Helping Employees Build Financial Resilience

by **Greg Ward** | *Financial Finesse*

Many Americans are ill-prepared for retirement. According to the 2021 *Retirement Confidence Survey,* most American workers are at least somewhat confident they will have enough money to live comfortably through retirement,[1] but only 30% of employees who completed a financial wellness assessment in 2020 indicated that they had run a retirement projection and knew they were on track to reach their income replacement goals.[2] Of those not on track, most have failed to complete the most basic step of running a retirement plan projection (Figure 1).

Lack of retirement preparedness is disproportionate across racial groups (Figure 1). According to data from the Federal Reserve, 35% of Black families and 26% of Hispanic families have retirement savings, compared with 57% of white families. The median balance for households with retirement accounts is $35,000 for Black families, $31,000 for Hispanic families and $80,000 for white families.[3] The lack of retirement savings means more dependence on Social Security for retirement income. According to the U.S. Social Security Administration, about 38% of minority beneficiaries rely on Social Security for 90% or more of their income, compared with 28% of white beneficiaries.[4]

There may be several factors contributing to this racial wealth gap in retirement savings, including disparities in income,[5] education[6] and financial wellness.[7] Black and Hispanic employees who completed a financial wellness assessment in 2020 cited getting out of debt and managing cash flow most often as their top financial priorities, whereas white and Asian employees cited planning for retirement most often as their top financial priority.[8] Because of these challenges, Black and Hispanic workers were more likely to say debt was having a negative impact on their ability to save for retirement.[9]

The general lack of retirement preparedness has generational implications as well. In a 2017 special report, Financial Finesse identified a "cycle of low financial wellness" that has been perpetuated in part due to a lack of accumulation in re-

AT A GLANCE

- According to the 2021 *Retirement Confidence Survey,* most U.S. workers are at least somewhat confident they will have enough money to live comfortably through retirement, but only 30% of employees who completed a financial wellness assessment in 2020 indicated that they had run a retirement projection and knew they were on track to reach their income replacement goals.
- To improve retirement preparedness and address racial disparities in financial wellness within their workforce, employers should focus on helping employees build financial resilience, especially among the most financially vulnerable within their workforce.
- Case studies illustrate that a best practices approach that incorporates online, group and individual financial coaching into one cohesive financial wellness program has yielded the best results for helping employees accumulate and maintain an adequate level of liquid savings and develop financial habits and behaviors that improve cash flow and debt management.

tirement savings.[10] The report suggests that increased access to a financial wellness benefit may improve financial health and ultimately break this cycle.

Clearly, there is a relationship between financial health and retirement preparedness. This article will examine that relationship and show how employers can improve retirement preparedness by improving the financial health and resiliency of their workforce.

What Is Financial Resilience?

Financial resilience can be defined as a person's ability to bounce back from a financial setback. To understand the nature of financial resilience and to see its net effect, Financial Finesse studied the financial behavior of employees who completed a financial wellness assessment before and during 2020. Recognizing that financial resilience includes having a handle on cash flow, emergency savings and manageable debt, it was determined that the presence or absence of an emergency fund served as a good proxy for an individual's overall level of financial resilience. For this reason, employees were separated into the following four categories.

1. *Resilient:* Employees who held an emergency fund prior to and during 2020
2. *Susceptible:* Employees who held an emergency fund prior to 2020 but did not maintain their emergency fund in 2020
3. *Determined:* Employees who did not hold an emergency fund prior to 2020 but acquired an emergency fund in 2020
4. *Vulnerable:* Employees who did not hold an emergency fund prior to or during 2020

As expected, most employees (94%) who held an emergency fund prior to 2020 maintained it but, surprisingly, one

FIGURE 1

Are You on Track to Retire Comfortably?

