



RETIREMENT SERVICES

The power of wellness

Individualized financial wellness programs address the most important challenges that different groups of employees face



Always Designing
for People™



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Employers are in an **excellent position to provide financial wellness programs** because as trusted sources of information, they have the credibility to deliver impactful solutions.

Executive summary

When ADP commissioned SourceMedia Research (now Arizent) to conduct this study, the US economy was still expanding and enjoying some of the lowest unemployment since the 1960s. However, workers reported deep financial worries prior to the COVID-19 pandemic. And, you can only assume that this lack of financial well-being is even more magnified by the recent economic collapse and 30+ million Americans out of work. .

The impact of COVID-19 has disproportionately hit workers at the lower end of the compensation spectrum and prior to the pandemic, our research found this group struggling with the most basic of financial planning needs, such as getting out of debt, meeting monthly expenses and building emergency savings which can prevent them from focusing on bigger long term financial goals. What's more, they often lack the knowledge that would help alleviate their stress and move them toward financial wellness.



For financial advisors,
focusing on the needs
of all employees
is an opportunity to provide
a life-changing service.



Even high earners, while not experiencing quite the same level of stress, reported challenges with their finances.

For employers, a lack of financial wellness can have significant consequences for their business. Even before the pandemic, employees brought their financial challenges with them to work. In fact, almost half of employees admitted to spending three or more hours a week thinking about or dealing with their personal finances — time that should have been spent focusing on the job they were hired to do.¹

This has led to a distracted workforce that misses deadlines and produces subpar work, calls in sick and even has higher health care costs. According to a Mercer survey, employees, on average, spent about 13 hours per month worrying about personal finances which has mostly likely increased due to the pandemic. This translates to approximately five percent of an organization's total payroll that is at risk of being spent on time employees are worrying about money during work hours. When converted into dollars, the loss across businesses could add up to \$250 billion each year.²

Financial wellness seeks to reduce stress for employees so they can focus on their jobs. In the long-term, wellness can also reduce delayed retirement, improve employee engagement, and serve as a retention tool.

1 PwC, 8th annual Employee Financial Wellness Survey, June 2019.

2 Mercer, Inside Employees' Minds™ – Financial Wellness, Volume 2 - 2017.

While employees may appreciate endless snacks in the break room and a bring-your-pet-to-work policy, assistance in improving their financial well-being is a more meaningful benefit.³ Employers are in an excellent position to provide it because as trusted sources of information, they have the credibility to deliver impactful solutions. With additional insights, employers can have impact assisting their employees meet financial challenges. Employers serve as the building blocks for programs that specifically target the needs of their workforce.

For financial advisors, focusing on the needs of all employees is an opportunity to provide a life-changing service. These workers are eager for guidance. Even a few interactions with a financial expert who is attuned to their struggles can move them toward wellness.

By meeting that objective, advisors can also improve profitability for their business clients and demonstrate their value.



Research findings

In our research, we looked at the unique financial challenges workers along the income spectrum faced and what it would take for each of them to achieve a state of financial wellness. For the purposes of this paper, we define financial wellness as being a comprehensive approach to personal financial management that addresses a broad range of goals.

Financial wellness helps employees assess their financial health and identify the areas that require more attention. Financial wellness does not have a singular focus, such as retirement readiness, though that is an important component. It seeks to address multiple areas of concern at once and provides employees with concrete steps to tackle them.

To understand the financial health of employees and what kind of financial wellness programs would be most impactful, ADP and its research partner, SourceMedia Research (no Arizent), surveyed 1,028 workers. The study drew respondents from a variety of age groups and income brackets. All respondents were at least 21 years old and worked either full or part time.

