EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

Emergency Savings: Employer Perspectives and Solutions

April 2020

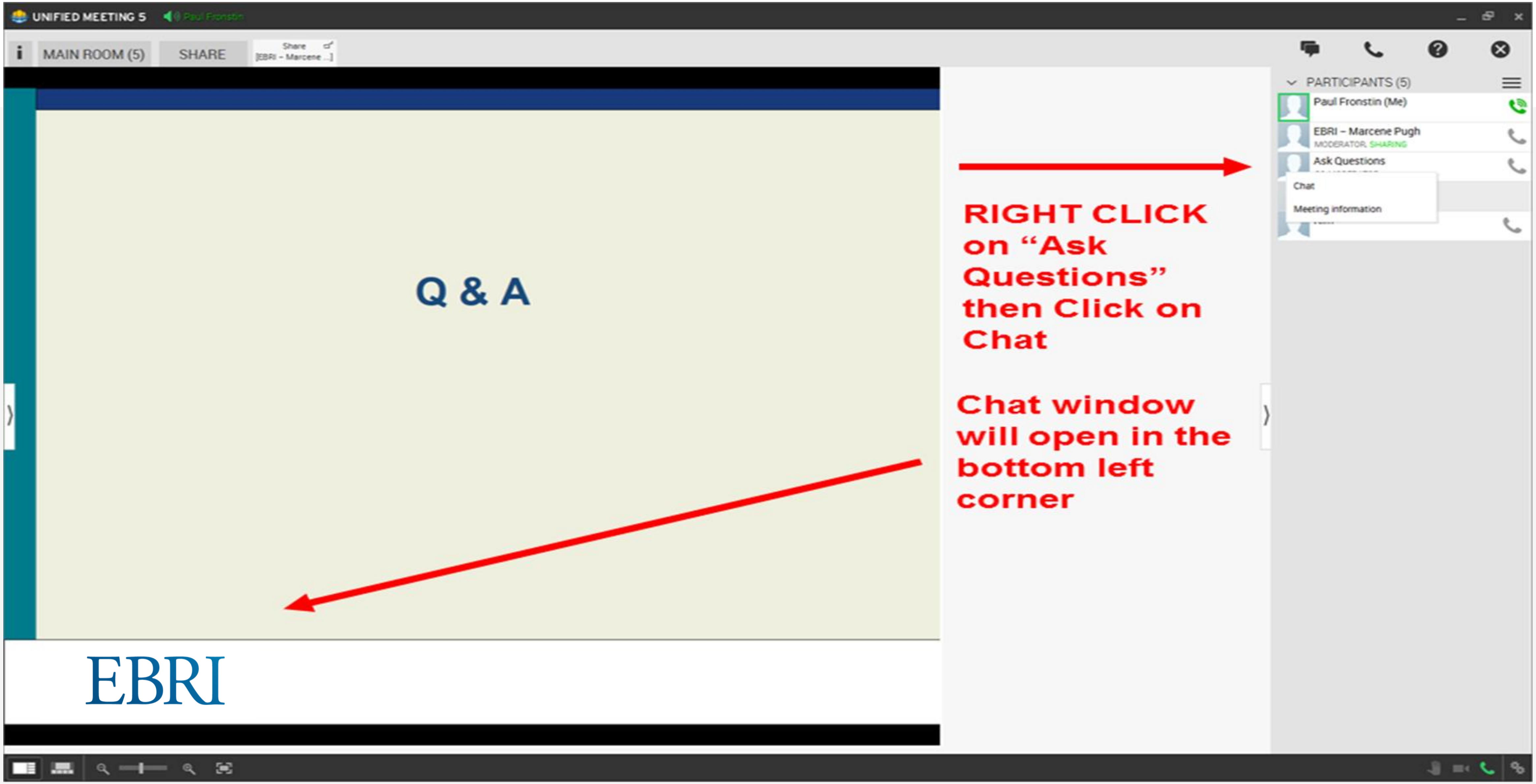
SPEAKERS

Lori Lucas, President & CEO of EBRI

Suzanne Schmitt, Vice President of Financial Wellness at Prudential Financial

David John, Senior Strategic Policy Advisor at the AARP Public Policy Institute

Moderated by: Greg Ward, Senior Resident Financial Planner at Financial Finesse



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Emergency Savings: Employer Perspectives and Solutions

Lori Lucas, CFA, President & CEO

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HOW WELL EQUIPPED ARE AMERICAN WORKERS IN A TIME OF CRISIS?

- Data from the Federal Reserve show that among families with working family heads, only 20.1 percent had liquid savings of more than three months of their family income in 2016.
- In other words, most workers are likely struggling as they face the current state of emergency.

METHODOLOGY

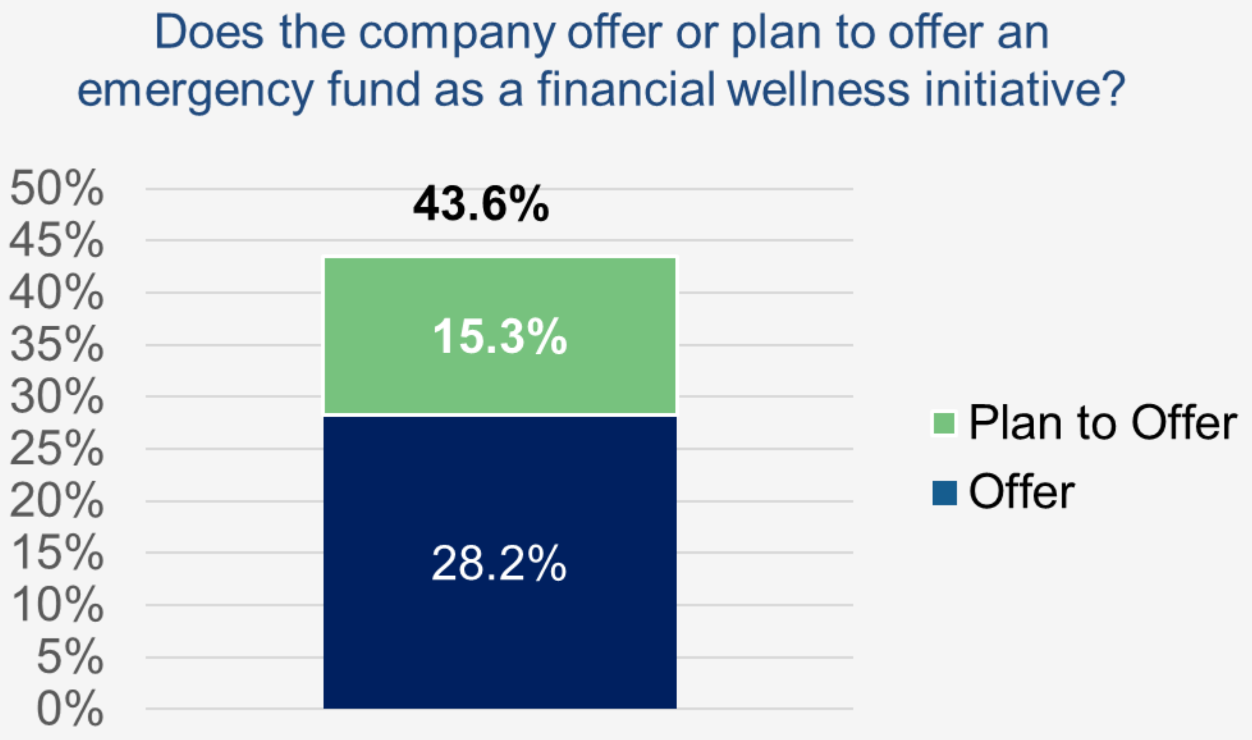
2019 Employer Financial Wellbeing Survey

Information for this report was collected from a 15-minute online survey with 248 full-time benefits decision-makers conducted in June 2019. All respondents worked full time at companies with at least 500 employees that were at least interested in offering financial wellness programs. An additional 27 respondents who worked at companies with 250 to 499 employees were also collected but are not included in this report.

Respondents were required to have at least moderate influence on their company's employee benefits program and selection of financial wellness offerings. Additionally, respondents were required to hold an executive, officer, or manager position in the areas of human resources, compensation, or finance.

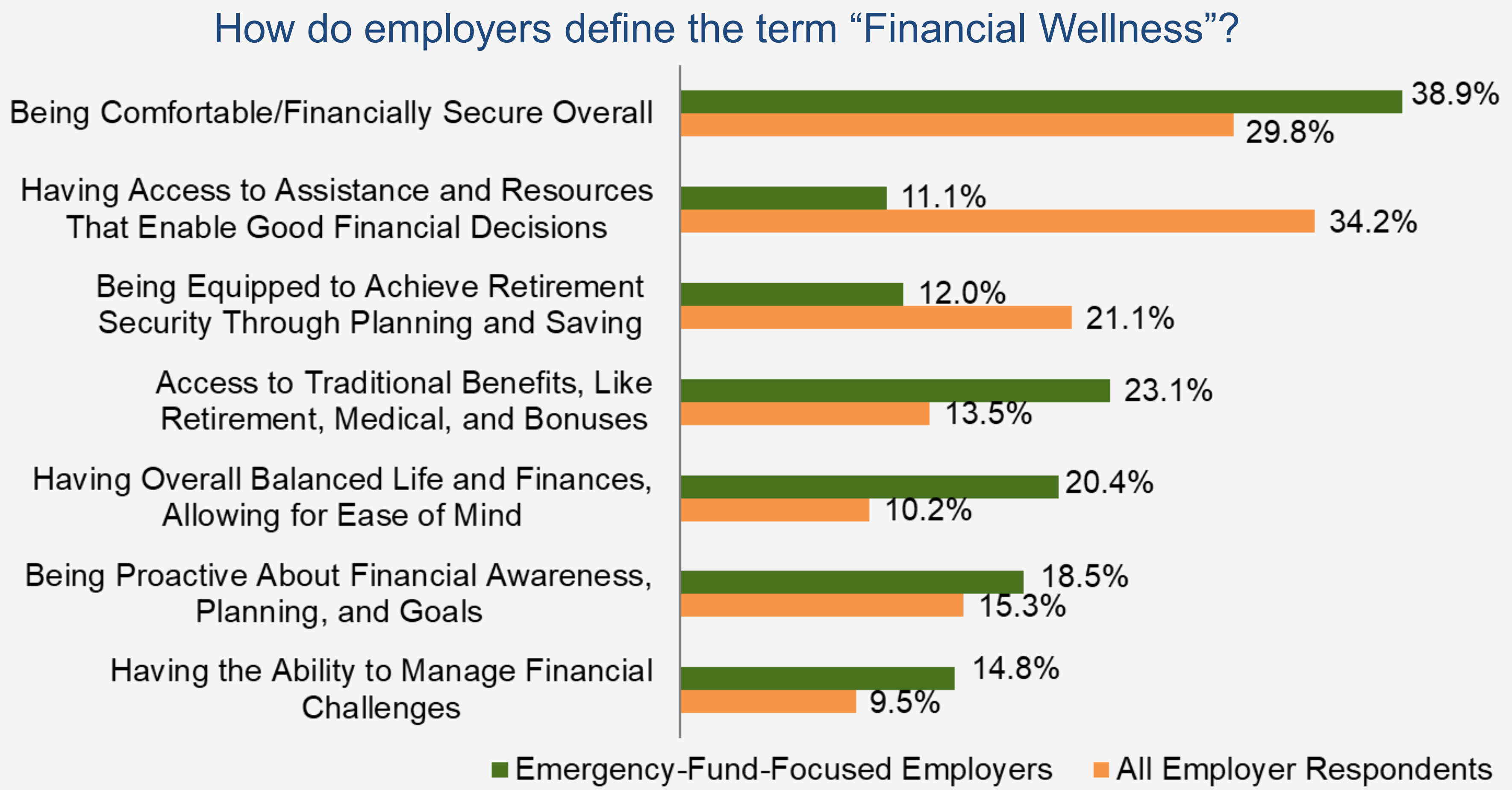
Note that percentages in the tables and charts may not total to 100 due to rounding and/or missing categories. Trend data from the 2018 Employer Financial Wellbeing Survey is shown when applicable.

