Employer briefing:
FINANCIAL WELLBEING DURING THE COST OF LIVING CRISIS

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INTRODUCTION

As a society, our views on employer responsibilities are evolving. The Covid-19 pandemic has spurred employers to adopt a more proactive approach to staff wellbeing. While there will continue to be variation in expectations between employment relations that are transactional and those that are deeper, the cost of living crisis provides an opportunity for employers to accelerate their focus on financial wellbeing at work.

For those responsible for HR and people policies, there are many trade-offs in supporting the financial wellbeing of their employees and understanding the complex and challenging external circumstances their organisations face as operating costs rise.

This employer briefing builds on research findings set out in recently published research by the Work Foundation at Lancaster University – Shifting Sands: Employer responsibility during the cost of living crisis. The briefing distils evidence and learning to present six practical steps – supported by case studies – that employers can consider to support their employees' financial wellbeing now and in the future, and are supported by employer case studies. The six steps are:

1. Learn about how workers are managing now
2. Increase pay and unlock other short-term support
3. Make the business case for action to your organisation
4. Agree clear strategic goals together with short- and long-term action plans to meet them
5. Cultivate and lead an inclusive culture and encourage open conversations around financial wellbeing
6. Consult on an ongoing basis with workers to jointly develop support that meets their needs.

This is an ongoing project and we will be monitoring and reporting on the cost of living crisis as the situation develops. We would be keen to hear from senior HR leaders, interested in networking with their peers and sharing the successes of the strategies being adopted by their organisations: info@theworkfoundation.com.

BUSINESS CASE FOR ACTION ON FINANCIAL WELLBEING

There is a compelling business case for supporting financial wellbeing. In 2021, 2.5 million workers – approximately 8% of the working population – took time off due to financial wellbeing problems, according to analysis from CEBR.[1] The links between financial wellbeing and mental health are well established and action taken to support mental wellbeing must be approached with this in mind.[2] With skills shortages affecting large parts of the economy, a comprehensive financial wellbeing strategy could form an integral role in attraction and retention.

Our research found that nearly seven in ten business senior leaders (66%) feel they have a substantial role to play in supporting their staff through the cost of living crisis. We found that where employers have introduced financial wellbeing support for their workers over recent months, this has often been responsive with many introducing one-off bonuses, centred on the notion that the high inflation seen in 2022 was a short, sharp shock.

But it is now increasingly clear that the full impact of this increase in living costs is yet to be felt, with rising interest rates now meaning growing numbers of households' face falling into debt and experiencing acute financial distress over the year ahead. A gear shift is needed.

This research demonstrates that there now exists an expectation, among workers and employers alike, that organisations should take necessary steps to support the financial wellbeing of their staff. Against a backdrop of pressing skills and labour shortages, and a growing focus on the roles of responsible business and purpose-driven organisations, the case for investing in employee financial wellbeing could not be stronger:

- According to the Money and Pensions Service (MPS), 11.5 million people in the UK have less than £100 in emergency savings[3]
- In 2021, 2.5 million workers took time off due to financial wellbeing problems, according to analysis from CEBR[4]
- With skills and labour shortages affecting large parts of the economy, employers who adopt a comprehensive financial wellbeing strategy could find this improves their ability to attract and retain staff.

The cost of living crisis has created a pressing need for employers to act quickly. But it is crucial that they also take a longer-term view, considering financial wellbeing as fundamental to their offer to employees, and leveraging rewards and benefits packages to help mitigate rising living costs. This should look beyond current challenges and be based on principles to facilitate effective support for good worker financial wellbeing, both in good times and bad.

What do we mean by financial wellbeing?

Financial wellbeing is driven by a range of factors beyond the amount of money an individual has. It is also about how we feel about our finances – whether we are satisfied with them or worry about them – and how we manage economic aspects of our lives. CIPD sets out a helpful definition that highlights the diversity of factors that can influence financial wellbeing.[5] These are objective and subjective financial status, attitudes and knowledge, and financial behaviour.

Key principles in developing a financial wellbeing strategy

This is a complex issue, and the right approach will look different across organisations and sectors. We have developed three guiding principles to underpin the development of financial wellbeing support that is truly tailored to workers and makes a meaningful and lasting difference to them:

- Prioritise pay and job security when considering financial wellbeing
- Develop a long-term and proactive approach to financial wellbeing within your organisation
- Engage with your workforce to understand their needs and preferences throughout the decision-making, design, implementation and feedback processes.