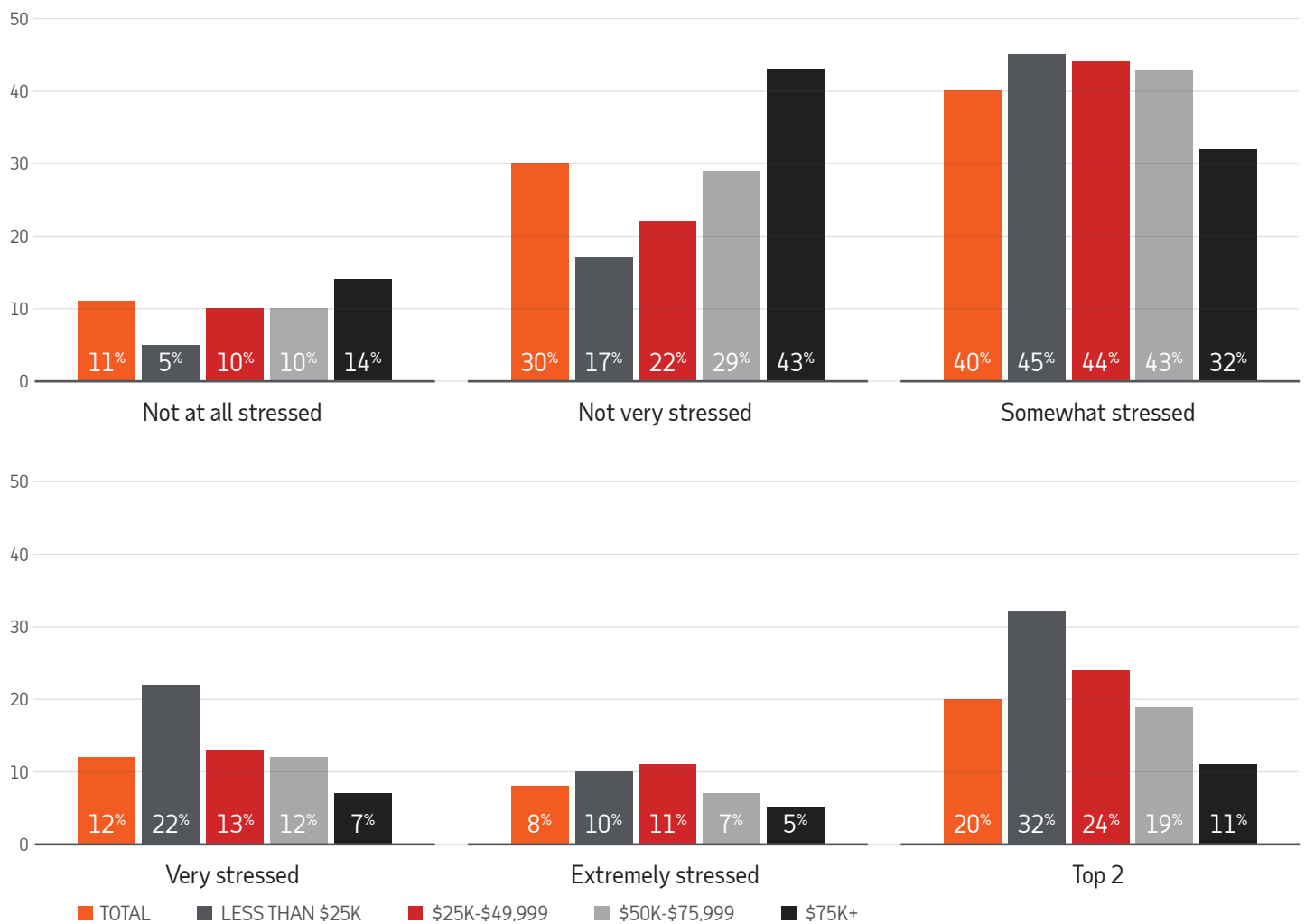
³ Plansource, Benefits Trends Report: Employee Benefits – Meisha Bochicchio, January 29, 2019.



All consumers have some level of financial stress, but low earners have the most

The topline finding of the study was that financial stress is felt at all income levels, though it declines as income rises. However, no set of employees is immune from stress. For example, while workers with the least amount of personal income report feeling stress around not having enough emergency savings, employees at the higher end of the range are juggling with multiple financial obligations — its own source of stress.

STRESS LEVEL ABOUT FINANCES



Using insights from the research, this white paper provides financial advisors with guidance they can use to demonstrate to their business clients the need for financial wellness programs that addresses the differing requirements of all their employees. It also offers practical tips on how to build on positive behaviors that employees are already demonstrating and move them toward a greater state of financial wellness.