QUANTIFYING EMERGENCY-FOCUSED EMPLOYERS



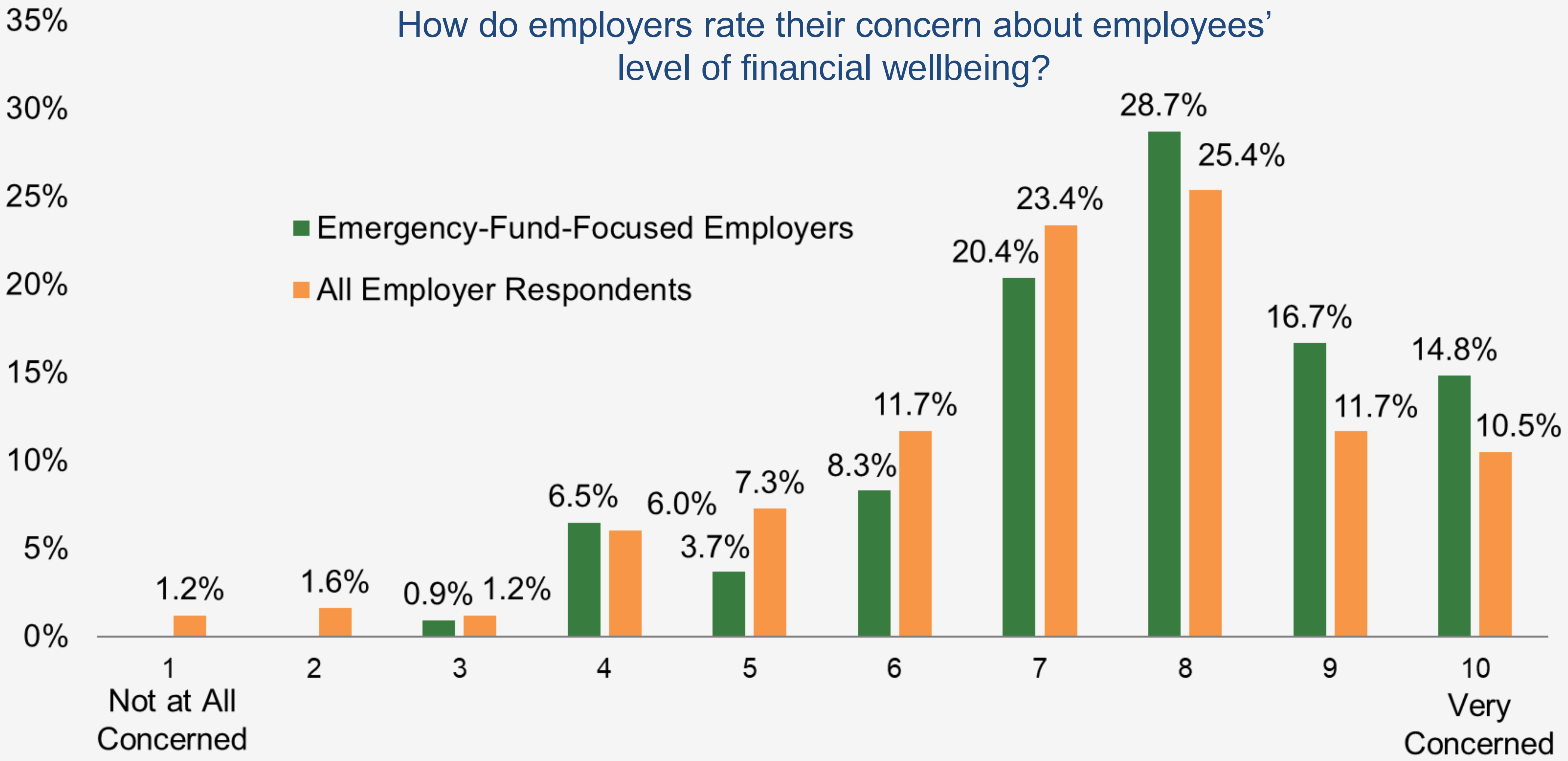
Source: The Employee Benefit Research Institute 2019 Employer Approaches to Financial Wellbeing Solutions Survey.

DEFINING FINANCIAL WELLNESS



Source: The Employee Benefit Research Institute 2019 Employer Approaches to Financial Wellbeing Solutions Survey.

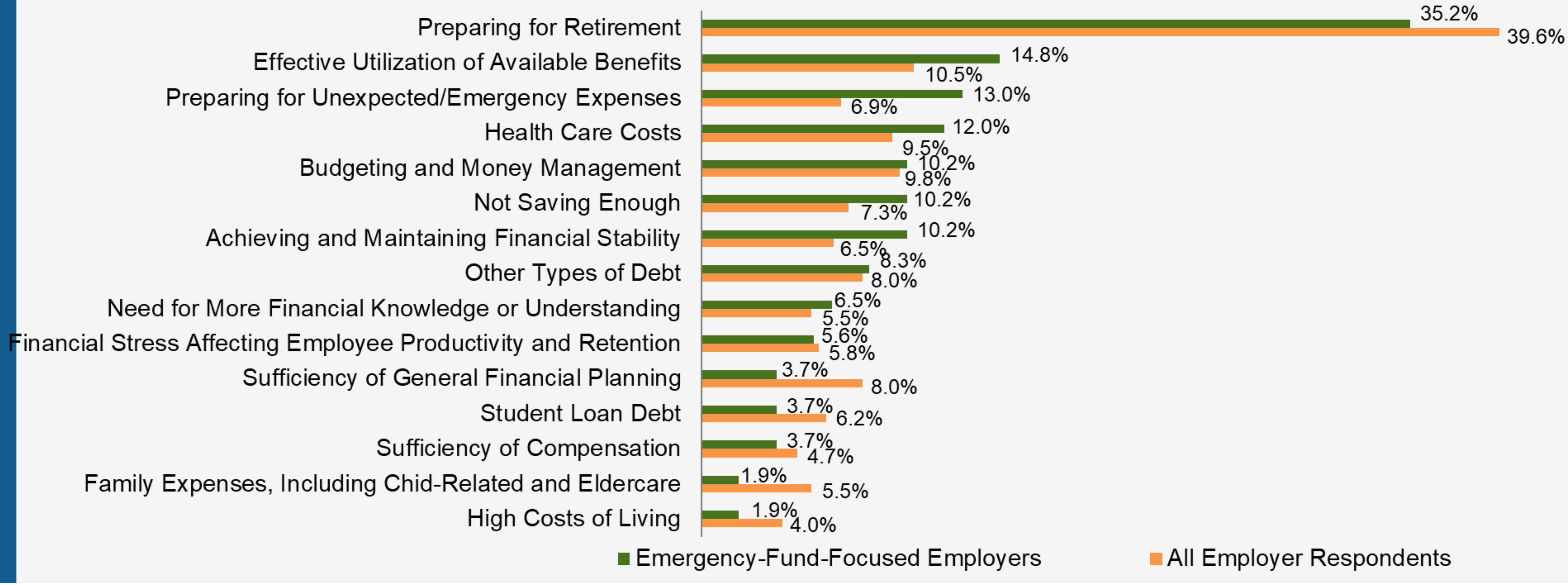
EMPLOYERS' LEVEL OF CONCERN



Source: The Employee Benefit Research Institute 2019 Employer Approaches to Financial Wellbeing Solutions Survey.

TOP FINANCIAL WELLNESS ISSUES

What are the top issues faced by employees that financial wellness initiatives are designed to address?



Source: The Employee Benefit Research Institute 2019 Employer Approaches to Financial Wellbeing Solutions Survey.

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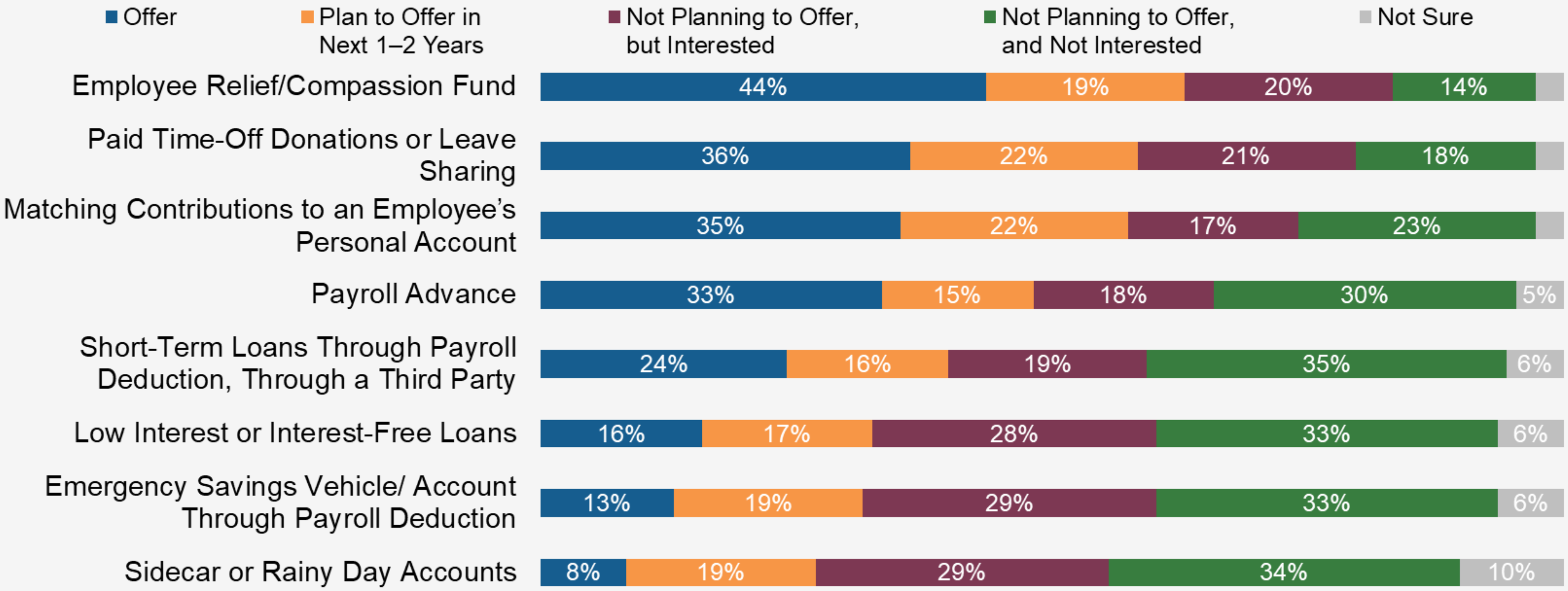
WHAT EMPLOYERS ARE OFFERING