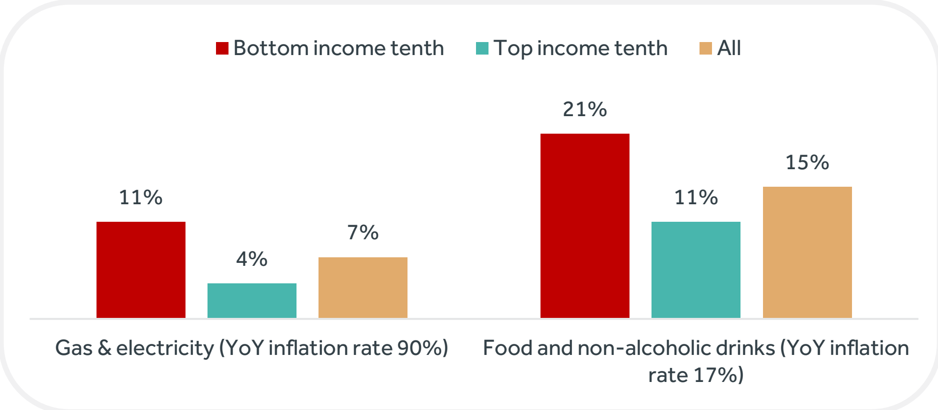
INFLATION IMPACTS SOME WORKERS MORE THAN OTHERS

While rising living costs will affect most of us to some extent, their impact has not been equally felt. As employers it can be difficult to understand the impacts on different groups of workers who may not be in a similar situation to you. This guide outlines the groups of workers most impacted by the cost of living crisis.

Lowest income groups experience a higher rate of inflation

The Institute for Fiscal Studies found that the inflation rate faced by the lowest-income tenth was on average 14%, compared with 9% among the highest-income tenth.[6] This difference was explained by the disproportionate affect of high energy and food inflation on low-income households.[7]

Figure 1. Share of spending on energy, food and non-alcoholic drinks, by household income



Source: Institute for Fiscal Studies. (2023) The cost of living crisis: a pre-Budget briefing

Disabled people are more likely to be falling behind on household bills

Many disabled people face additional living costs and, according to an Office for National Statistics (ONS) survey conducted in June to December 2022, 36% of disabled adults were struggling to afford their payments compared to 27% for non-disabled people.[8]

Renters are more likely to be squeezed by inflation

Around six in ten (60%) renters reported finding it difficult to afford their energy bills compared with 43% of those with a mortgage.[9] This may be due to factors such as poor quality, uninsulated housing, as well as renters on average being on lower incomes than home owners.

Black and minority ethnic workers are more impacted by rising energy bills

Four in ten (44%) White adults reported finding it difficult to afford their energy bills, compared with more than two thirds (69%) of Black or Black British adults and around six in ten (59%) Asian or Asian British adults. Black and ethnic minority workers on average earn less than White workers which might explain this.[10]

Parents with dependent children are more likely to experience financial vulnerability

Those with children aged from birth to four years old and aged five years and over had higher odds of experiencing some form of financial vulnerability (3.5 and 4.1 higher odds respectively), compared with non-parents or parents not living with dependent children; around half (54%) of parents living with a dependent child reported being unable to save money overthe next 12 months, compared with four in ten (42%) non-parents, or parents not living with a dependent child, according to the ONS.[11]

DEVELOP A STRATEGIC APPROACH TO FINANCIAL WELLBEING

To effectively meet the challenges of the current cost of living crisis, and develop resilience for further challenges to come, organisations should take a strategic approach to financial wellbeing. This should include looking at short and long-term goals in parallel to ultimately transform employment and working practices that will deliver secure jobs that protect financial wellbeing. Although the nature and scale of activities will vary depending on workforce size and the sector within which they are operating, all organisations stand to benefit from adopting a strategic approach to financial wellbeing.

1. Learn about how workers are managing now

Start with understanding financial wellbeing and the aspects of it that matter most to your workforce. In many organisations, individuals taking decisions on pay, contracting and rewards and benefits will be living in different circumstances to those colleagues, which means **taking time to really understand the challenges workers are experiencing is key:**

- For larger organisations, incorporating questions about debt, housing tenure and eligibility for social security benefits into anonymous staff surveys can be a valuable route to learning more about the baseline level of objective financial wellbeing within the workforce. Consider also incorporating questions to gauge subjective financial wellbeing, to build a richer picture which includes how workers feel they are doing.
- In smaller organisations, conducting a listening exercise and working to facilitate open conversations about financial wellbeing can help to raise specific pressures workers are dealing with.

Recommended resources:

- CIPD: Financial wellbeing practical guidance report (2017)
- Wagestream: The State of Financial Wellbeing Report 2022.

Case Study One

One+All is a company based in Stockport that produces schoolwear

One+All were established in 1935 and today are a fully employee-owned organisation. They have 68 employees and among them, approximately two thirds of employees earn less than £30,000 per year. They are a Living Wage employer and became B Corp certified in 2020, which means they meet verified standards of performance, accountability and transparency in several areas, including employee benefits.

Having financial wellbeing measures in place before the current crisis made them more agile in developing new policies.