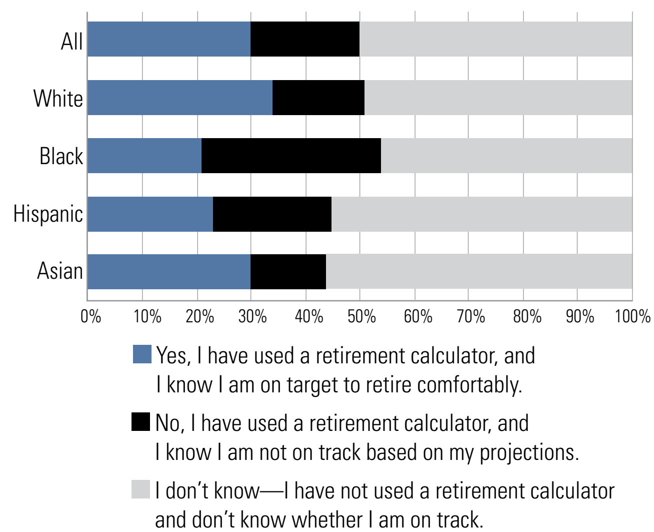


TABLE I

Percentage of Employees in Each of the Four Financial Resilience Categories Who Answered the Statement in the Affirmative

	Pre-2020	2020	Pre-2020	2020	Pre-2020	2020	Pre-2020	2020
	Resilient		Susceptible		Determined		Vulnerable	
I have an emergency fund	100%	100%	100%	0%	0%	100%	0%	0%
I have a handle on my cash flow	93%	96%	81%	72%	69%	91%	52%	62%
I am comfortable with the amount of non-mortgage debt I have	88%	91%	64%	48%	50%	72%	32%	40%
I am on target to retire comfortably	53%	60%	48%	42%	29%	40%	26%	28%
I have taken a retirement plan loan within the last 12 months	6%	7%	20%	27%	23%	17%	31%	34%

in four (26%) employees who did not have an emergency fund prior to 2020 acquired one (Figure 2). The secret to their success appears to be improvement in cash flow and debt management since 91% indicated having a handle on cash flow and 72% indicated being comfortable with debt, up from 69% and 50%, respectively (Table I).

Financial resiliency also appears to be directly related to retirement preparedness. *Financially determined* employees (i.e., those who acquired an emergency fund in 2020) recorded a 36% increase in the likelihood of being on track for retirement, compared with a 13% decline in the likelihood of being on track for retirement among the *financially susceptible* (i.e., those who lost an emergency fund in 2020). A similar contrast was recorded with respect to retirement plan loan activity (Table I).

FIGURE 2

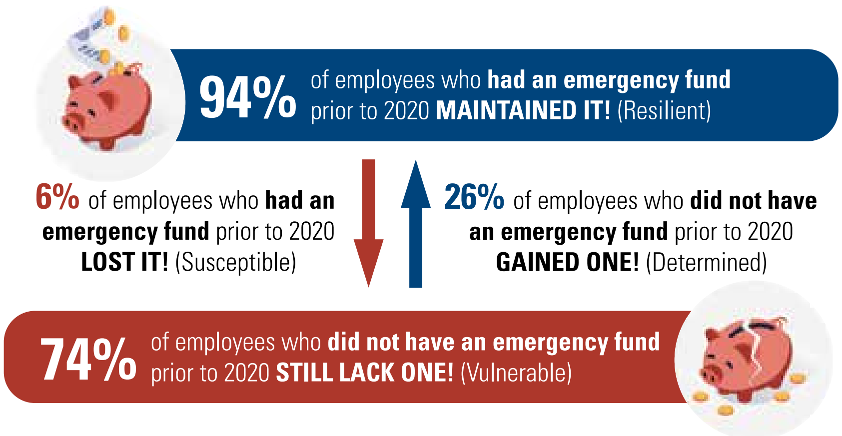
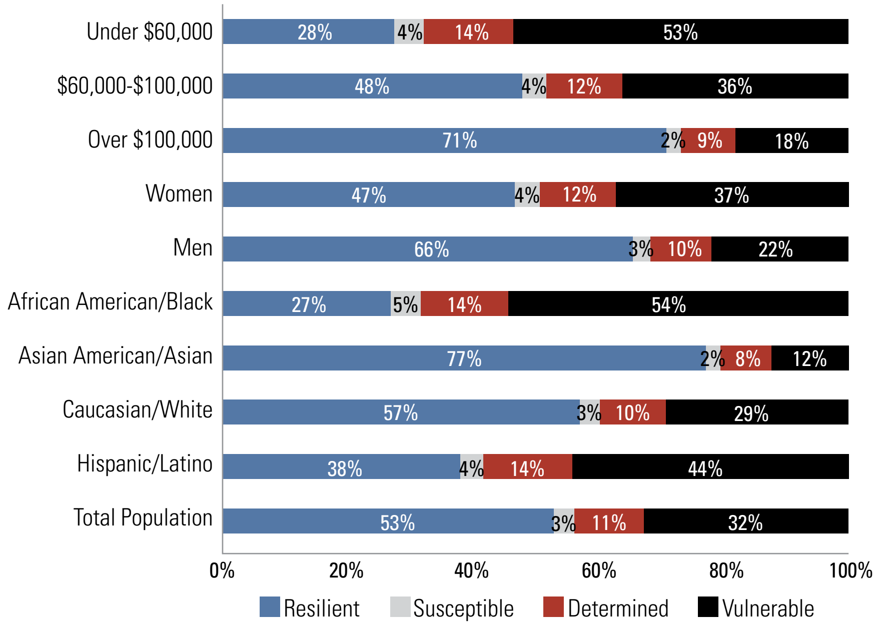