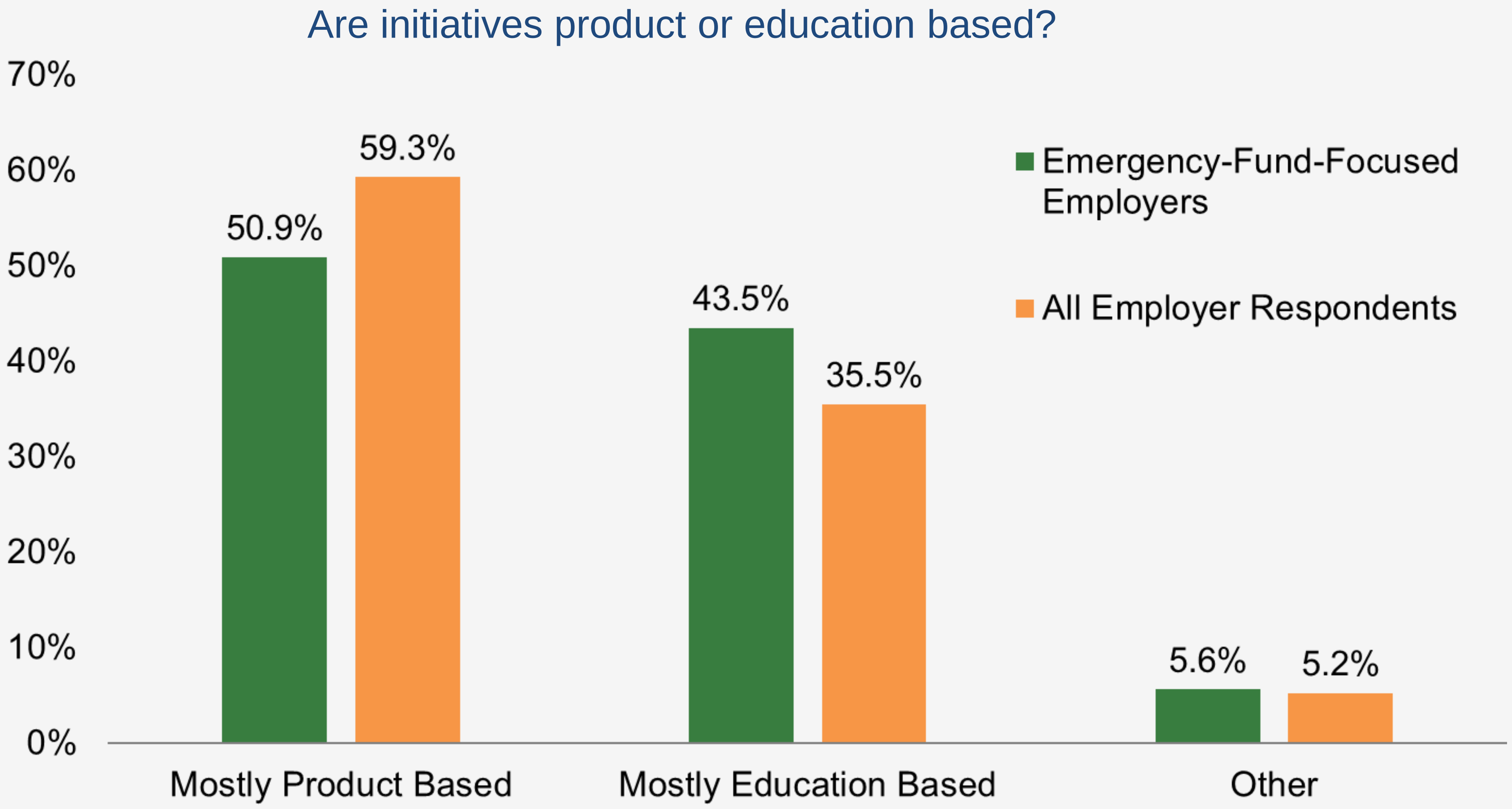
What emergency fund or employee hardship assistance programs are being offered?

Among those offering or planning to offer emergency fund or employee hardship assistance programs



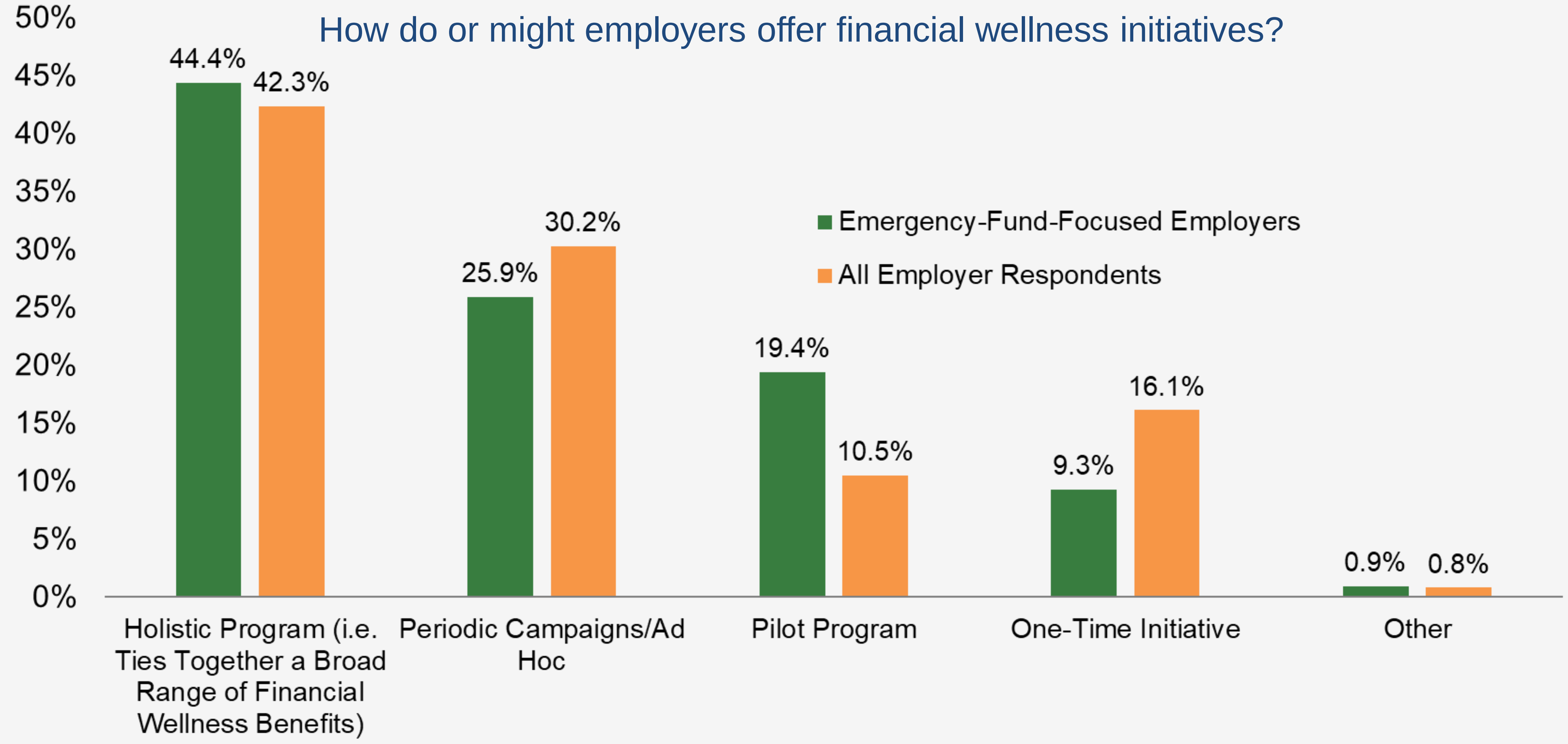
Source: The Employee Benefit Research Institute 2019 Employer Approaches to Financial Wellbeing Solutions Survey.

EDUCATION VS. PRODUCT



Source: The Employee Benefit Research Institute 2019 Employer Approaches to Financial Wellbeing Solutions Survey.

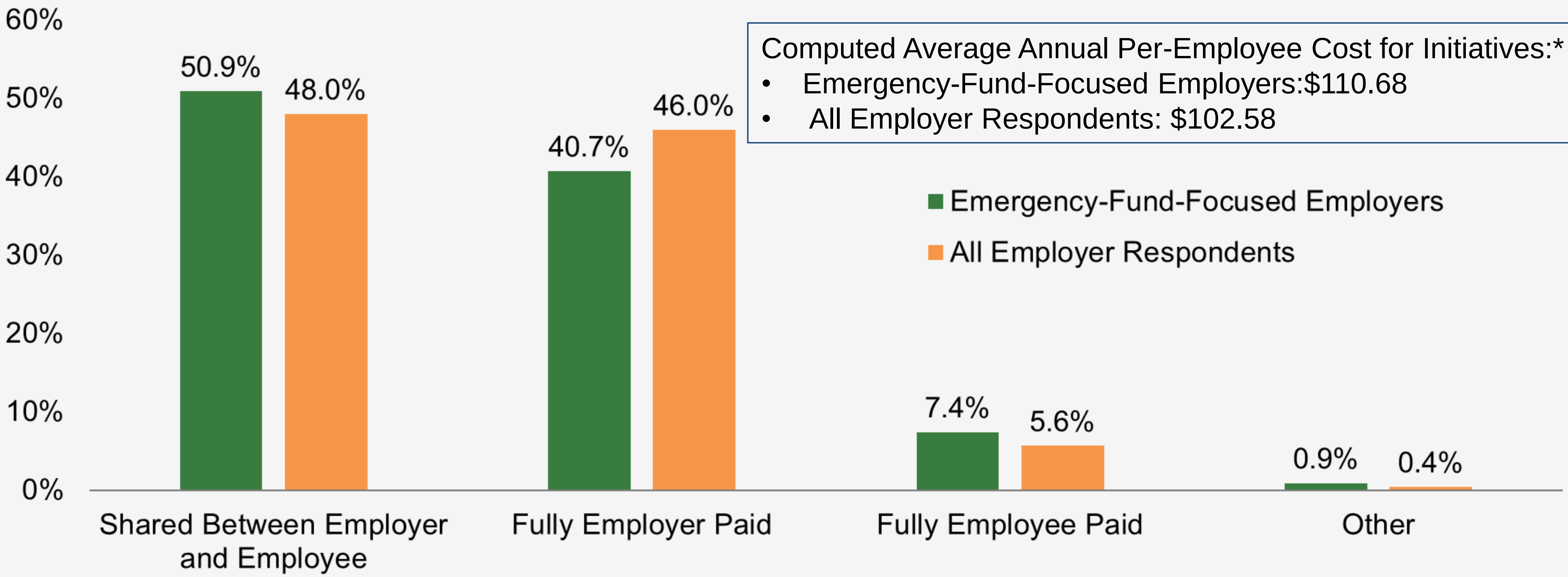
HOW INITIATIVES ARE BEING OFFERED



Source: The Employee Benefit Research Institute 2019 Employer Approaches to Financial Wellbeing Solutions Survey.

