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SECURE 2.0 ACT OF 2022 & THE POWER OF EMERGENCY SAVINGS

Why should employers care about employee financial wellness, and how can the SECURE 2.0 Act of 2022 legislation help increase the financial stability of America's workforce?

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OVERVIEW: FINANCIAL WELLNESS & THE IMPORTANCE OF THE SECURE 2.0 ACT

Julie Kalkowski, Founder and Executive Director of the Financial Hope Collaborative, poignantly states, "Income is the No. 1 predictor of your health in America." In this white paper, we discuss how, in addition to income, saving even a modest amount of money each month can have a powerful impact on an individual's overall health, and on the health and stability of their family. A sufficiently funded emergency savings account is the foundation of financial stability, which delivers greater security for housing, transportation, and food, all of which lead to wide-reaching positive outcomes, affecting everything from smoking cessation to employee engagement and retention rates.[1]

Now, more than ever, employers have access to the programming and plan resources to drive the following five financial health dimensions for their workforce:

- **Security:** This refers to having enough income and assets to meet one's basic needs, such as housing, food, healthcare, and education. It also includes having a sufficient financial cushion to weather unexpected expenses or emergencies.
- **Stability:** This refers to the ability to maintain a consistent standard of living over time, even in the face of financial setbacks or changes in circumstances. It includes having a stable income, manageable debt, and sufficient savings to meet financial goals.
- **Independence:** This refers to the ability to make financial decisions and manage one's own financial affairs without relying on others. It includes having control over one's financial resources, being able to make financial plans, and being able to set and achieve financial goals.
- **Literacy:** This refers to understanding financial concepts, such as budgeting, saving, investing, and borrowing, and being able to make informed financial decisions. It includes having the knowledge and skills to manage one's finances effectively.
- **Satisfaction:** This refers to feeling good about one's financial situation and having a sense of control over one's financial future. It includes feeling financially secure, having a sense of accomplishment in managing one's finances, and having a clear financial plan for the future.

New federal legislation will make it easier for employers to provide employees with the tools and resources to increase performance across these five drivers of financial wellness. In December 2022, Congress passed, and President Biden signed into law, the Consolidated Appropriations Act, referred to as the SECURE 2.0 Act. This new legislative milestone seeks to directly address the governing dynamics that prevent broader adoption of retirement plans and emergency savings accounts through an array of new benefits for both employers and their employees.

Key areas of the legislation include automatic enrollment, required minimum distributions (RMDs), catch-up contributions, long-term / part-time employees, student loan debt, saver's match, and emergency savings. This white paper will address the latter **(emergency savings)** as the greatest opportunity to address the financial needs of the 6 out of 10 American workers not currently participating in a 401(k) program.

LIVING PAYCHECK TO PAYCHECK IS ONE OF THE MOST EXPENSIVE JOBS IN AMERICA

Right now, more than six out of ten employees across America are living paycheck to paycheck. This is an increase of over nine million Americans from the end of 2022. And the issue reaches across classes and touches both hourly and salaried workers. In December 2022, 50.8% of those earning over $100,000 annually reported they, too, are living paycheck to paycheck.[2]

This harsh reality was a powerful backdrop for the SECURE 2.0 Act legislation, but factors like ongoing inflation have put continued pressure on the American consumer, pressure which disproportionately affects Black, Hispanic, and middle-class households. Financially vulnerable and coping communities living paycheck to paycheck are, at times, susceptible to unavoidable debt. Financial Health Network's *FinHealth Spend Report 2022* states that the most Financially Vulnerable households "spent 14% of their incomes on interest and fees, vs. 1% for the Financially Healthy."[3]

The ultimate consequence (and cost) of living paycheck to paycheck is stress. Anxiety and panic, sleeplessness, and feelings of isolation and loneliness are often reported. [4] And, unfortunately for employers, employees can't simply "leave stress at the door". The ever-present negative consequences of employee financial stress span from absenteeism to presenteeism, productivity loss, and increased healthcare costs, all of which have a profound impact on businesses, too. According to The Employer's Guide to Financial Wellness, financial stress results in approximately 11–14% of annual payroll costs in lost productivity and increased turnover.[5]

Until recently, many experts viewed financial stress as directly connected to income. The premise was that workers earning lower wages would inevitably experience financial stress, it was unavoidable. To support the narrative of this powerless position, 65% of those studied by the American Psychological Association state that money is a significant source of stress, with 57% citing insufficient emergency savings as "having a major negative impact on their mental health."[6]

Are these same six-in-ten Americans permanently stuck in a cycle of debt, simply surviving one day to the next?