FIGURE 3



Note: Some percentages may not add up to 100% because of rounding.

The Current State of Financial Resilience in America

According to the *2020 Financial Wellness Year in Review,* slightly more than half of employees who completed a financial wellness assessment were financially resilient.[11] However, distribution of employees across all four categories by income, gender and ethnicity shows that employees with low household income (i.e., under $60,000), women, and Black and Hispanic employees were the most likely to be financially vulnerable. On the plus side, they were also most likely to be financially determined within their respective cohorts (Figure 3).

Unfortunately, these numbers don't tell the full story. Research conducted by the Employee Benefit Research Institute (EBRI) on the sufficiency of emergency savings found that while half (50%) of workers said they had a rainy-day fund that could cover three months of expenses, only about one in five (20.1%) families with working heads had more than three months of income in liquid savings.[12] This leaves four out of five working households at risk of having to tap other resources (e.g., retirement savings, credit cards) in the event of a large financial shock. The research noted even more significant gaps in liquid savings among low-income households.

If there is a bright spot, it's that low- to moderate-income (LMI) households may not need three months of liquid savings to significantly reduce the likelihood of financial hardship. Research conducted by the AARP Public Policy Institute found that liquid savings of at least $2,452 could meaningfully buffer LMI households against financial hardship. (For single mothers and households without health insurance, this threshold increases by about $1,000.) Households that achieved this level of savings were significantly less likely to experience financial hardship up to three years later.[13]

How a Financial Wellness Program Can Help

To accumulate and maintain an adequate level of liquid savings, employees need to develop financial habits and behaviors that improve cash flow and debt management. Using a best practices approach that incorporates online, group and individual financial coaching in one cohesive financial wellness program has yielded the best results in achieving these desired outcomes.[14]

Case Study 1—Improving Benefit Participation Through Financial Wellness

In 2020, a case study was conducted for a Fortune 500 health care company that offers a financial wellness program according to the best practice model. The study looked at changes in financial behavior and benefit participation over a five-year period. In addition to improvements in cash flow and debt management, average retirement plan contribution rates rose nearly 50% while average contributions to health savings accounts increased more than 40% (Table II).

In addition to the improvements noted above, employees who reengaged multiple times saw progressive improvement in average retirement plan contribution rates.