WHO IS PAYING?

Who pays or might pay for the financial wellness initiatives?



Computed Average Annual Per-Employee Cost for Initiatives:*

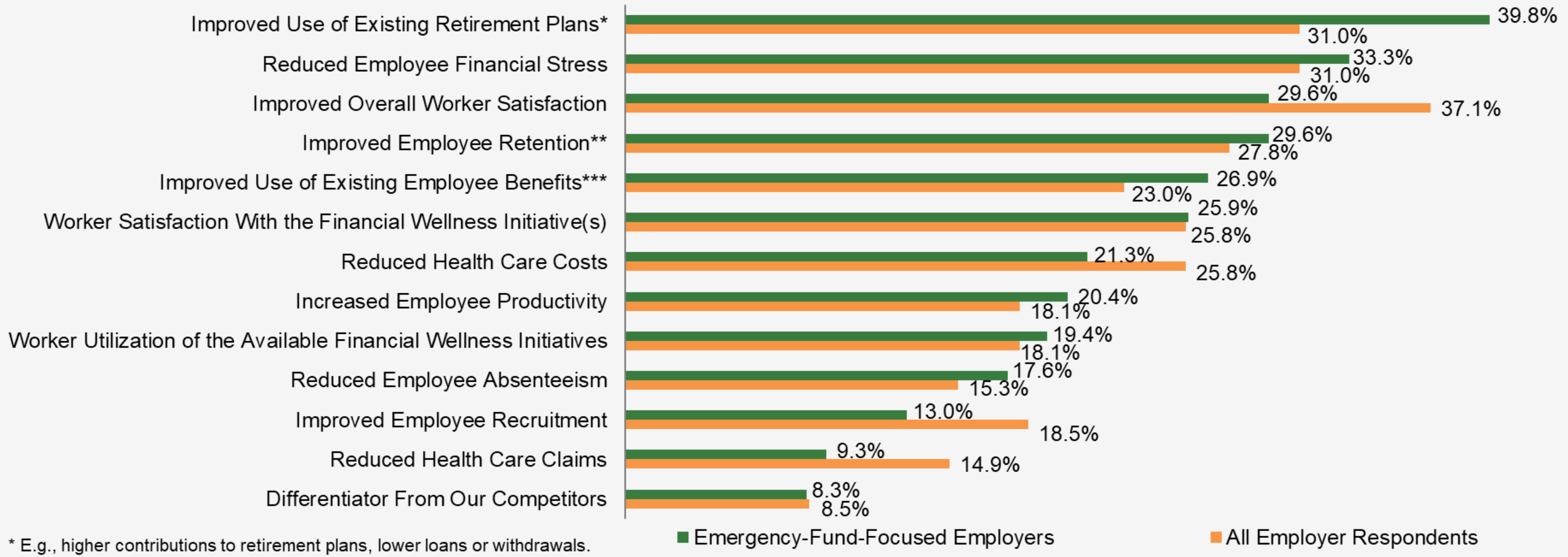
- Emergency-Fund-Focused Employers:$110.68
- All Employer Respondents: $102.58

Source: The Employee Benefit Research Institute 2019 Employer Approaches to Financial Wellbeing Solutions Survey.

* Cost is computed by taking the midpoint of each of the cost ranges provided in the survey. For the category of $500 or above, we assumed a cost per employee of $500. Costs were grossed up to account for those responding that they were not sure about costs.

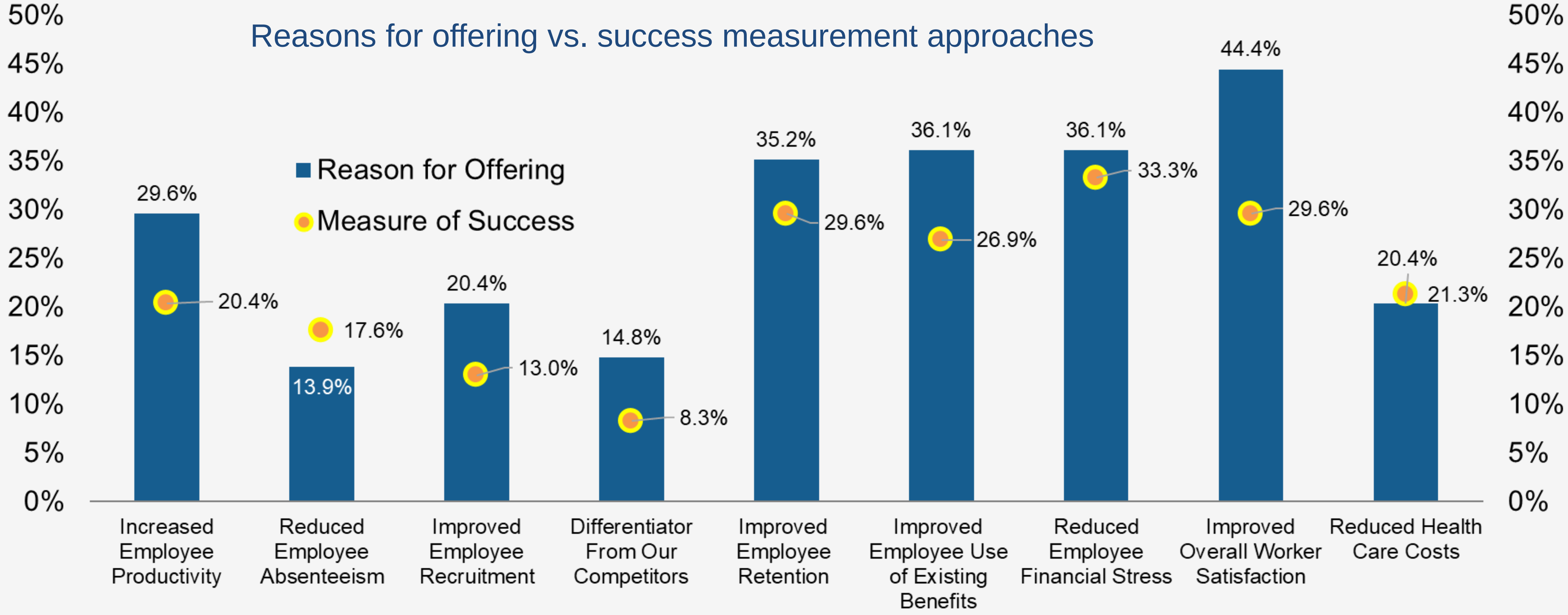
MEASURING IMPACT

Top three factors that are or will be important in the measurement of financial wellness initiatives?



* E.g., higher contributions to retirement plans, lower loans or withdrawals.
** E.g., lower work force turnover.
*** E.g., higher HSA contributions, higher use of preventative care, increased life or disability insurance coverage.
Source: The Employee Benefit Research Institute 2019 Employer Approaches to Financial Wellbeing Solutions Survey.

SOME DISCONNECTS BETWEEN REASONS AND MEASURMENT



Source: The Employee Benefit Research Institute 2019 Employer Approaches to Financial Wellbeing Solutions Survey.

CONCLUSIONS

- It is clearly early days when it comes to employers' efforts around helping workers with emergency savings.
- While the motivations appear strong, many employers report that they are only beginning to explore some of the newer available financial wellness initiatives in this area, such as rainy day funds and payroll deduction accounts.
- Further, measuring the impact of these initiatives can be challenging, as shown in the disconnect between reasons employers give for offering financial wellness initiatives and the means of measuring their results.
- Also, some have suggested that employers should concentrate on improving job quality and pay and not just on ways to make it easier for workers to save.
- It will be important to research the extent to which emergency savings help improve overall financial wellbeing vs. shifting the focus from retirement preparedness to current financial stability.

EBRI Emergency Savings Discussion

April 8, 2020

Prudential

The Prudential Insurance Company of America (Prudential)
1033249-00001-00

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WHAT IS FINANCIAL WELLNESS?

MANAGING DAY-TO-DAY FINANCES

25% Spend more than they make each month.

25% Always or often worry about being able to meet monthly living expenses.

ACHIEVING IMPORTANT FINANCIAL GOALS

31% Would consider taking a retirement plan loan or withdrawal to cover monthly expenses if emergency funds ran out.

39% Feel very or somewhat unprepared to fund retirement.

PROTECTING AGAINST KEY FINANCIAL RISKS

49% Feel very or somewhat unprepared to fund expenses if disability occurs.

65% Could not cover 6 months' expenses if income were lost.

Prudential, 2017 Financial Wellness Study. Based on a survey of full-time employees who have medical insurance, therefore, the results may appear higher than comparisons to national averages.

WHY IS FINANCIAL WELLNESS IMPORTANT?

Most people are ill-prepared for life's *'what ifs...'*

63% couldn't come up with $500 in case of emergency[1]

65% would struggle to cover 6 months' living expenses if income was lost[1]

1: Prudential, 2017

AND WHY DOES IT MATTER TO EMPLOYERS?

Help Improve Presenteeism, Productivity, and Engagement

25% of employees are distracted by financial issues at work[1]

70% of HR professionals say financial issues impact employee performance[2]

Help Improve Workforce Management

42% of workers plan to retire later than previously planned[3]

1 to 1.5% higher employer costs if employees delay retirement by one year[4]

Maximize Benefit Dollars and Employee Health

42% of employees expect to use money held in retirement plans for non-retirement expenses[5]

People with unstable finances report higher levels of physical pain[6]

Communicate to Multigenerational Workforce

5 generations in the workplace with varying needs and different life stages

Challenges in communicating and educating the multigenerational workforce. Lack of access to financial advice based on need

1. PwC, Employee Financial Wellness Survey, 2018. **2.** Society for Human Resource Management (SHRM), "Financial Wellness in the Workplace," May 2014. **3.** PwC, Employee Financial Wellness Survey, 2018. **4.** Prudential, "Benefits Optimization: Insights into Benefit Plan and Portfolio Design," 2016. With supporting research and analysis conducted by the University of Connecticut's Goldenson Center for Actuarial Research. **5.** PwC, Employee Financial Wellness Survey, 2018. **6.** Eileen Y. Chou, Bidhan L. Parmar, Adam D. Galinsky, "Economic Insecurity Increases Physical Pain," Psychological Science, February 18, 2016.

WHY EMERGENCY SAVINGS?

Americans faced financial insecurity pre-coronavirus outbreak

Prudential's data showed saving for the future was highly stressful prior to the outbreak. Participants facing financial adversity often take loans from retirement accounts. Even before this crisis, EBRI[5] found 19% of plan participants already had a loan.