Fortunately, new studies suggest otherwise. "Research shows that saving something — no matter how small — can gradually build a sense of optimism. Watching a fledgling bank account grow helps us feel like we're working toward something greater and gives us the traction we need to find new ways to save more and save faster."[6]

Emergency savings and the associated provisions in the SECURE 2.0 Act of 2022 provide employers with a powerful tool to mitigate their employees' financial stress, reduce the number of families living paycheck to paycheck, and increase the productivity of the American workforce as a whole.

EMPLOYER-SPONSORED EMERGENCY SAVINGS IS THE ANSWER

Emergency savings is important because it provides a financial cushion for unexpected events such as job loss, medical expenses, home or car repairs, or natural disasters. It helps ensure employees can meet their basic needs and avoid reaching for high-interest credit cards during difficult times or, even worse, depleting their retirement savings.

HOW MUCH EMERGENCY SAVINGS IS ENOUGH?

Research from the University of Colorado suggests that **$2,467** in savings "significantly lowers a person's chances of experiencing financial hardship (such as skipping rent or bill payments and taking out high-cost loans) if an unexpected expense occurs." This amount is roughly one month of lower-income household expenses but doesn't account for rising inflation, which means the required amount of savings to avoid hardship has likely increased over the past year.[8] That said, the SECURE 2.0 Act of 2022 is intended to tackle this issue head-on, but human resource leaders and the C-suite need to prioritize emergency savings as a voluntary, yet vital, benefit for employees.

How do we measure the connection between emergency savings and financial stress?

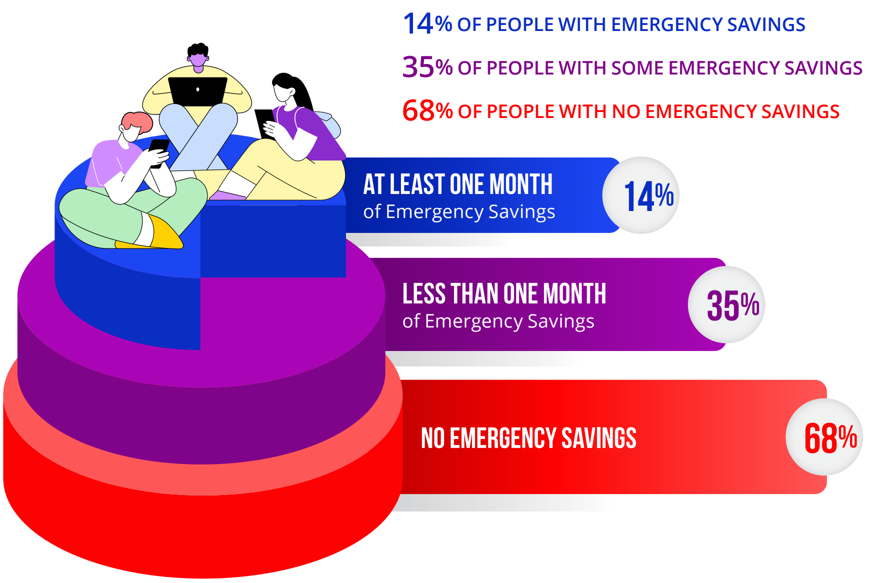
The Consumer Finance Protection Bureau's (CFPB) financial wellbeing scale is a sentiment analysis that "reflects a consumer's impression of their own financial condition", with a score from 1 to 100. This scale has proven to be an effective and reliable barometer for measuring financial stress. Individuals with no emergency savings score an average of 40, while the overall population averages 51. This score jumps to 61 for individuals that have at least one month of income saved.