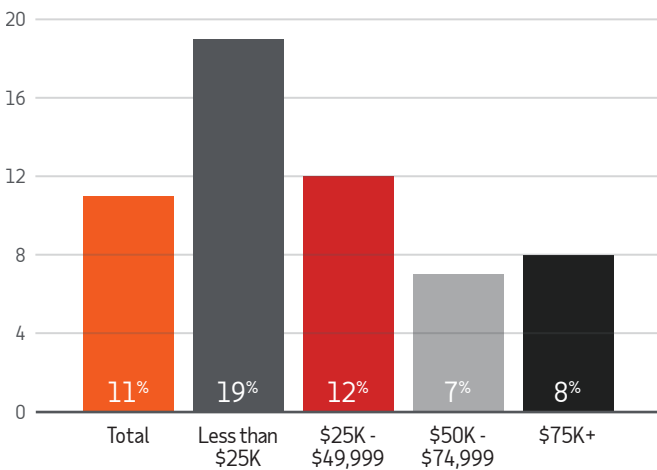
Defining financial wellness

In describing what financial wellness means to them, few employees say it is about accumulating wealth or having a certain account balance. Instead, respondents overwhelmingly pointed to a sense of security and being free from their current stresses. It is, therefore, no surprise that the lowest paid workers (those earning less than \$25,000) are the most likely to describe themselves as extremely or very stressed about finances. In fact, when these workers get paid, they, like other employees, feel happy and relieved that they will be able to pay their bills. However, for these workers, that relief is short-lived. It is quickly replaced by a realization that, in the words of one respondent, they will be “broke again” once their bills are paid.

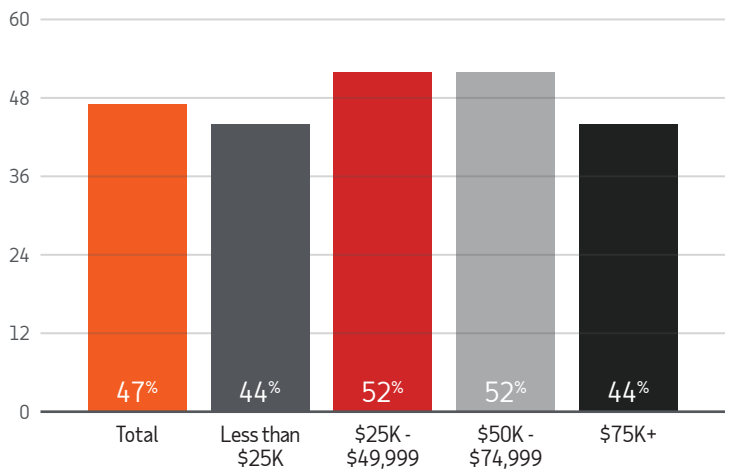
Low earners have greater difficulty in meeting household expenses

For this reason, lower earners are more likely to describe themselves as spenders versus consumers with higher personal income. Only 31 percent of those earning less than \$25,000 per year described themselves as savers, compared with 40 percent of those making \$75,000 or more. On the other hand, 37 percent of consumers earning between \$25,000 and \$50,000 view themselves as spenders compared to just 28 percent of the top income bracket.

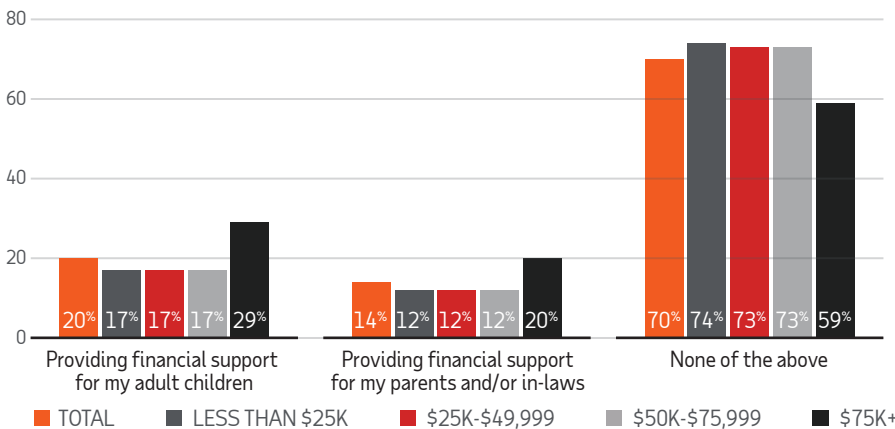
DIFFICULTY IN MEETING HOUSEHOLD EXPENSES EACH MONTH — % EXTREMELY/VERY DIFFICULT