		Completed 000s	Completed %	How stressed are you about your financial situation? Not at all stressed	Somewhat stressed	Very Stressed	What is causing your level of stress? Monthly bills	Student Loan Debt	Credit Card Debt	Saving for the future	Something else
Female	<=25	0.8	2%	16%	61%	24%	49%	40%	36%	78%	13%
	26-35	3.6	8%	20%	57%	24%	46%	40%	42%	74%	13%
	36-45	3.8	9%	19%	59%	21%	44%	26%	40%	70%	15%
	46-55	5.1	12%	23%	60%	17%	33%	17%	34%	68%	16%
	56-65	5.3	12%	28%	60%	12%	25%	9%	24%	63%	20%
	>65	0.9	2%	33%	57%	10%	27%	6%	20%	50%	29%
	Total	**19.4**	**46%**	**23%**	**59%**	**18%**	**36%**	**22%**	**33%**	**68%**	**16%**
Male	<=25	0.8	2%	28%	56%	16%	45%	28%	28%	70%	15%
	26-35	3.7	9%	29%	56%	16%	41%	24%	33%	73%	14%
	36-45	4.2	10%	30%	57%	13%	40%	14%	30%	72%	13%
	46-55	6.5	15%	34%	56%	10%	30%	11%	25%	71%	14%
	56-65	6.7	16%	40%	54%	6%	23%	7%	16%	62%	22%
	>65	1.3	3%	53%	44%	3%	22%	2%	11%	50%	33%
	Total	**23.2**	**54%**	**35%**	**55%**	**10%**	**32%**	**13%**	**24%**	**69%**	**17%**

Source: Prudential Retirement Enterprise Data Warehouse. Findings are aggregated from 42,611 unique completions of the Financial Wellness Assessment tool between 03/1/2018 – 01/28/2020, across all Full Service Defined Contribution Plans. All data is self-reported. Findings are not weighted.

Insights

- 78% of Americans live paycheck-to-paycheck[1]
- 60% of households are unprepared for a financial shock[2]
- 25% of families suffered at least one of the three income disruptions over a 12 month period[3]
- 41% of Americans are unable to cover an unexpected $400 expense without borrowing money or selling a personal item[4]

Insights sources:
1 :CareerBuilder Survey, August, 2017.
2,4: U.S. Financial Health Pulse 2018 Baseline Survey, Center for Financial Services Innovation.
3: Urban Institute, *Thriving Residents, Thriving Cities: Family Financial Security Matters for Cities*, April 21, 2016
5: 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016, EBRI, 2018

WHY EMERGENCY SAVINGS?

Americans face financial insecurity mid-coronavirus outbreak

- Half of U.S. adults expected to be living paycheck to paycheck this year and 53% did not have an emergency fund that covers at least three months of expenses, according to a financial planning survey conducted prior to the coronavirus outbreak by First National Bank of Omaha in Nebraska.
- Many Americans, particularly those in lower income households, face financial pressure among the constant threat of everyday disruptions–e.g. an illness, a loss of childcare, or a car breakdown. These fears are exacerbated by the threat of a more extreme situation like the coronavirus outbreak.
- According to a recent poll[1], Americans are more worried about their financial wellbeing than their health amid coronavirus outbreak. A third were concerned that they wouldn't be able to go to work or that their retirement savings would lose money; however, only 13% of respondents planned to start a rainy day fund.
- Emergency savings is a long-term strategy that can help people address stress and insecurity, both in every day financial shocks, or larger emergencies, for overall wellbeing and protection.

Insights

A lot has happened very quickly—quarantines, travel bans, school and business closures, and canceled events…

- **Economic activity is rapidly slowing and is being viewed as a possible coronavirus-fueled recession**
- **Only 29% of U.S. workers have the option to work remotely, bringing to the forefront work-related risk of exposure, economic vulnerability, and other disparities between U.S. workers across industries such as healthcare, hospitality, education, the gig economy and more.**[2]

1: USA TODAY/Ipsos Poll of 1,005 adults taken online March 10 and 11; credibility interval +/- 3.5 percentage points
2 : Financial Health Network, How Coronavirus Highlights the Insurance Gap for Gig Workers, March 17, 2020

IN-PLAN EMERGENCY SAVINGS FEATURE

Employer-sponsored retirement accounts are the primary savings vehicle for most employees.[1]

Unexpected events require quick access to money

Events like car repairs, expensive home repairs or medical emergencies.

In-Plan Emergency Savings Feature

By introducing an after-tax, payroll-contributed option, participants will have access to the money they need to help them address whatever life throws their way.

Dual-purpose savings vehicle

Long-term retirement savings.

A safety net with access to cash in an emergency.[3]

[1] Forbes.com, "63% Of Americans Don't Have Enough Savings To Cover A $500 Emergency," Jan. 6, 2016

[2] [3] All investing involves various risks, including the possible loss of principal. It is possible to lose money by investing in securities.

MEET SARAH

28 YEARS OLD
RETAIL SERVICE ASSOCIATE
$20/HR ANNUALLY

EMPLOYEE SEGMENT:
EMERGENCY SAVINGS WIN/WIN

$815.60

AVAILABLE EMERGENCY SAVINGS

The coronavirus outbreak led Sarah to face a difficult decision: stay home and lose wages, or risk getting sick or infecting others by going to work.

CONTRIBUTIONS

- **5% to pre-tax** (meeting the company match) [1]
- **2% to Emergency Savings Feature** (after-tax)
- **Investment Assumption:** Stable Value (1.95% interest rate)[1]

WITHDRAWAL

Sarah requests a withdrawal from her Emergency Savings to cover her cost of living while unable to work due to government closure of retail business.

$815.60 Net Distribution[2]

Taxes[3] and a 10% withdrawal penalty[4] will apply to the $15.60 in earnings.

If Sarah took less than the $800 available in her emergency savings, then earnings are prorated and she would only pay tax and the 10% early withdrawal penalty on the prorated amount of earnings at the end of the tax year.

1 Sarah's hypothetical scenario assumes the Stable Value interest rate is 1.95% and assumes pre-tax company match.
2 Assumes withdrawal fee is waived.
3 Prudential will withhold 20% for federal tax purposes from rollover-eligible distributions that are greater than or equal to $200. If the rollover eligible distribution is less than $200, then the participant will be responsible for the tax when they file their federal income tax return. The exception from 20% mandatory withholding for rollover-eligible distributions less than $200 only applies if all eligible rollover distributions received within the same taxable year total less than $200. In this scenario, the rollover-eligible distribution is $15.60 in earnings, so Prudential will not withhold any taxes. State taxes may also apply to earnings.
4 10% early withdrawal penalty applies to taxable distributions taken by participants under age 59½. Participants will need to pay tax when they file their federal income tax return. In this scenario, the tax is applied to the earnings only.

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Contributions may be subject to certain limits and distribution rules may vary by plans. See Plan Highlights for information.

Amounts withdrawn before age 59½ may be subject to a 10% federal income tax penalty, applicable taxes and plan restrictions. Withdrawals are taxed at ordinary income taxes rates. Penalty does not apply to 457(b) plans.

After-tax contributions withdrawn are generally tax free. If you need to withdraw money from the after tax account, it will include a pro rata share of the earnings from investments. Investment earnings are taxable as income upon distribution, and a 10% early withdrawal penalty on earnings may apply. The early withdrawal penalty will need to be addressed when filing your next tax return. You should consult tax advice when considering taking any withdrawals from retirement accounts. Keep in mind that Prudential does not give tax advice.

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Saving at Work for a Rainy Day

Results from a National Survey of Employees

David C. John
AARP Public Policy Institute

April 8, 2020

Methodology

AARP and Boston Research Technologies designed an online survey that was fielded in English through the probability-based NORC Amerispeak Panel® from July 12–August 6, 2018 among a nationally representative sample of 2,603 adults ages 25-64 who were employed by someone other than themselves, paid by direct deposit, and expected to remain with their current employer for at least one more year. Cognitive pre-testing of the questionnaire was conducted to discern respondents' interpretation of the questions.

The data are weighted by age, gender, education, race, Hispanic ethnicity, housing tenure, telephone status, and census division, to benchmarks from the Current Population Survey (CPS) for persons ages 25-64.

The margin of error is +/- 2.9 percentage points at the 95% confidence level.

Sample sizes may vary from question to question because not all respondents qualified for every question. Also, a small number of respondents chose to skip certain questions.

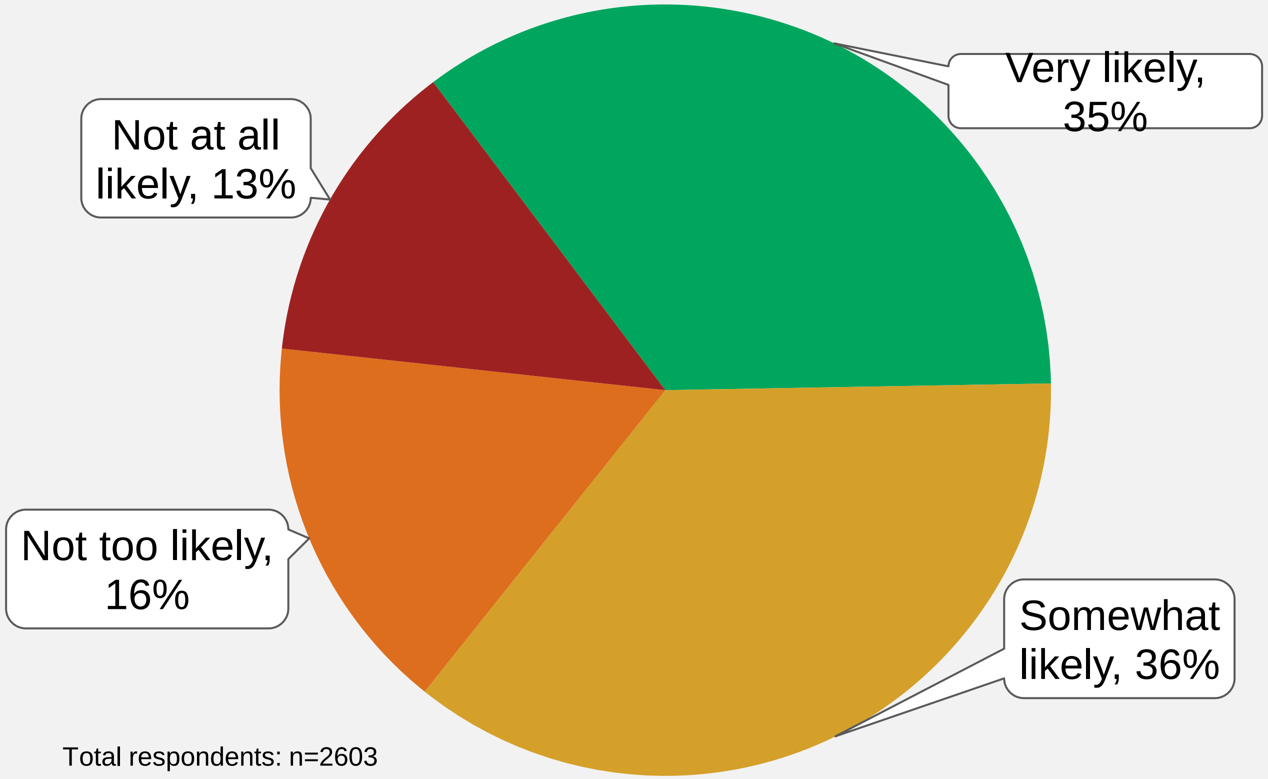
Description of the Rainy Day Savings Program

“To help you be prepared for emergencies or unexpected expenses, an amount of money you specify will be deducted from each of your paychecks and deposited into a special savings account set up for you at a bank or other financial institution. These transfers from your paychecks to the savings account will continue for as long as you would like and you can stop them at any time.

