Q&A with Financial Finesse CEO, Liz Davidson:

Year in Review 2011 Research on Trends in Employee Financial Issues

**Questions are compiled from actual questions we've received from reporters and clients.*

Question: What did your Year in Review 2011 research reveal about employees' overall financial situations last year?

Liz Davidson: Since early 2010, we've seen a continued trend in employees taking charge of their financial situations which is making personal recovery occur at a much faster rate than economic recovery. Employees are continuing to show a lot of resilience to this tough economy and focusing on what they can do about it to better their situations. In 2011, employees made significant progress—more than you would normally expect in a year—across virtually all areas of financial planning. From improving day-to-day money management to building their general financial knowledge, employees were more proactive in planning for long-term financial goals. Also, the gender gap is closing, which is a very nice thing, and we are seeing progress among the under 30 demographic, which we suspect is the beginning of a trend among younger people today who are approaching their finances more carefully and proactively than previous generations.

We're not there yet by any stretch, but the needle is moving, which is exciting to see.

Q: How significantly did employees reduce their financial stress in 2011 versus previous years?

LD: Thirty-three percent of employees reported high to overwhelming financial stress levels in 2009. In 2011, only 19% of employees reported high to overwhelming stress. This is a huge drop considering we didn't see much improvement from the economy in 2011 with a difficult job market, credit downgrade, and continued market volatility. We attribute the decline to employees' own actions to improve their financial situations which seems to be one of the biggest factors to lowering their stress levels. If employees can continue this trend, they will increasingly get out of crisis mode and into healthy stress levels where there is urgency and importance placed on financial management rather than harmful distress over it. Then we'll be in a good place.

Q: If financial stress is decreasing, is there really a need for companies to offer employees financial wellness programs? I know there's a surge in demand for these programs based on industry research I've read, but isn't it kind of ironic to see this trend in light of the fact that employees are rapidly becoming less financially stressed? Is financial stress really a problem anymore?

LD: That's a great question. On one hand, it is ironic. On the other hand, we do believe a major part of the recovery is the fact that employers, government agencies, and the financial services industry are all putting many more resources into financial education—specifically financial literacy and financial wellness programs—and all these efforts appear to be working!

Another important thing to note is that 84% of employees still report some degree of financial stress, so it's still pervasive. Things have gotten better, but better is a relative term.

Q: Retirement is still a major issue with just 17% of employees reporting they're on track. What needs to happen with retirement planning to change employees' preparedness?

LD: That's a complex and multi-faceted question. Personally, I feel that there needs to be a shift in society overall when it comes to retirement planning. Generally speaking, long-term planning isn't institutionalized in our country as something you need to do when you become an independent adult, much like establishing a career. Although it is moving in this direction, it hasn't been fully cemented into people's identity the way other things have, like being green or living a healthy lifestyle. I believe it can and will get there, but we still have a long way to go.

So, what can we do?

In a nutshell, we need to institutionalize retirement planning and make it a priority. The best way to do that, in my opinion, is for us to attack the problem as a society from all angles. Children should get hands-on, real-life financial management skills in school so they start their lives off with a strong financial foundation. Employees should have financial education as an employee benefit and be incentivized to use it regularly so they can effectively fund and manage their retirement plans and other benefits. The financial services industry should be held accountable for offering consumers access to fully transparent, unbiased financial information. Lastly, the government should fund financial literacy programs as a way to bridge the gap created by potential cuts in Social Security or tax increases that will put pressure on consumers' finances.

Q: You mention employees have no choice but to start planning for retirement earlier. What is your research showing about younger generations' attitudes towards money?

LD: Great question. What we found was very encouraging—younger generations seem to be getting this message. Employees under 30 made vast improvements to their finances in 2011, with significant increases in the percentage of employees in this group who regularly pay off credit card balances (from 55% in 2010 to 67% in 2011), who have an emergency fund in place (from 42% in 2010 to 54% in 2011) and who contribute to their retirement plan at work (from 71% in 2010 to 88% in 2011).

We think this, and employees' improvements overall, has something to do with the fact that there has been a shift in society. Since the recession, there's been this shift toward being socially conscious about how you manage your finances. It's becoming "cool" again to find a bargain to the point Extreme Couponing has become a Reality TV show with millions of fans and followers! There's a whole industry now built on discounting through group purchases. How we manage our finances is not looked at the same way it was even 10 years ago—it's really becoming a part of our identity as people and this shift seems to be playing a role in how employees manage and plan their finances. Still, it's a major shift in society that won't happen quickly. Just like smoking, which took decades for society to realize its harmful effects, shifting people's minds about money is going to be a long and drawn out process.

Q: Are employees' improvements a good sign for employers? What are employers doing to change employees' low retirement preparedness levels?

LD: Absolutely. And, to some extent, they are a testament to employers' hard work in helping employees make these improvements with financial education programs. Still, the fact that so many employees are not prepared for retirement and, further, don't seem to know what to do about it, is a huge issue. In our 2011 Retirement Preparedness report, we found that only 33% of employees had used a retirement calculator to estimate how much income they were on target to replace in retirement. This was shocking and shows that employees need more guidance around how to plan for retirement, especially in an economy that has no certainty of sustaining a recovery and provides little hope for employees in the near future.

Forward-thinking companies are really broadening their views on employees' retirement preparedness. They realize how an employee manages their cash flow, how much debt they have, whether they have an emergency fund in place, and so on, has a direct impact on how much the employee is able to save for retirement. As such, these companies are really focusing on behavioral change, implementing financial education programs that effectively change employees' financial behaviors so they can take control of their financial situations.

Q: Do you see employees continuing this trend of resilience and financial improvements they made last year?

LD: Well, this is something I'd say even economists cannot really predict. There are so many scenarios and factors that could change employees' current resilience and, in fact, our Think Tank is split on this issue. We do all agree that long term, the trend is positive for two reasons: 1. A certain percentage of employees was truly shaken up by the financial crisis and will never look at money the same way again. They were traumatized and trauma resides in our long-term psyches. 2. Out of necessity, people are going to HAVE to change. With continued government spending, and expected increases in inflation, taxes, life spans, and health care costs, we will simply have no choice. We must rely on ourselves more, so we will. It is human nature to respond to necessity, and I think Americans as a whole are particularly resourceful at responding to crises.

As we continue to see employees' financial management improving, I think we'll have a clearer idea. The most important thing right now is that employees, and society overall, are heading in the right direction. We're in the process of gaining awareness and traction at the same time. We're moving toward a society where financial planning is an institutionalized process available to all people, and that's something to be proud of.