CONSISTENTLY CARRY BALANCES ON CREDIT CARDS — % YES



PROVIDING FINANCIAL SUPPORT FOR OTHERS



Key Takeaways

- Income level drives perception of financial security, but employees at all income levels share similar long- and short-term goals.
- Financial stress is felt most acutely by workers at the lowest income level, but no income bracket is immune from financial stress.
- Employees are aware of different types of savings vehicles, but they need help optimizing their benefits.



Retirement is a top goal for all workers, even though there are differences in how employees are following through on this goal

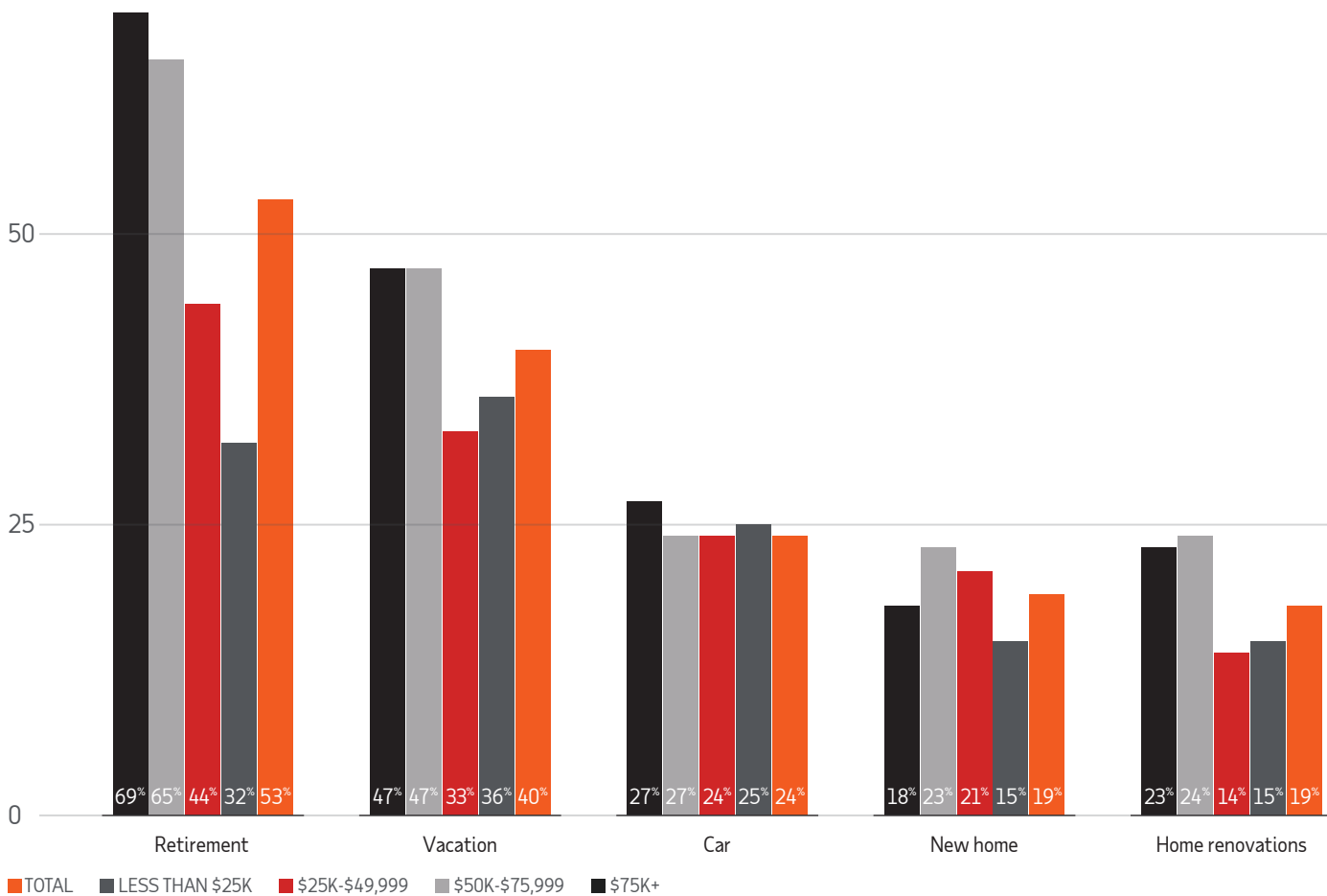
As anyone who has advised consumers on their financial planning needs knows, income often determines how and how much people save. Low wage earners may feel that they don't make enough money to allocate toward saving because of more immediate needs. Saving therefore gets put on the backburner.