You are free to take the money out of the savings account at any time without paying a penalty. There are no fees on this account. At no time is your account information shared with a third party.”

Seven in ten employees would likely participate in an employer-based rainy day savings program

How likely are you to enroll in this benefit?

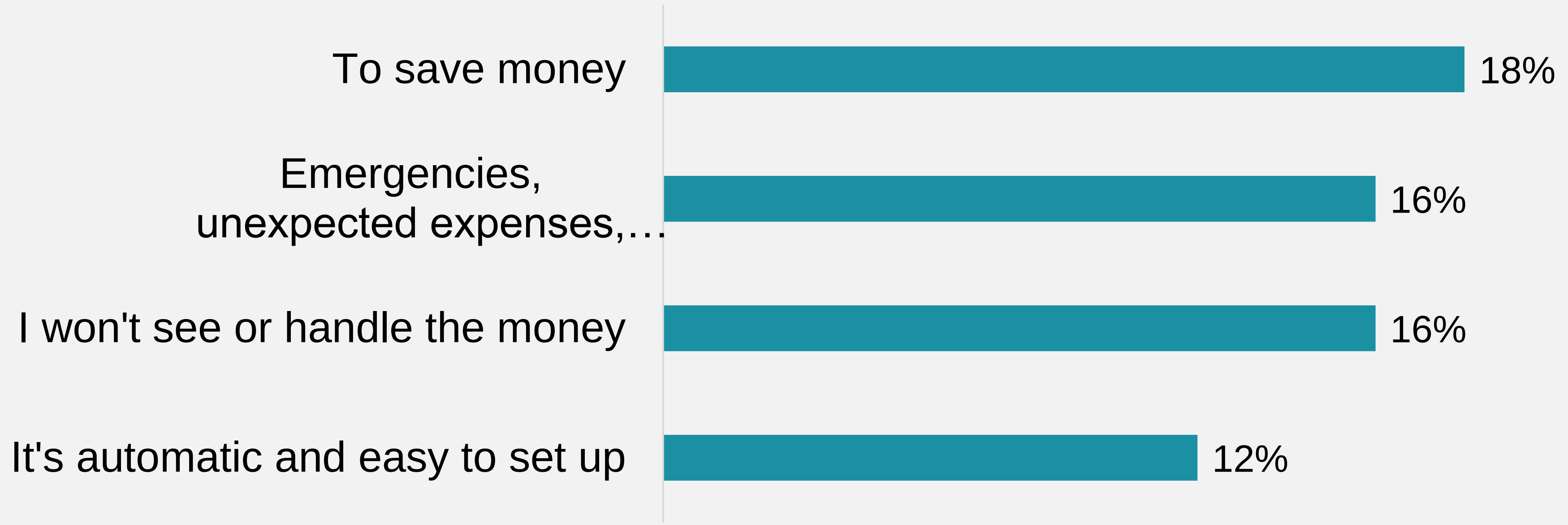


71% of survey respondents would be likely to enroll

Total respondents: n=2603

Saving more and reducing financial stress are the top reasons employees would participate

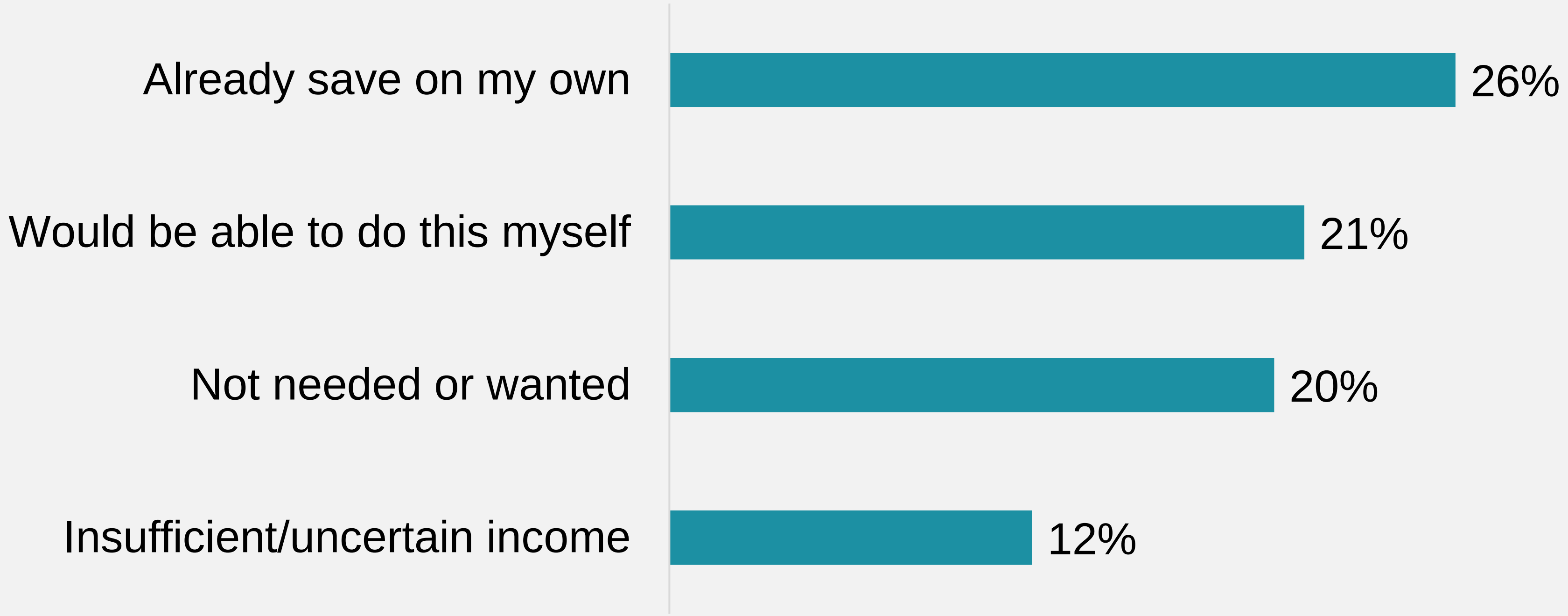
Please explain why you would be **likely** to enroll in the benefit (open-ended).



Total respondents very likely or somewhat likely to enroll: n=1856

The most common reason for not participating is that employees already save on their own

Please explain why you would be **unlikely** to enroll in the benefit (open-ended).



Total respondents somewhat unlikely or very unlikely to enroll: n=740

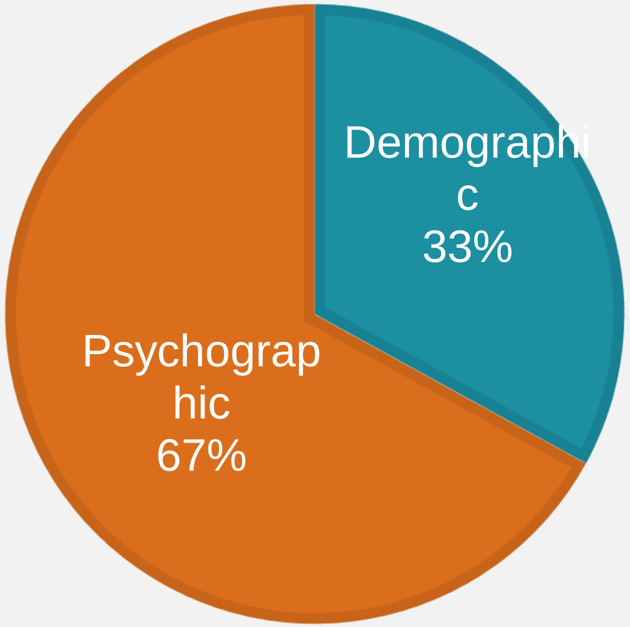
Individuals' attitudes and opinions are more important drivers of participation than demographic factors

Regression analysis showed that, overall, likelihood of enrolling in the rainy day savings program is driven primarily by psychographic factors as opposed to demographic factors.

Effect of factors on likelihood to enroll

Examples

- Stress over financial situation
- Trust in employer
- Confidence in ability to pay for a $2,000 unexpected expense



Examples

- Household income
- Gender
- Age

The most powerful drivers* of likelihood to participate in an employer-based rainy day savings program:

1. **Non-retirement savings**
2. **Stress about overall financial situation**
3. **Trust in primary employer**
4. **Ability to pay for an unexpected expense costing one month of household income**

*Based on regression analysis. Factors are listed in order of the degree to which they appear to impact likelihood to enroll in the program.

Moderately powerful drivers* of likelihood to participate in an employer-based rainy day savings program:

1. **Trust in financial institutions**
2. **Race**
3. **Ability to pay for an unexpected expense of $2,000**

*Based on regression analysis. Factors are listed in order of the degree to which they appear to impact likelihood to enroll in the program.

Weak drivers* of likelihood to participate in an employer-based rainy day savings program:

1. **Gender**
2. **Ethnicity**
3. **Age**
4. **Marital status**
5. **Years of formal education**

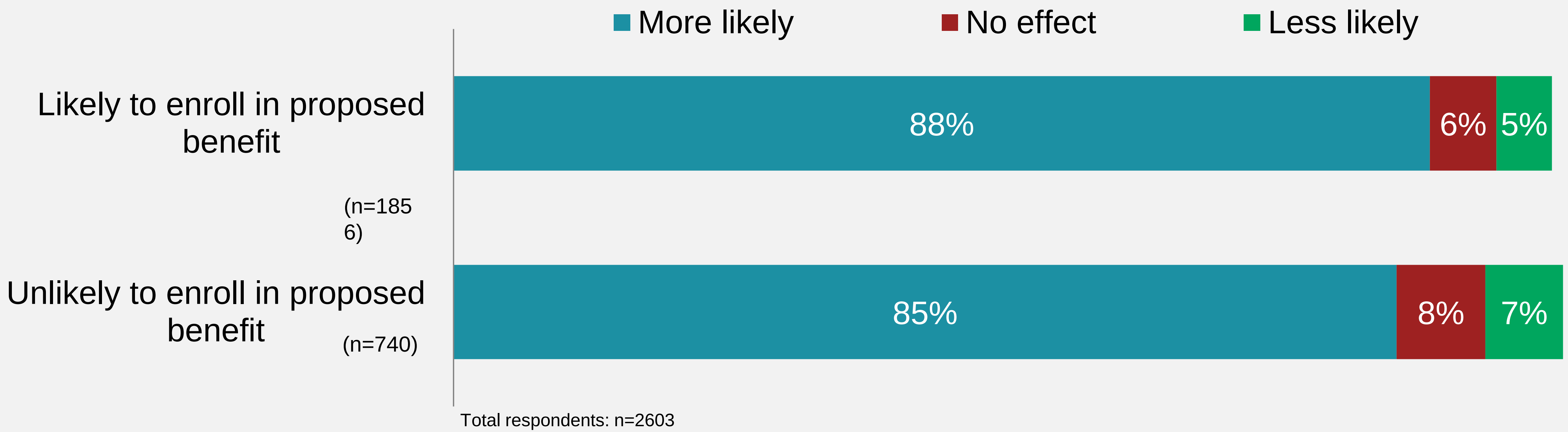
*Based on regression analysis. Factors are listed in order of the degree to which they appear to impact likelihood to enroll in the program.