TABLE II

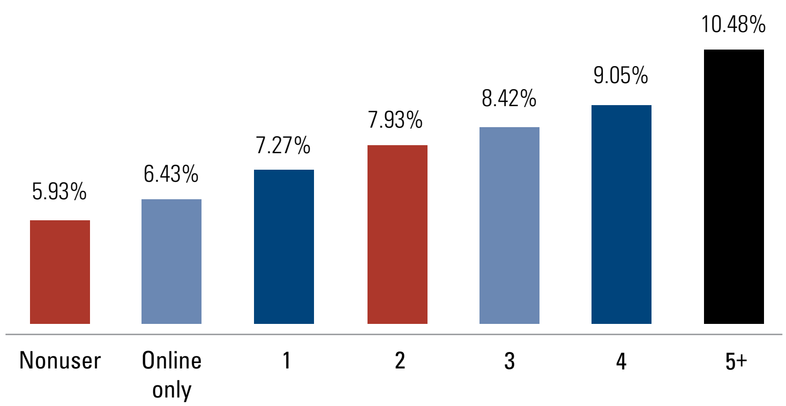
Results of Five-Year Case Study

	Year 1	Year 5
Average Overall Financial Wellness Score*	5.0	6.4
I have a handle on my cash flow	67%	80%
I have an emergency fund to cover unexpected expenses	51%	60%
I pay my bills on time each month	86%	93%
I'm comfortable with the amount of debt I have	58%	67%
I regularly pay off my credit card balances in full	52%	61%
I feel confident my investments are allocated properly	43%	69%
I am on track to reach my income goal in retirement	21%	57%
Average Retirement Plan Contribution Rate	6.3%	9.4%
Average HSA Contribution Amount	$934	$1,319

*Financial wellness scores range from 0-10 with 10 indicating optimal financial wellness.

FIGURE 4

Number of Financial Wellness Interactions Through 2019



Engaging the Most Vulnerable

As noted earlier, low-income, female and minority employees are more likely to be financially vulnerable and less likely to be financially resilient relative to their respective cohorts. The good news is that female employees are engaging with their financial wellness program at a much higher percentage than their representation within the general population. Unfortunately, the opposite is true for low-income and Hispanic employees (Table III). Because engagement in a financial wellness program is successful in improving financial health, employers will want to develop engagement strategies that target these vulnerable populations.

TABLE III

Engagement Rates Relative to the General Population by Demographic

		Ratio of General Population	Ratio of Engaged Employees
Household Income	Under $60,000	44%	26%
	$60,000 - $100,000	21%	26%
	Over $100,000	35%	48%
Gender	Women	51%	64%
	Men	49%	36%
Ethnicity	Black	12%	13%
	Asian	5%	10%
	White	64%	64%
	Latino	16%	10%
	Other	3%	2%

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Case Study 2—Closing the Racial and Gender Financial Wellness Gap

In 2020, a national insurance company launched an initiative to help reduce the financial wellness gap—and ultimately the wealth gap—for women and minority employees. To garner the level of engagement necessary to reach its goal, the company launched a marketing and communications campaign that aligned with its overarching social justice pillar. The company developed custom webcasts specifically targeting key audiences, recruited program champions to raise awareness and used incentives to promote employee action.

As a result of the initiative, more than half (52%) of employees who engaged with a financial coach were Black, and 86% of employees who engaged in a webcast or with a financial coach were women. After one year, employees who completed a financial wellness assessment before and after the program exhibited remarkable improvements in financial behavior and confidence, especially those who worked with a financial coach (Table IV). In fact, 100% of employees who worked with a financial coach reported feeling "more confident about their financial future," and 98% of employees who attended a webcast reported feeling "better prepared to make a financial decision."

Case Study 3—Building Financial Resilience

In 2020, a large, privately held insurance company launched an initiative to build awareness of its financial wellness program and to provide financial education aimed at improving financial resiliency and reducing financial stress. The company developed a series of webcasts based on key financial vulnerabilities around emergency savings and debt. Participants were offered prescheduled one-on-one sessions with a financial coach along with incentives for completing an online financial wellness assessment.

At the conclusion of the series, the number of assessments completed rose 20%, the number of calls made to a financial coach increased 17% and average webcast attendance improved by 19%. Those who completed a financial wellness assessment before and after participating in the program reported notable improvements in financial resiliency and confidence (Table V).