Nonetheless, according to the survey results, low-wages earners are aware of the necessity to save. Retirement is a top goal for all workers, even though there are differences in how employees are following through on this goal.

For example, 69 percent of workers at the highest income level say they are saving for retirement, yet fewer than half that number at the lowest level are. Similar saving behaviors can be seen for goals such as vacation, car and new home.

CURRENTLY SAVING FOR

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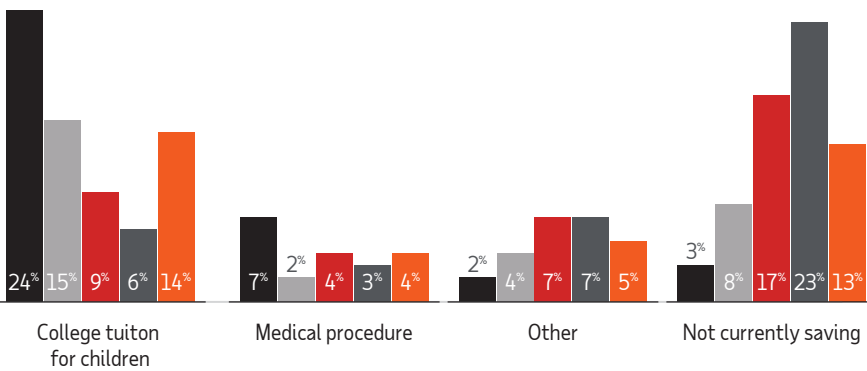


Interestingly, while low earners have a lower rate of retirement saving participation, they are also the most concerned group of employees that they will not be able to retire when they want. This is their second biggest financial concern, right after not having sufficient emergency savings.

Employers should take note since that sentiment can hinder their ability to manage their workforce efficiently. When workers are worried about their ability to support themselves in retirement, they may stay on the job longer than anticipated. That impedes career progress for younger workers and stymies employers' ability to refresh their workforce's skillset.



Workplace financial wellness programs are an employee benefit that gives employees access to financial advice and coaching delivered in an unbiased manner.





Because lower-earning workers are worried about not having a big enough cash cushion to weather an emergency, they may eschew less liquid types of accounts in favor of those that give them access to the money quickly