Factors that have **no significant effect** on likelihood to participate in an employer-based rainy day savings program:

- Household income
- Number of months since dealing with a large, unexpected expense
- Proportion of monthly take-home pay to expenses (including loan payments, mortgage and rent, child care, food, transportation, and health care)
- Perceived level of knowledge about financial matters
- Agreement with “I often need to borrow money to make ends meet.”
- Agreement with “I feel like I have no control of my financial situation.”
- Agreement with “I have an unmanageable amount of debt.”
- Regularly putting money into retirement accounts outside of work
- Balances in employer-sponsored retirement plans

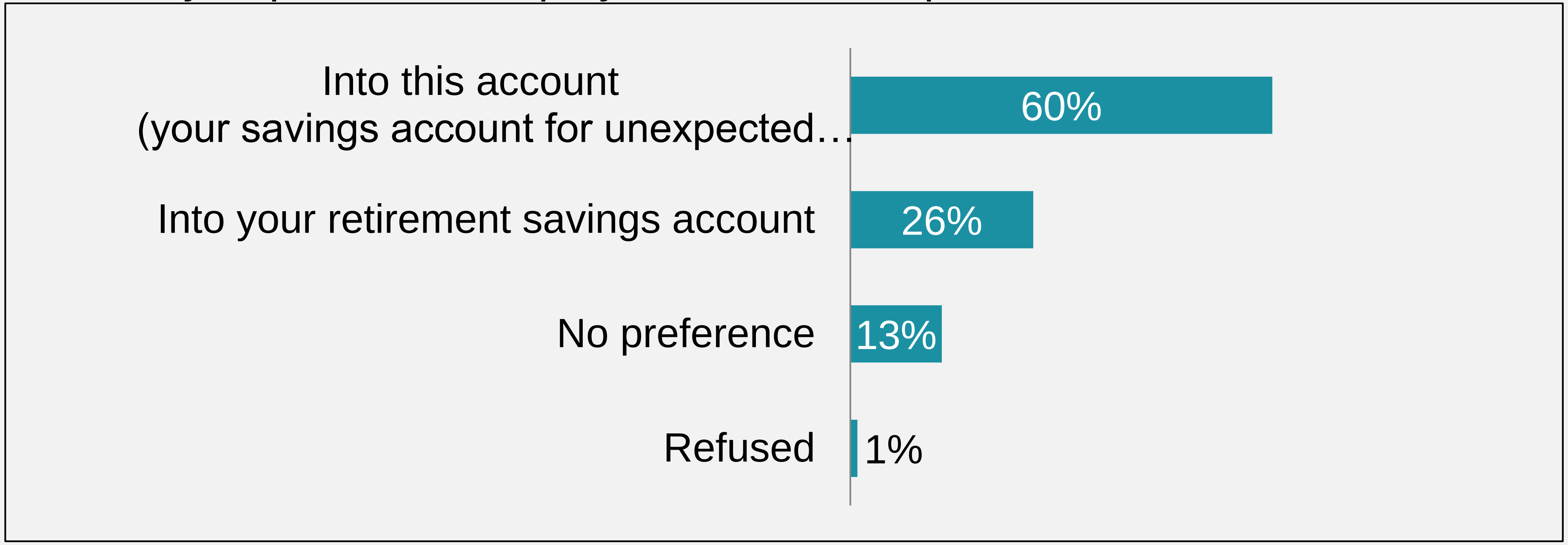
An employer match makes 87% of employees more likely to participate

Suppose your employer decided to match at least some of the amount that you put into this account. How would this affect your likelihood of enrolling in this employee benefit?



Most would prefer that the match be deposited into the emergency savings account rather than into a retirement account

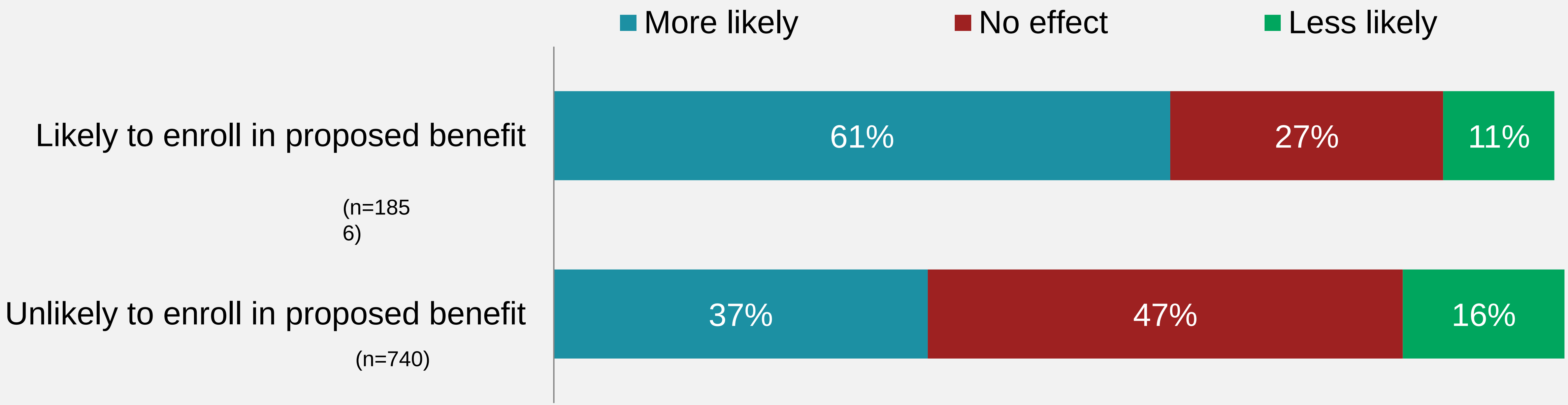
If your employer decided to match at least some of the amount that you put into this account, where would you prefer the employer match be deposited?



Respondents whose employer offers a retirement savings plan at work that allows employees to make contributions from their paychecks: n=2216

The ability to direct payroll contributions to an existing account makes half of employees more likely to participate

Suppose you could direct your savings contributions to a savings account you already have at a bank or financial institution. How would this affect your likelihood of enrolling in this employee benefit?

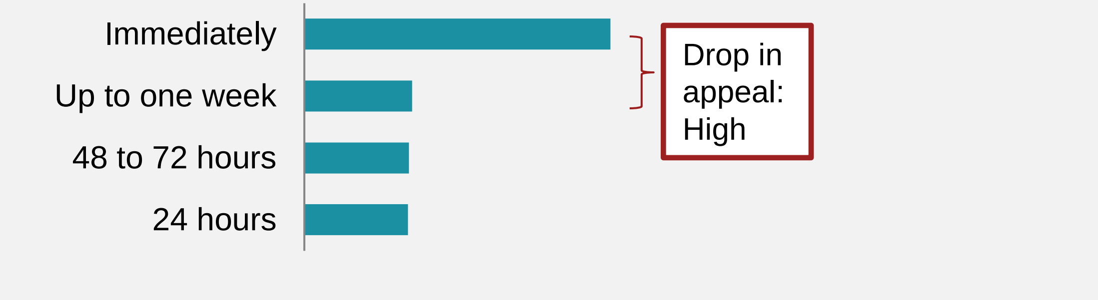


Total respondents: n=2603

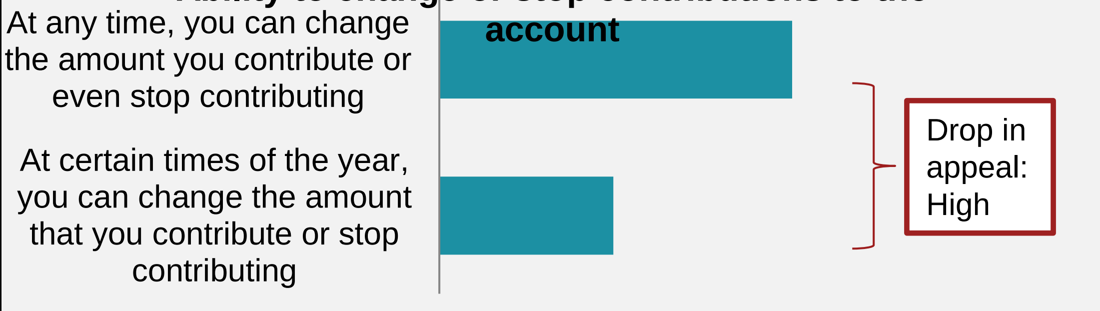
Program feature tradeoffs: control, convenience, and privacy are essential

Employees are least willing to compromise on the ability to access their money immediately, start or stop contributing, keep the account if they leave their job, and maintain privacy

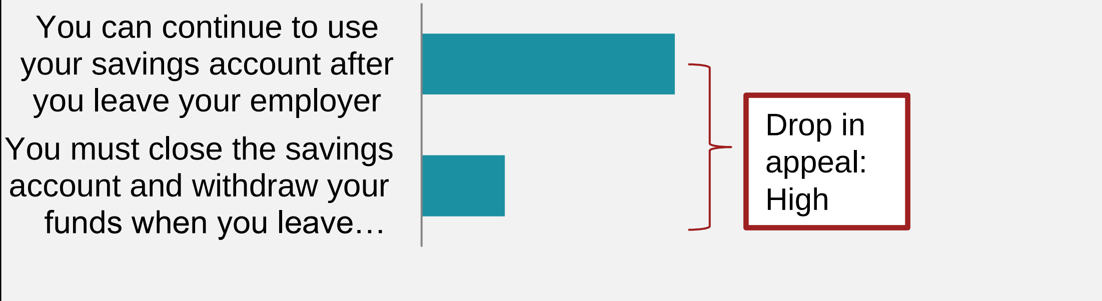
Time it would take to withdraw from the account



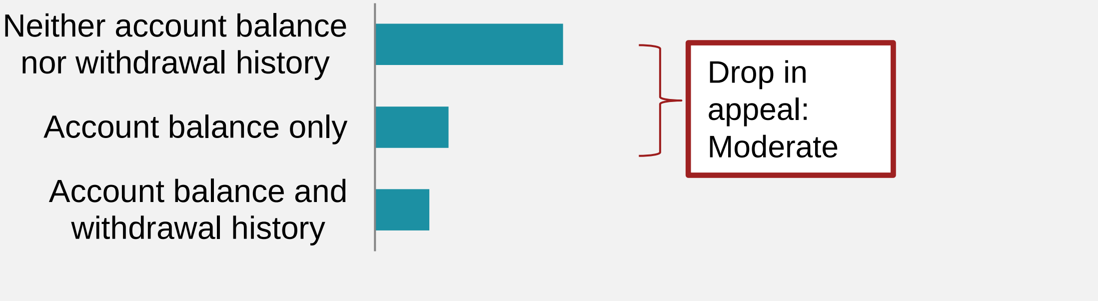
Ability to change or stop contributions to the account