From Financially Resilient to Retirement Ready

Throughout this article, the case has been made for why addressing financial resilience is a first step toward improving retirement preparedness. Employers should see this as an opportunity not only to enhance employee retirement readiness but also to address racial disparities in financial wellness within their workforce. By increasing engagement and participation among financially vulnerable populations, employers give financially stressed employees the opportunity to develop positive habits and behaviors that increase financial resilience and reduce financial stress.

Following is a list of successful approaches used by employers to gain traction with their financially vulnerable population:

1. **Make social and economic justice part of the corporate mission.** Prepare a strategic goal to end systemic racism, promote social and economic justice, and garner support from employees and business leaders within the community.
2. **Offer workshops and webcasts, coupled with one-on-one financial coaching, to address financial vulnerabilities.** Employers offering these services have seen above-average utilization and accelerated improvement in financial health by financially vulnerable employees.
3. **Work with local wellness champions to identify underused benefits and unreached groups.** Local benefit managers will be more familiar with employee needs and obstacles and can help build a strategy for reaching targeted populations.
4. **Provide benefit information in multiple languages.** This has worked well for employers with Asian and Hispanic employees in highly industrial environments.
5. **Hold business leaders within the organization accountable for meeting corporate goals.** Executive support for financial wellness programs and initiatives is a key driver of success.
6. **Create friendly competition between locations within the same business unit.** Gamification is a powerful motivator for individuals and groups.
7. **Coordinate financial wellness initiatives with subsidized benefit programs for low-wage workers.** This has proved to lower financial stress, increase

TABLE IV

Percentage of Financial Wellness Participants Who Answered Each Statement in the Affirmative

	Before	After
I have “high” or “overwhelming” levels of financial stress	26%	23%
I have a handle on my cash flow	57%	69%
I have an emergency fund	35%	49%
I am comfortable with the amount of non-mortgage debt I have	44%	56%
I regularly pay off my credit card balances in full	37%	53%
Overall Financial Wellness Score (All users)	5.1	5.8
Overall Financial Wellness Score (Financial coaching)	4.9	6.0

*Financial wellness scores range from 0-10 with 10 indicating optimal financial wellness.

TABLE V

Percentage of Financial Wellness Participants Who Answered Each Statement in the Affirmative

	Before	After
I have an emergency fund to cover unexpected expenses	54%	64%
I have a plan to pay off my debt	57%	71%
I am comfortable with the amount of non-mortgage debt I have	57%	65%
I have “high” or “overwhelming” levels of financial stress	22%	15%

benefit participation and appreciation, and promote productivity.

8. **Mandate time during the workday to participate in financial wellness benefits for low-wage business units (e.g., call center, manufacturing plant).** This can drive engagement, especially for employees who are unwilling to take time outside of work to address their financial health.

Each of these by itself can help engage an unreached part of the workforce, but optimal engagement is achieved when used collectively as part of an overarching corporate objective to promote diversity and inclusion within the workplace.

The evidence presented in this article supports the efficacy of a well-developed financial wellness program. It starts by engaging participants, especially those with low levels of financial health. Through ongoing engagement, participants build financial resilience. As participants become more financially resilient, they increase participation in retirement benefits, thus improving their likelihood of being on track for a comfortable retirement. If done right, participants can break the cycle of low financial wellness and begin a new cycle of financial prosperity for generations to come. BQ

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Greg Ward, CFP®, is the director of the Financial Wellness Think Tank™ at Financial Finesse, where he guides the Think Tank team's research on workplace financial wellness best practices and employee financial trends. He is the vice chair of the Employee Benefit Research Institute (EBRI) Financial Wellbeing Research Center and a frequent resource in the media on workplace financial wellness and employee financial challenges, including *USA Today,* the Huffington Post and BenefitsPro. Ward has developed comprehensive industry standards for designing, delivering and measuring the return on investment of workplace financial wellness programs delivered as an employer-paid benefit. For more information about Ward, visit www.financialfinesse.com/financial-coaching/greg-ward.

Endnotes

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