Employees across the income spectrum share similar savings goals

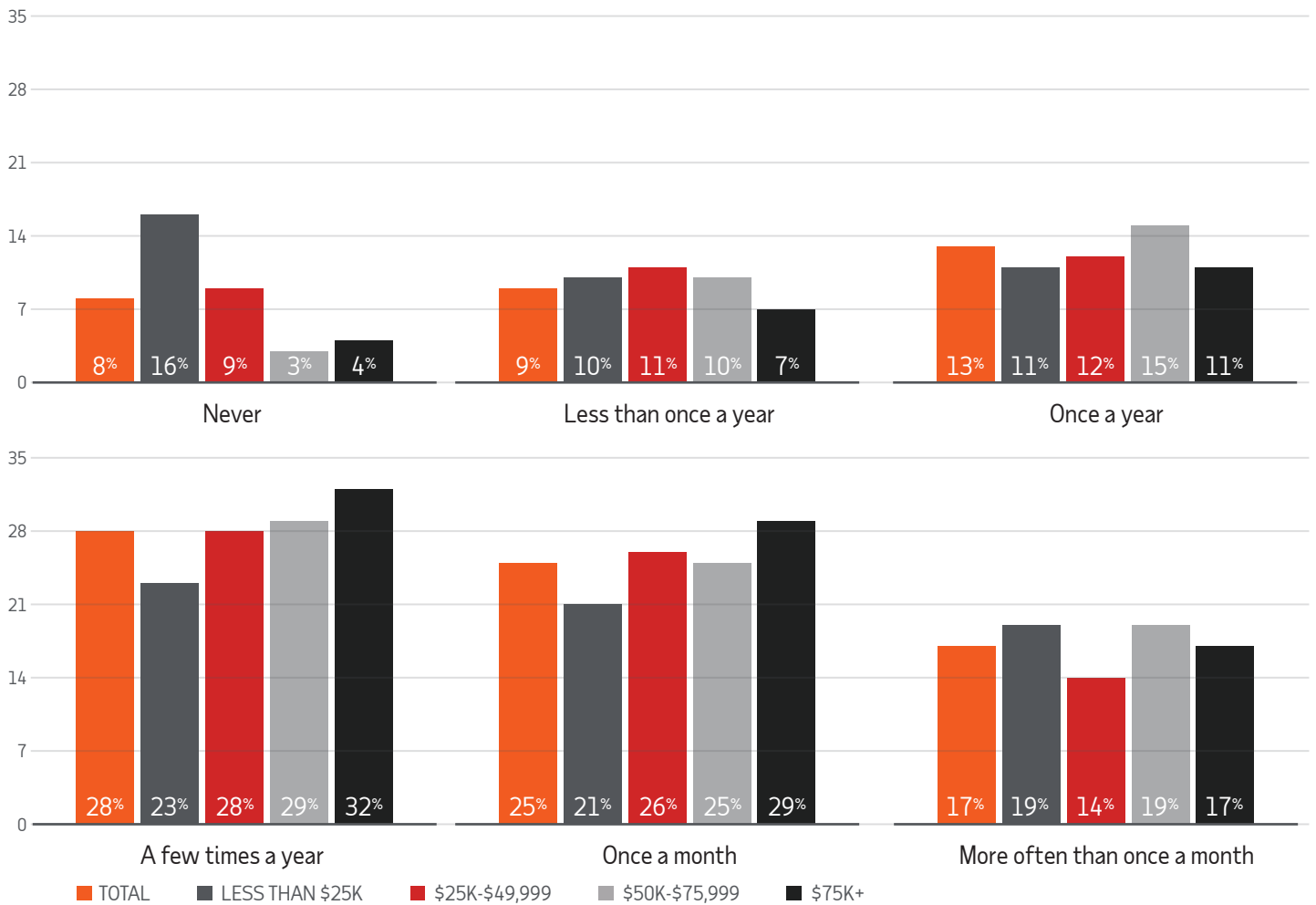
The research also pointed to several bright spots, which can be used as jumping off points for tailoring financial wellness programs.

For example, seven out of 10 consumers review their savings at least a few times a year, providing themselves with opportunities to identify shortcomings and course-correct. These respondents say that they regularly evaluate their overall and retirement savings. However, an unexpected expense is another catalyst for doing this.

It must be noted, though, that those with the lowest income are the least likely to review their savings. They are missing out on the opportunity to identify missteps and make a plan for improvement. These employees need encouragement to undertake periodic reviews and a financial wellness program that engages all employees can help them see the value of reviews.

Most employees evaluate their savings at least a few time a year

FREQUENCY OF SAVINGS EVALUATION



Viewpoints

- Focus on a broad range of financial advice, not just retirement planning. Many consumers at the lower income range may need help with short-term financial goals, such as debt elimination and building emergency savings first.
- Walk employees through periodic financial reviews, with a special focus on successes no matter how minor. This helps them see progress toward their goals and provides encouragement to adopt even more positive financial behaviors in the future.
- Create financial content for employee-facing communications that runs from basic to sophisticated. Some employees may crave complex investing strategies, but others may need lessons on budgeting and student loan management.



Awareness of savings vehicles is high, but employees could be using them better

The research shows that employees have a keen awareness of savings vehicles as demonstrated by participation rates. Naturally, checking accounts are the most widely utilized savings vehicle, with more than 80 percent of workers at all income levels using one. Employees at higher income levels, however, are more likely to save in other types of instruments as well, such as savings accounts, 401(k)s and IRAs.