Prior to the cost of living crisis, One+All had taken a number of steps to support financial wellbeing among their staff, particularly those on lower pay. The company also sought to proactively engage with staff who were facing financial issues such as gambling or credit card debt, and work out a plan with them in order to address their specific challenges. They introduced measures such as interest-free loans, referrals to financial advice and mental health support.

An all-staff survey was used as a listening exercise which became key in shaping their response to the rising cost of living.

This anonymous survey asked about specific forms of financial hardship, looking at money set aside in savings and how their households were experiencing rising costs. This allowed One+All to learn that some of their staff were using prepaid energy meters, which cost more to run than alternatives. As a way to mitigate the financial burden on employees, the organisations provided loans to staff to help them move away from these meters, and additional signposting was provided so that staff could take up the full range of welfare benefits they were entitled to. Additionally, they introduced their profit share payment for staff in October last year, which was timed in order to help staff at a point in time in which costs were starting to rise sharply.

2. Increase pay and unlock other short-term support

Recent months have seen many organisations announce above average pay increments. Where possible, this is one of the most important steps an employer can take to support financial wellbeing, enabling workers to choose how to budget to meet their personal expenses, which may not be the same as their colleagues'.

It is clear many organisations who are not able to make pay changes now still feel a need to act to support workers through the immediate challenges presented by the cost of living crisis. In order to inform your own organisation's approach, you should draw on evidence about how workers are managing to develop a rewards and benefits package that can respond to their needs. The action One+All took to support workers to move off pre-paid energy meters is a valuable example to draw on.

Consider the measures that could make the greatest impact on day-to-day costs. Support with childcare, transport or grocery discounts could play a key role. This could include offering flexibility to commute outside of peak times or work remotely, which could help to meet childcare, transport or energy bills, and may also support workers to manage health conditions or personal responsibilities more easily around their job.

3. Make the business case for action to your organisation

Introducing new financial wellbeing support measures to your organisation might require additional resources. Initially, announcing a one-off bonus might look easier to implement than developing and implementing a long-term strategy. But given the enduring nature of high inflation and the wider benefits of supporting financial wellbeing, a strategic approach is likely to be more sustainable over the long term. Draw on evidence about sickness absence, staff turnover and skills and labour shortages to frame investment in financial wellbeing within the context of wider pressures and organisational priorities.

Alongside these factors, the case for prioritising financial wellbeing should extend to the values of your organisation and the kind of supportive and inclusive culture you want to foster.

> **"You need a strong business case for your plan to get past the accountants, but really it's also about creating the right kind of empathy in the business."**
>
> WELLBEING LEAD, LARGE RETAILER

Case Study Two

The Co-operative Group is one of the world's large consumer co-operatives

The Co-op employs around 58,000 people across the UK in food, funerals, insurance, and legal services.

In June 2022, the Co-op launched an in-depth financial wellbeing survey to understand the lived experiences of their colleagues through rising living costs. The survey was completed by 5,000 employees and touched on the broader financial circumstances they face outside of the workplace. The survey results unearthed a range of financial pressures, including borrowing from friends and family, and cutting back on food or other essentials.

In response to the cost of living crisis and these financial pressures, the Co-op further increased the discount off their own branded food and household products to all colleagues, to 30%. They also provided a total one-off payment of £225 of credit to all front-line staff membership cards – three initial £50 payments from November 2022 to January 2023, with an additional £75 payment in December 2022 – whilst the majority of remaining colleagues received a one-off £75 payment. This step, instead of a direct cash payment, meant that workers receiving Universal Credit would see no disruption to their financial support. The Co-op paid any tax due on the payments ensuring the full amount made it to colleagues' pockets.

Line managers played a central role in the comms delivery around financial support and collecting feedback. Whilst some line managers were more comfortable with this role than others, some colleagues, including Store Managers, could find the additional responsibility challenging to take on alongside other duties. Alongside a full internal communications campaign, Co-op took a number of other steps to encourage engagement. Colleague Voice, for instance, provides a forum for representatives to put forward colleague initiatives and provide overall feedback. Co-op also used Hackathon focused events to invite colleagues to share feedback and ideas.

The impact of the measures will be carefully monitored. Co-op actively collect and review data on take-up, including usage of the colleague membership allowance, and have already seen a large uptake in the numbers signing up for the colleague membership. Going forward, the survey will be repeated, and this will provide an opportunity to capture feedback on existing financial wellbeing support, as well as understand evolving needs and preferences to shape additional plans in future.

4. Agree clear strategic goals together with short- and long-term action plans to meet them

An effective strategy needs to drive change in your organisation with a clear vision to develop jobs that support and protect financial wellbeing. This will enable rapid, responsive interventions to support with rising living costs to be introduced within a framework of transformative longer-term action to improve financial wellbeing through pay, security and wider packages of support.