The CFPB's study on financial wellbeing breaks down savings into three levels: 1) no emergency savings; 2) some but less than a month of income; and 3) at least a month of income. These groups reported that "finances control my life" "often or always" by 68%, 35%, and 14%, respectively.[7] (See **Figure 1.1**) This demonstrates that the smallest amount of savings, coupled with consistent savings behavior, presents an opportunity for businesses to dramatically decrease stress-related, negative outcomes in the workplace.

FIGURE 1.1

PERCENTAGE OF PEOPLE WHO AGREE FINANCES ARE "OFTEN" A CONTROLLING LIFE FACTOR

As reflected in The Consumer Finance Protection Bureau's study on financial wellbeing.



THE NEW
EMERGENCY SAVINGS PROVISION

Starting in January 2024, the SECURE Act 2.0 empowers employers to create "sidecar" accounts tied to employee retirement accounts and elect to auto-enroll employees at a rate of "up to 3% of pay." [9] Unlike a traditional 401(k) which must be invested in principal-protected assets, these sidecar accounts must allow employee withdrawals at least once per month. The following rules further define the provision:

- Annual contributions are capped at $2,500, with interest earned not counting toward amount contributed.
- Sidecar contributions count toward annual retirement deferral limits.
- Contributions are pre-taxed and not upon withdrawal.
- Participants can elect to contribute to both their sidecar and retirement accounts at the same time.
- Participants can self-attest financial hardships for withdrawals with less stringent requirements compared to existing hardship claims.
- Participants with retirement accounts can borrow $1,000 to be paid back within three years, without penalty or required reporting on the use of funds.

These are the major highlights of the new emergency savings provision, representing a major opportunity for employer-supported financial wellness. Unfortunately, there is one glaring omission in this legislation: ***the SECURE 2.0 Act provides only $1,000 in short-term emergency liquidity options for employees with retirement accounts.*** Given U.S. Census Bureau figures showing only 41% of Americans contribute to a 401(k) or similar retirement savings plan, the gap in this provision ignores the short-term liquidity needs of the employees most likely to be living paycheck to paycheck. Employers will want to solve this challenge through additional initiatives.

PRACTICAL NOTES
FOR MANAGERS

For organizational managers, their employees' financial wellness can often fall into a kind of grey area – a topic that can be sensitive to discuss but, as it can affect employee performance, has become a subject leaders can't afford to ignore. Gone are the days when employees' personal lives and concerns were left outside the office building. While this can sometimes present a greater challenge for managers, it also represents leaps forward in valuing and prioritizing an employee's well-being both for its influence on organizational dynamics, and as a tangible expression of support for team members.

1

TAKE THE "FINANCIAL TEMPERATURE" OF YOUR ORGANIZATION

At its core, this step involves gathering information from a range of sources to understand the current state of financial wellness amongst your organization's workforce. In practice, this can be the most challenging action to take for a few reasons. First, it's likely that many, if not most, employees will be reluctant to share their financial concerns with someone in a position of authority, such as a direct supervisor or senior leader, for fear of being judged harshly. While far less common today, it wasn't too long ago that many organizations routinely ran credit checks on job applicants, and a CEO of a US-based airline famously told his leadership team that if an employee couldn't manage their own money, they had no business working for him. Leaders, therefore, need to create an environment in which their employees feel comfortable sharing their concerns and challenges. Anonymity can be key here. While surveys sometimes yield useful insights, an old-fashioned physical "suggestion box" that isn't tied to anyone's user ID or computer system may encourage more people to be candid about their thoughts. If the organization is larger, a third-party consultant who can exercise objectivity may be the answer.