Because lower earning workers are worried about not having a big enough cash cushion to weather an emergency, they may eschew less liquid types of accounts in favor of those that give them access to the money quickly. Furthermore, because many saving vehicles have tax advantages, those at the higher end of the income range can realize the greatest tax savings. Lower paid workers may not realize the benefit of tax-advantaged accounts.

CURRENT SAVINGS VEHICLE USED



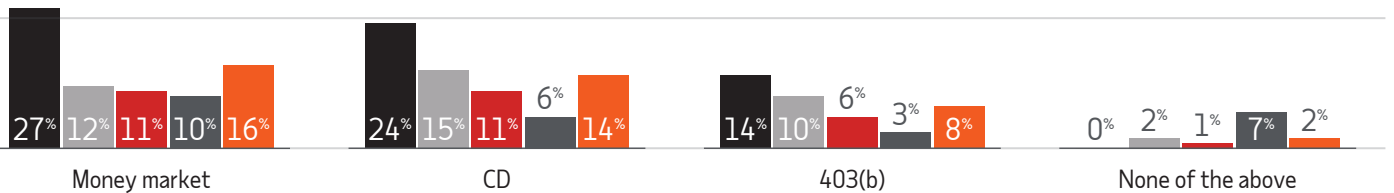
Viewpoints

- Demonstrate the value of HSAs for all employees. Not only will all employees see tax savings, HSAs help them build a pool of assets to deal with big medical bills in the future, protecting them from building up debt in the case of a medical emergency.
- Help your business clients design retirement plans with automated features. This can increase participation rates among employees, who don't traditionally save for retirement, unless they opt out.
- Create content around different savings vehicles and their best use cases.

Employees are using a variety of savings vehicles

Looking at the most common employer-sponsored benefits, employees show a preference for health savings accounts (HSAs) and health reimbursement accounts (HRAs), particularly those with income over \$50,000 per year.

63 percent of the highest-earning workers believe that HSAs and HRAs are a useful tool in realizing their financial goals, but only 34 percent of those earning less than \$25,000 a year believe that to be the case. Again, because of the tax benefits of HSAs (the money is considered to be triple tax-free, providing an upfront income tax deduction, tax-free growth and tax-free withdrawals for qualifying health care spending), higher-income workers realize the greatest amount of savings.



An opportunity to help the people who need it most

Unfortunately, the size of a paycheck has a direct correlation to whether and how much employees save. While the majority of higher earners see the value of saving for a variety of goals, those at the lower end aren't sure how they can balance their concerns over paying their monthly bills and staying out of debt with future savings. These are the segments of the workforce, which could realize the biggest benefit from financial wellness programs.

However, these employees are least likely to find such offerings helpful when they are available to them. Only 22% of survey respondents who make less than \$25,000 a year believe financial wellness programs to be helpful, compared to 53% of people making \$75,000 or more.

