health disorders as well as for physical problems (Cash, 1996).

n. Time is lost by both the worker and the supervisor (Kellar & Nolf, 1984).

o. Victims of sexual harassment, another form of stress, can experience severe anguish, tension, and depression which lead to absenteeism, staff turnover, and low employee productivity (Husbands, 1992).

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