2

UNDERSTAND LEADERS' PERSPECTIVES MAY DIFFER FROM EMPLOYEES

A second reason it may be challenging for leaders to gauge the financial wellness of their workforce is that, for most of them, their financial realities may be dramatically different from those in the position to make organizational decisions. These can manifest in a variety of forms, stemming from differences in compensation method (e.g., hourly vs. salaried, exempt vs. salaried non-exempt), household composition, and types of financial obligations. The astute leader recognizes that their own beliefs and personal financial situation is not the best measure of organizational needs and, therefore, seeks out a variety of informational inputs to sketch out a true picture of the current status of financial wellness amongst the team. These can include reviewing basic employee demographics, the results of recent cost of living surveys for the communities in which employees live (and not just where the offices are located), and the inputs from those insiders who have their fingers on the employee "pulse", such as human resources officers, administrative staff, and experienced team leads.

Given the sensitive nature of discussions involving personal finance, leaders must act with intention before embarking on a program to raise awareness and provide support for their employees' financial wellness. By taking the time to evaluate the needs in their organization and plan appropriately, managers greatly increase the likelihood that the steps they take in support of their employees' financial well-being are successful. Here are some recommendations to create an actionable implementation plan:

3

SHIFT FROM REACTIVE TO PROACTIVE RE. EMPLOYEE FINANCIAL WELLNESS

Regardless of the work environment or sector, every organizational member benefits from access to financial wellness education and tools. Managers who embrace this attitude can move the conversation from reacting to emergencies, to preparing for future needs and goals for everyone. This can remove much of the stigma associated with personal financial struggles, creating a welcoming space in which participating in organizationally-sponsored trainings or using company-subsidized financial wellness products is normalized. This way, the topic becomes just another part of a healthy organizational culture. Make strides in this direction by devoting time during employee orientation and onboarding periods (yes, those are two different things!) to demonstrate the organization's commitment to employee financial wellness—but discussion shouldn't end there. Building financial literacy concepts into trainings, employee events, and supervisor-employee conversations fosters an environment in which employees feel supported and empowered by leadership. And, let's face it, the personal financial lessons have as many practical applications in the workplace as in the home.

4

CREATE A HEALTHY WORK ENVIRONMENT FOR EVERYONE

This might seem like a no-brainer, but when leaders put real resources into helping employees manage their personal needs, everyone benefits, including the organization overall. Countless studies have shown that workers who feel seen and valued are more satisfied and engaged in their work. The result is greater productivity, decreased absenteeism and voluntary turnover, and a more positive work environment. But talk is, as they say, cheap – to make a real difference, organizations must be prepared to invest both money and time to provide their employees with the tools they need to improve their own financial wellness. While there are a range of commercial products and training opportunities available for organizations of all shapes and sizes, it is critical that leaders understand the needs of their workforces before embarking on a particular path toward greater financial literacy and wellness. In many cases, an objective outsider's evaluation can help in avoiding the pitfalls listed above, helping organizations make the most of the resources they commit.

CONCLUSION

Legislation like the SECURE 2.0 Act of 2022 aims to address some of the structural and contextual challenges preventing many workers from both feeling and being financially secure. Organizational leaders can use the attention raised by these policy actions to start, or deepen, conversations with their employees on taking control of their own financial well-being. The leader who is strategic and intentional in providing personal finance tools to their workforce strengthens their organization's ability to achieve its vision and fulfill its core mission.

UPCOMING WHITE PAPER ON ENSURING LIQUIDITY INCLUSIVITY

In practical terms, the SECURE 2.0 Act offers employers an opportunity to strengthen the financial health of their workforce and provide employees with a convenient and cost-effective way to build emergency savings, which research demonstrates reduces stress. Emergency savings is an optional provision in the legislation but opens the door for companies committed to equity and inclusion to differentiate themselves in a competitive labor market, while reducing costs associated with workplace stress.

For all the benefits the new legislation provides, gaps in addressing the needs of all employees will continue to exist. Most notably, the approximately 60% of the workforce currently without a retirement account will not benefit from the $1,000 liquidity solution. Providing alternative liquidity options will be essential for enterprises to guarantee access to affordable short-term credit options, in case of emergency.

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