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# HR NEWS

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**Fostering Financial  
Wellness for Employees**



# Is Saving for Emergencies the Key to Unlocking Financial Wellness?

By Devin Miller

**C**OVID-19 seriously complicated Americans' finances. Millions of U.S. workers lost their jobs during the pandemic, and millions more were furloughed. As a result, many were forced to rely on whatever savings they had to make ends meet.

Research commissioned by CNBC revealed that as of September 2020, 14 percent of Americans, or some 46 million people, had spent down their entire emergency savings fund. Another 11 percent had to borrow money to keep up with living expenses. Combine these findings with those from a 2018 Federal Reserve survey showing approximately 60 percent of respondents would not be able to cover an unexpected \$1,000 expense, and a picture of what must be included in the meaning of financial wellness comes into focus.

Employers have understood for years how financial stress impairs an employee's focus and lowers productivity. Financial firm John Hancock has studied this since 2014, reporting in 2020 that almost half of employees said they would be more productive at work if they were less stressed about finances. Another half of employees said they spent time managing personal finances while on the clock.

A separate 2020 Morgan Stanley study revealed that 78 percent of employees who were dealing with financial stress spent three or more hours each week dealing with financial issues while at work. This level of distraction can cost an employer up to 10 times more than absenteeism does.

The lack of cash savings sits at the core of financial stress for a large number of workers. But, while employers have acknowledged the importance of providing financial wellness benefits, it remains unclear whether enough employers recognize that they need to help their employees save for more than retirement.

Ideas about what to include in a package of financial wellness benefits must continue to evolve. One thing that should have become obvious over the last 15 months is the need workers have for oppor-

tunities to build cash reserves to weather emergencies. Fully funding emergency savings accounts (ESAs) keeps employees on the path of financial wellness because doing so gives them the ability to maintain their footing following a financial setback or to meet basic expenses during a temporarily lapse in pay without borrowing money.

Several private and public employers, as well as some states, have begun exploring ways to offer workers the opportunity to automatically deposit a portion of each paycheck into an employer-sponsored ESA. Once created, ESAs would exist separately from voluntary retirement accounts such as 401(k)s, and they would permit easier, penalty-free withdrawals.

## ESAs Prove Popular as a Concept

AARP found in 2018 that 71 percent of employees would participate in an emergency savings program if their employer offered one. The two most-highly ranked reasons were wanting to save more money in general and wanting to reduce stress. When a proposed ESA came with an employer match, interest in participating increased to 87 percent.

Offering an employer match for ESA contributions would give the employer a stake in educating their employees about financial wellness in addition to providing them the tools they need to start saving. Employers could also explore offering incentives for participating.

## ESA Basics

An ESA operates like an ordinary other savings account. Any employer can participate in an ESA plan, which is not the case for health savings accounts. Deposits and balances are FDIC-insured, and employees can access the funds in their ESAs at any time for



any reason. If an employee leaves their current employer, the funds in the ESA remain fully available to the employee.

As with 401(k)s, employees can set up automatic deposits into ESAs from each paycheck. This set-it-and-forget-it option removes the burden of remembering to save money each month, ensuring the balance grows over time. Employees can also stop and resume ESA contributions at any time.

Unlike 401(k) deposits, however, ESA contributions are made after taxes are taken out of the employee's paycheck. A more-welcome difference is that withdrawals from ESAs can be made without incurring penalties. Withdrawals are also kept confidential, meaning employers cannot track individual employees' spending.

As noted above, employers may choose to match employees' contributions up to a certain percentage in order to incentive participation in an ESA plan. ESA providers can also offer personalized encouragement for employees by facilitating goal-setting and rewarding employees who reach savings goals. Links to resources that help employees cope with financial crises can be provided via an ESA plan app.

## Must-Haves for ESA Plans

A full-feature employer-sponsored ESA plan that delivers maximum benefits for employees should do all of the following:

- **Be Easy to Use:** Enrolling should require minimal paperwork. Instructions for establishing, modifying and suspending automatic contributions should be simple to find and follow.
- **Require Minimal Administration.** Human resources and benefits teams are already busy. Any new benefit that supports saving for emergencies must be easy to deploy and maintain. In particular, the platform must offer self-service for employees so few administration duties fall on the employer.
- **Require Little Cost:** First, participating in the ESA plan must constitute a manageable expense for employees. Second, the employer's total cost for matching employees' contributions must be bearable. It helps to cap (i.e., end) the employer match when an employee meets their ESA saving goal.
- **Accommodate High Participation.** Enrollment and onboarding experiences must be scalable. The Consumer Financial Protection Bureau has outlined a way in which employers could automatically enroll employees in an ESA plan, which AARP research has shown employees would support.
- **Make a Positive Impact.** Since the Great Recession of 2008, surveys have consistently shown that not having enough money saved for emergencies is the top financial concern for millennials and Gen Xers. It is the number two financial concern for baby boomers. Offering an ESA plan with a low cost for participants

has high potential impact for an employer because it has a high potential impact for lowering employees' stress.

- **Provide Data to Inform Choices About Other Voluntary Benefits.** Researchers at Princeton University found that asking people to imagine having to cover an emergency expense lowered IQ test scores by as much as 40 points. Building a balance in an ESA frees up employees to plan for other life events. Anonymized and aggregated data on plan participants' transactions can also help employers understand how employees struggle outside of work. That understanding can guide the development of new benefits programs to support employees through crises.
- **Make Money Available During Unplanned Life Events.** Employees are more likely to enroll in an ESA plan after they have experienced a financial crisis involving a medical emergency, unexpected travel, theft, an unbudgeted car repair or the breakdown of a major appliance. Past financial stresses revealed the need for emergency savings.
- **Offer a Variety of Matching Strategies.** There is no need to overcomplicate this, but employees should have choices regarding how much they contribute to their ESA from each paycheck. For the employer, the same percentage match can be made whether employees make small or large contributions.
- **Support Longer-Term Saving for Retirement.** An ESA is not meant to take the place of a 401(k) or other retirement savings plan. Rather, once an employee has fully funded their ESA and can see firsthand the benefits of saving, they will be empowered to increase their contributions to their retirement account.

Being financially stressed to the point of becoming physically ill and unable to think clearly is no way to live, let alone work. But this is the current everyday reality for too many Americans. It is also a reality the COVID-19 pandemic made worse.

Moving forward, providing employees tools that facilitate saving will become increasingly popular. Offering a low-cost, low-hassle ESA plan has the potential to drastically improve employees' lives and the lives of their family members. Enabling those improvements will reflect well on the employer. In addition, happier, more engaged employees perform better on the job, which adds to the organization's bottom line. For these reasons, now is looking like the time to make employer-sponsored ESAs as common for employees as retirement plans and health insurance.

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