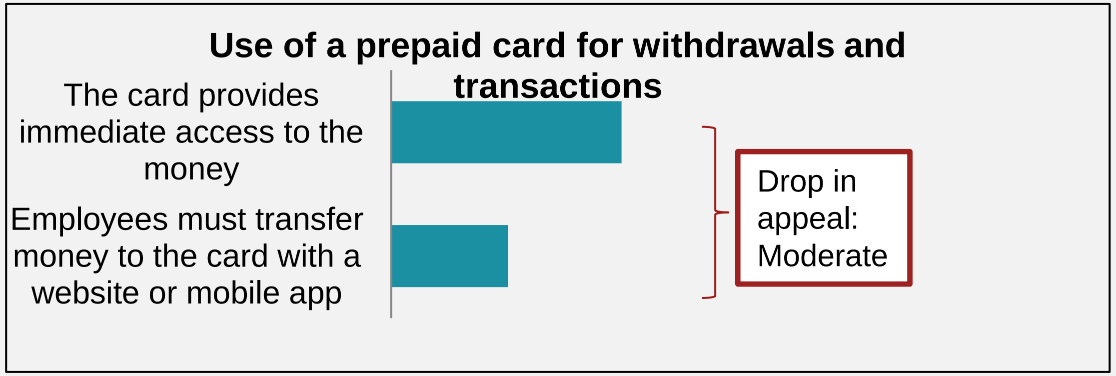
Ability to keep the account in case of job change

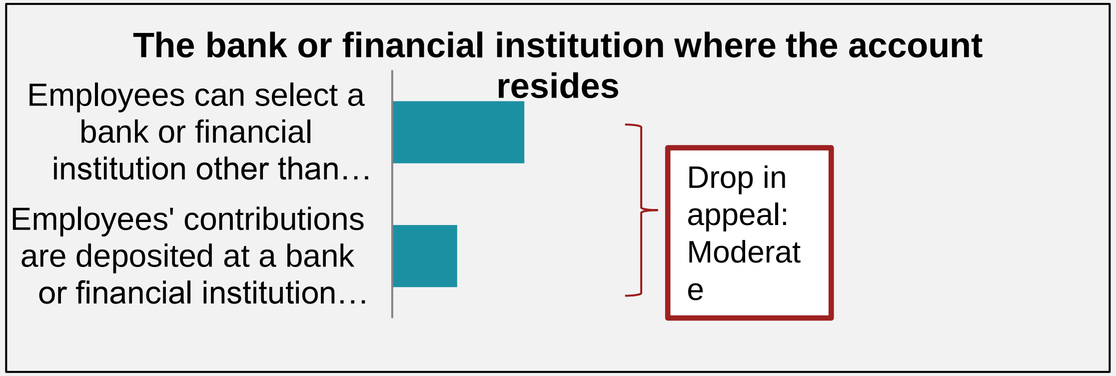


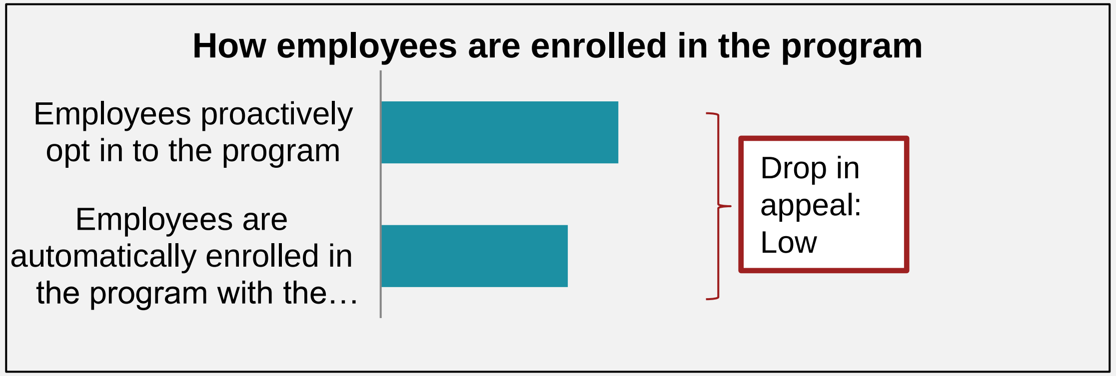
Privacy: level of information known to the employer

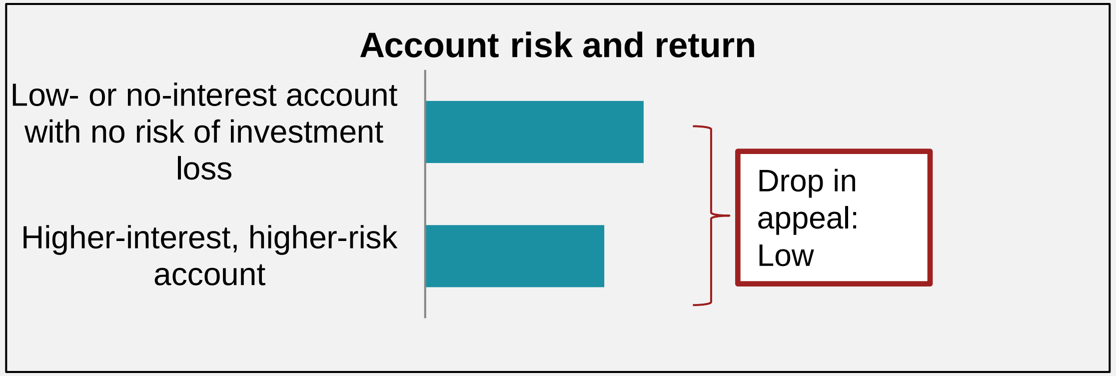


Program feature tradeoffs (continued)

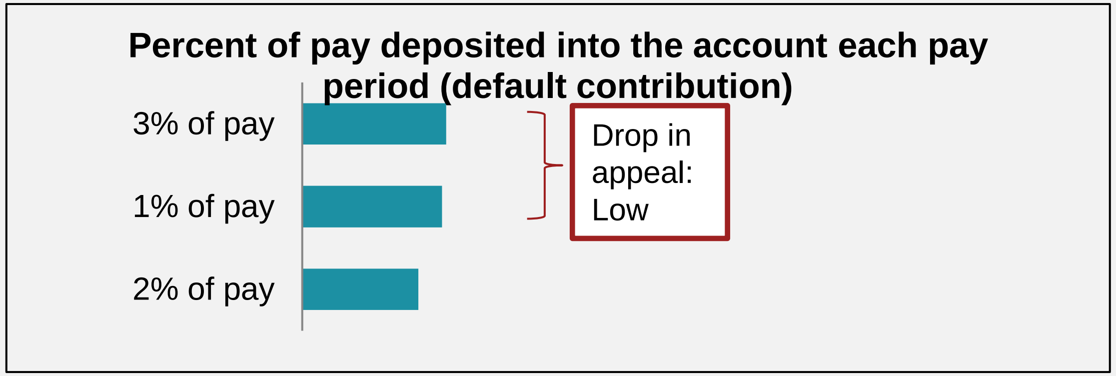








Program feature tradeoffs (continued)



Most effective messages

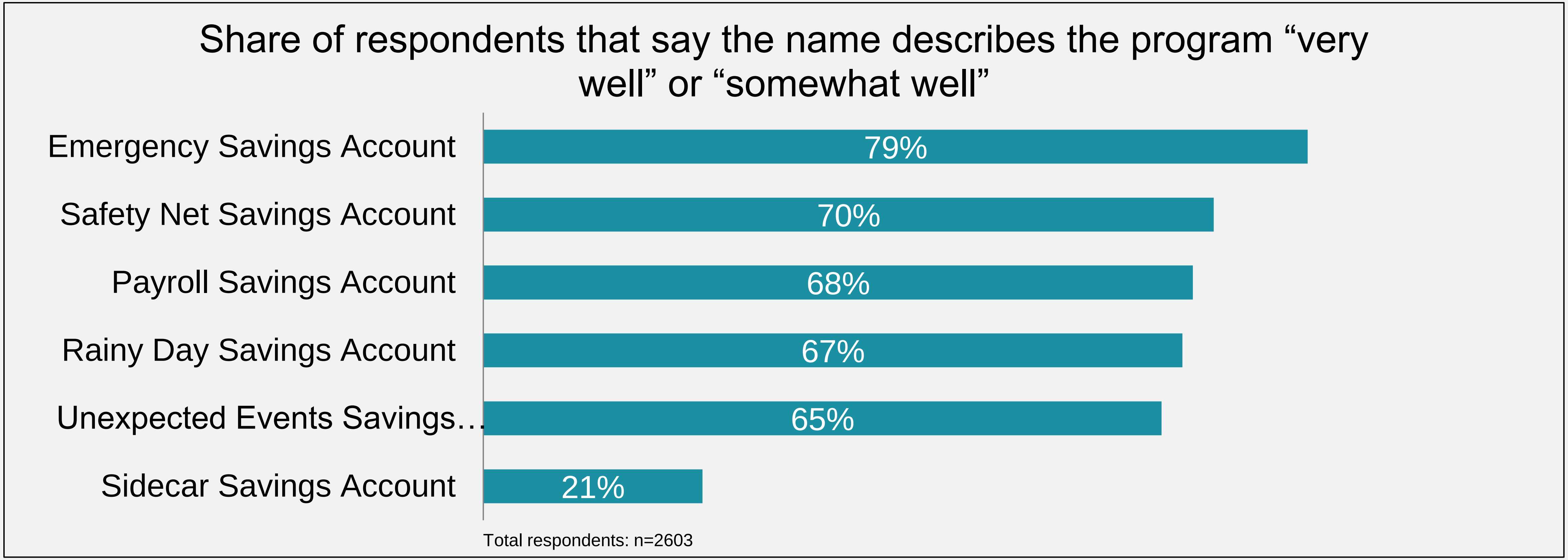
- “Easily start saving through an account that you control”
- “Having money tucked away out of every paycheck for emergencies will relieve some stress”
- “Routinely set aside money for unexpected events”
- “Access your savings quickly and easily whenever you need to”
- “Automatically deposit money from each paycheck into a separate account in your name”

Least effective messages

- "Easily start saving through an account that your employer sets up for you"
- "This account will help employees to be more productive at work"
- "This is a way for a company to do right by its employees"

What to call the program

Nearly eight in ten respondents say that “emergency savings account” describes the program well



Questions or suggestions?

David John
Senior Strategic Policy Advisor
djohn@aarp.org

Catherine Harvey
Senior Policy Advisor
charvey@aarp.org

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