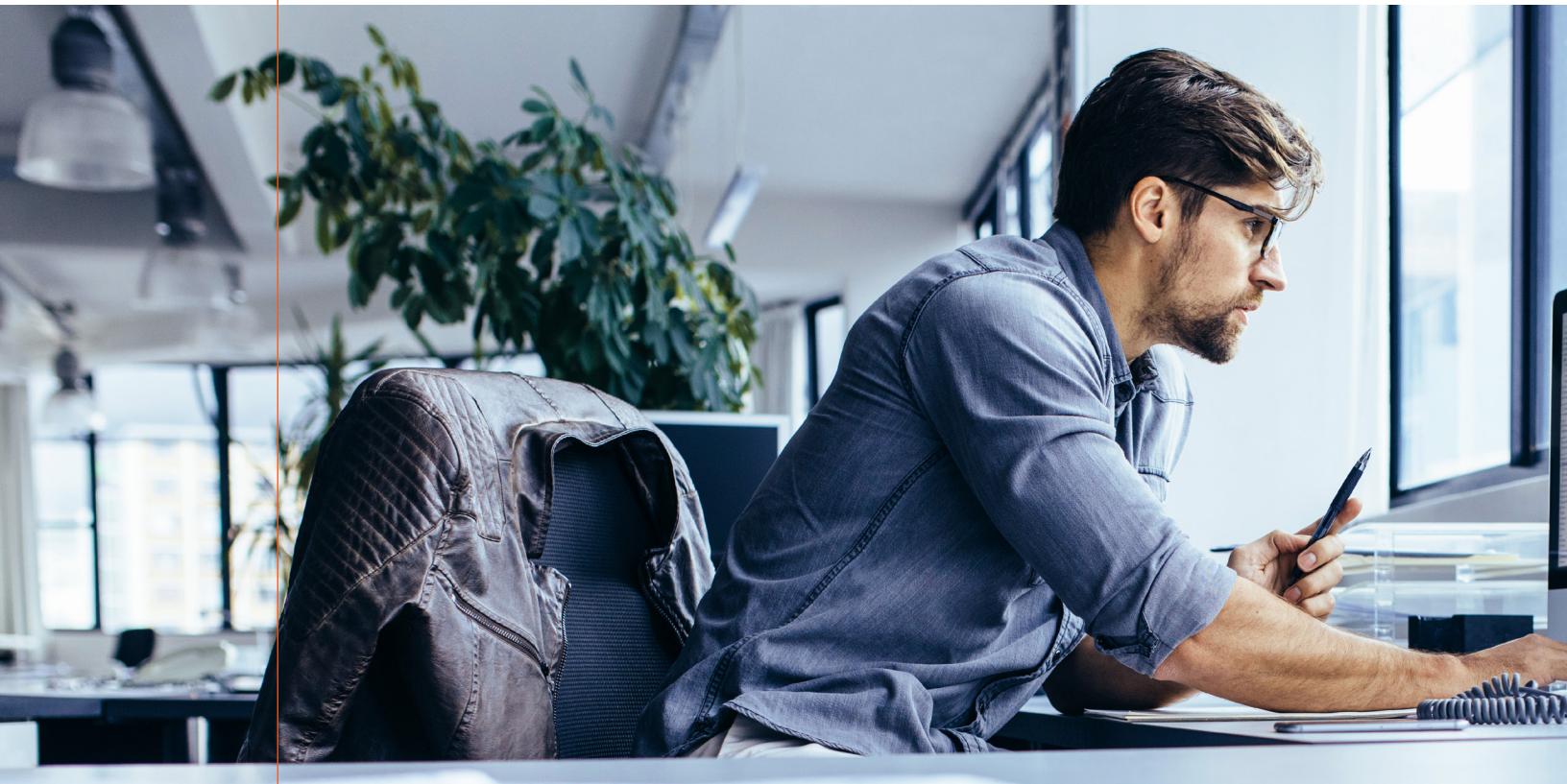
Advisors have an opportunity to design financial wellness programs that speak directly to the financial concerns of lower wage earners. They can demonstrate the impact of better financial decisions on their lives and their careers.



Designing for all of life's challenges

PRIOR TO THE PANDEMIC, FINANCIAL WELLNESS PROGRAMS WERE EMERGING AS A KEY BENEFIT BECAUSE EMPLOYEES ARE UNDER AN INCREASING AMOUNT OF FINANCIAL STRESS, FROM STUDENT LOAN MANAGEMENT TO HIGH HOUSING COSTS. Now more than ever, helping workers solve these challenges through benefits packages shows employees that work is about more than just a paycheck.

But for these programs to be successful, they must address the needs of all employees, even those for whom saving is more of a challenge and who are struggling with more basic financial challenges. Advisors can provide an invaluable service to these workers — and at the same time demonstrate to business clients that they know what it takes to help them achieve greater business success.



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Methodology

SourceMedia Research (a unit of SourceMedia, publisher of *Financial Planning*) conducted an online survey in February 2019 of 1,028 consumers who were employed either full or part time. All respondents were at least 21 years old and from various household income levels.



Redefining Retirement

For more information about ADP's financial wellness and retirement plan solutions, please contact us today at 844-ADP-ELITE or visit www.adp.com.

This white paper is based on a study conducted by SourceMedia Research on behalf of ADP Retirement Services. The research was completed in February 2019.

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