

Q&A with Financial Finesse CEO, Liz Davidson: Employees Demonstrate Resilience through the Storm

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



Question: What were the most significant trends that came out of your Q3 2011 report?

Liz Davidson: I think the biggest trend is employee resilience. Employees are, on balance, handling a tough situation with a lot of grace—making the best of a bad situation, in many cases, finding meaning in the crisis so that they become better savers, investors, and planners going forward. They are accepting what they can't control, and focusing on improving the aspects of their finances where they have control—saving more, planning better and investing for the long term. I've said this before, and it's continuing to hold true. I'm proud of American consumers and how well they've weathered both the recession and the current economic woes which are making retirement and long term wealth accumulation increasingly difficult.

There's that old saying "When the going gets tough, the tough get going." Consumers are "getting going" and it's inspiring to see. It's what keeps me in the financial education business.

Q: How are employees demonstrating their resilience?

LD: Great question. The resilience is showing up in virtually all areas of financial planning. Employees are managing their day to day expenses better — with improvements across the board in handling cash flow, building an emergency fund, paying bills on time, and regularly paying off credit card balances in full based on answers to our personal financial wellness assessment. Gains in the areas of building an emergency fund and paying off credit cards are important since they are two areas that cause employees the most stress and keep them from moving forward financially.

Long term questions, which show employees becoming more proactive and committed to improving their finances rather than simply "band-aiding" financial problems, are up significantly in Q3 to 66% vs. 59% in Q2 2011 and 56% in Q1 2011.

They are also educating themselves—which is another sign of resilience—making sure they have the information they need to make better decisions and improve their situations. The percentage of employees who report being educated on stocks, bonds and mutual funds soared from 50% in 2010 to 76% in 2011 year to date. That's a huge jump, and we believe it is reflective of both employees and employers putting more emphasis on retirement education and planning. We're dealing with a more sophisticated employee base now as employees are recognizing that they need to be informed in today's economy in order to make the right decisions for their futures.

The last, and possibly most impressive, sign of resilience is how well employees are handling market volatility. It is human nature to panic in a crisis and make rash decisions, but that's not what we're seeing with the employees we work with. For the most part, they are staying the course and approaching investing strategically based on their goals and risk tolerance, rather than reacting to market swings. Investing questions were only up 2%—from 12% in Q2 to 14% in Q3—despite the fact that the S&P 500 dropped 14.3% in the third quarter.

Q: Is this resilience paying off? Didn't you just release a report stating employees were massively unprepared for retirement? How can this be if they are making impressive improvements in their finances?

LD: That's a great question and one I get asked a lot.

The answer is complicated.

When it comes to financial stress, employees' resilience and their improvements in day to day money management are paying off big time. Just over the last year, financial stress levels have dropped steadily since 2010, with just under 21%

reporting they had high or overwhelming financial stress, which was decline from over 32% in 2010. On top of it, there was a significant increase in employees who are experiencing no financial stress, rising to just under 16% in Q3 2011 from only about 3% in 2010.

When it comes to retirement planning, the problem is that employees are swimming against the tide—meaning, that while they are focusing more on retirement planning and saving more towards retirement, they are not saving enough to counteract the pressures of a volatile market, troubled economy, and expected increases in tax and inflation rates. They need to make even more significant changes—over a sustained period of time—to be able to overcome these obstacles and they simply aren't there yet.

As we stated in the [retirement preparedness report](#), retirement itself has changed. Employees need to do more to adapt to that change. They've started, but need to accelerate their progress. I firmly believe they can with the right education, the right guidance, and the right plans. The question is, will they?

Q: Why do you suspect employees are feeling less financial stress, when they're still so far behind where they need to be with their savings?

LD: It is an interesting dynamic—with more awareness of being off the mark, usually comes more stress. But in this case, employees have stepped up, having gone through the worst already with the 2008 recession. It's kind of like a breakup after a divorce. It's still disappointing and painful, but not nearly to the magnitude of the divorce. Employees realize they are behind, but they've also been forced to equip themselves with the tools and knowledge necessary to be able to manage.

They are handling their money better on the day to day basis, which has a huge impact on how much stress someone feels. We're very immediate creatures—however we're impacted right now will have the biggest impact on how we feel. We also have to take into account that employees who are asking us questions and using our Financial Learning Center do have access through their employer to unbiased financial education, which may impact their stress levels. Still, the decline in

stress in Q3 shows employees are adapting and accepting the “new normal”.

Q: How do you anticipate employees will respond if the economy either rebounds, or takes another dip?

LD: There's so much skepticism out there about our economic future, especially with current global financial crises occurring. If the economy takes another dip, we believe employees will be better equipped to handle it, but they will still struggle as many don't have emergency savings nor can they rely on equity in their homes. If it rebounds, it can really go one of two ways: either employees relapse into old behaviors and begin spending more than they earn, using credit heavily and living outside their means again like we saw before the recession, or they will hold to the lessons they learned coming out of the first recession. This is really the core of why educating employees is so important and valuable—if they develop the skills and knowledge needed to manage their finances well in any economy, they will have a much better chance of meeting financial goals which impacts us all in the grand scheme of things.

To download a copy of the Q3 2011 Report, go to:

<http://goff.im/Q3-2011-Report>

About Financial Finesse

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