Aligning financial wellbeing with wider organisational goals and developing specific targets alongside broader milestones on recruitment, retention and wellbeing will be key to driving lasting improvements over the long term.

For larger organisations with internal HR expertise, this could look like embedding financial wellbeing into your existing wellbeing goals, linking it to retention and recruitment plans and incorporating financial wellbeing into their overall wellbeing strategy. These changes should engage with existing approaches to support mental health and wellbeing at work, include a focus on driving a shift in culture to tackle the stigma associated with financial wellbeing, and ensure that existing wellbeing packages include clear signposts to help with money management.

In smaller organisations, directors or business owners might need to lead the way. There are many aspects of financial wellbeing that can be scalable, so start by thinking about the broader goals or ambitions you are working towards for your workforce, and consider how a focus on financial wellbeing might complement and support that.

Recommended resources:

- CIPD: Financial wellbeing practical guidance report (2017)
- Wagestream: The State of Financial Wellbeing Report 2022.

5. Cultivate and lead an inclusive culture and encourage open conversations around financial wellbeing

Work Foundation research has found that deep societal stigma about money management means many workers will feel reluctant to raise financial wellbeing concerns at work. This means it's essential that access to financial wellbeing support within organisations is not solely available to individuals who report experiencing money worries to a manager or HR, but instead involves a combination of measures available to all workers and targeted promotion of more specialist support. Access to support should not be dependent on requests made to internal gatekeepers or a line manager.

Alongside this there are a range of measures that you can take to tackle the stigma surrounding money management, including encouraging open conversations about financial wellbeing and its importance for overall wellbeing and continually proactively highlighting the support available for staff:

- Verbally committing to a financial wellbeing strategy and reminding staff about the support available to them on a regular basis could help in overcoming stigma. Make achieving positive financial wellbeing everyone's business, not just workers at risk of experiencing financial stress.

- Line management support is vital in overcoming stigma. Organisations should develop training and resources to enable line managers to support their teams. This should include support to identify the warning signs of poor financial wellbeing and guidance on how to sensitively broach topics related to financial wellbeing. As organisations consider and develop a new strategy and package of wellbeing measures, workers can face deep uncertainty. Line managers can play a valuable role in mitigating this, working to provide transparency and clarity on existing support and timeframes for introducing new measures to their teams.

- Consider testing peer-to-peer support for financial wellbeing. Some workers may well find confiding in peers easier than management. This has been effective in other areas, with the Union Learning Fund, a peer-to-peer model, providing workers with enhanced confidence to take up in-work training opportunities.[12]

Recommended resources:

- StepChange resources on financial advice
- Citizens Advice Bureau guidance on financial advice
- Mental Health First Aid (MHFA) website
- Union learn from TUC resources.

6. Consult on an ongoing basis with workers to jointly develop support that meets their needs

It is essential that an employer's approach to financial wellbeing reflects the distinct needs and preferences of different employee groups – things which may change over time. In the short term, there is a real risk that implementing cost of living support without consulting employees will limit its potential positive impact, or lead to unintended negative consequences. For instance, employees on low incomes could experience a reduction in financial support through Universal Credit following the introduction of one-off payments, limiting the effectiveness of these measures. Similarly, workers paying off their student loans may find their take-home pay is disrupted. The Co-op were able to anticipate this through consultation with staff, which shaped their decision to provide grocery discounts as a one-off support measure, rather than a direct cash payment.

But this can go beyond mitigating risks and involve co-designing new support offers directly with workers, to develop measures that meet the needs of different worker groups over the long term. Open meetings or 'hackathons' can be an effective way of making sure workers are directly involved in shaping the overall financial wellbeing strategy as well as specific support measures[13].

Consider consulting on:

- Changes to **job design and working practices** that could best support financial wellbeing. This could include exploring pay, pensions, minimum contracted hours and sick pay and parental leave.
- The **rewards and benefits package**, identifying discounts to services or retailers, or direct support that will serve to effectively drive down the costs of day-to-day essentials.
- The **range of health and wellbeing support** your organisation offers directly, such as an Employee Assistance Programme, as well as services and organisations where signposting and promotion could be particularly helpful.

ABOUT THE WORK FOUNDATION

The Work Foundation at Lancaster University is a think tank focused on improving working lives across the UK through applied research and new ideas. For over a century, we have worked to break down the barriers individuals and communities face in accessing good work.

We believe everyone should have access to secure, rewarding and high-quality work. By engaging directly with workers, employers, policymakers and leading academics, we deliver rigorous applied research to tackle structural inequalities in the labour market and improve working lives across the UK.

We are part of Lancaster University's Management School, and work with a range of partners and organisations across our research programmes.

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For further information, please contact: info@theworkfoundation.com.

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