



GEORGETOWN UNIVERSITY

McCourt School of Public Policy

Center for Retirement Initiatives

Webinar May 14, 2020

**COVID-19 & Financial Fragility:
The Case for a More-Holistic Approach to Savings to Protect Retirement**

cri.georgetown.edu | Twitter: [@cri_states](https://twitter.com/cri_states) | Facebook and LinkedIn

Our Panel:

Wendy Carter, Vice President, DC Contribution Director, Segal Consulting

Aaron J. Harding, Managing Director, Financial Wellness, PwC

David C. John, Senior Strategic Policy Advisor, AARP

Will Sandbrook, Executive Director, UK NEST Insight

Deborah Winshel, Global Head of Social Impact, BlackRock

Moderator:

Angela M. Antonelli, Executive Director, Georgetown Center for Retirement Initiatives

Aaron J. Harding

Managing Director, Financial Wellness

PwC

Financial fragility: Employee actions and attitudes



Presented by:
*PwC's Employee financial education and
wellness practice*
May 2020

COVID-19 is not only challenging the way we live on a daily basis, but also posing significant short and long-term economic threats that could have a lasting effect on personal financial well-being.

Today's speaker

PwC Employee financial education and wellness practice

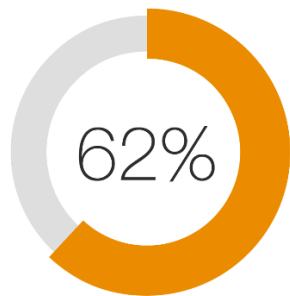
pwc.com/us/financialwellness



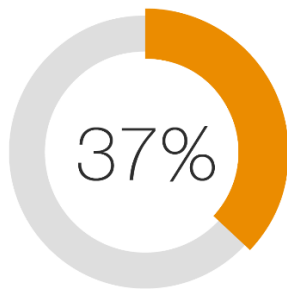
Aaron J. Harding
Managing Director
aaron.j.harding@pwc.com

Many are unprepared for short-term cash needs.

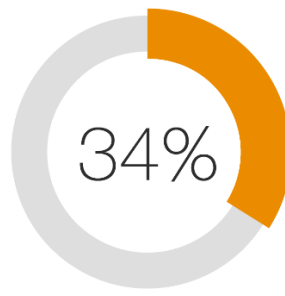
Less than \$1,000 saved to deal with emergency expenses:



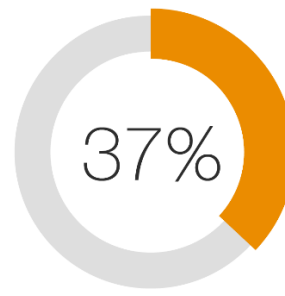
Gen Z



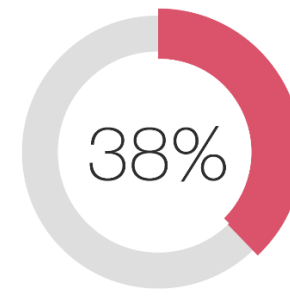
Millennials



Gen X



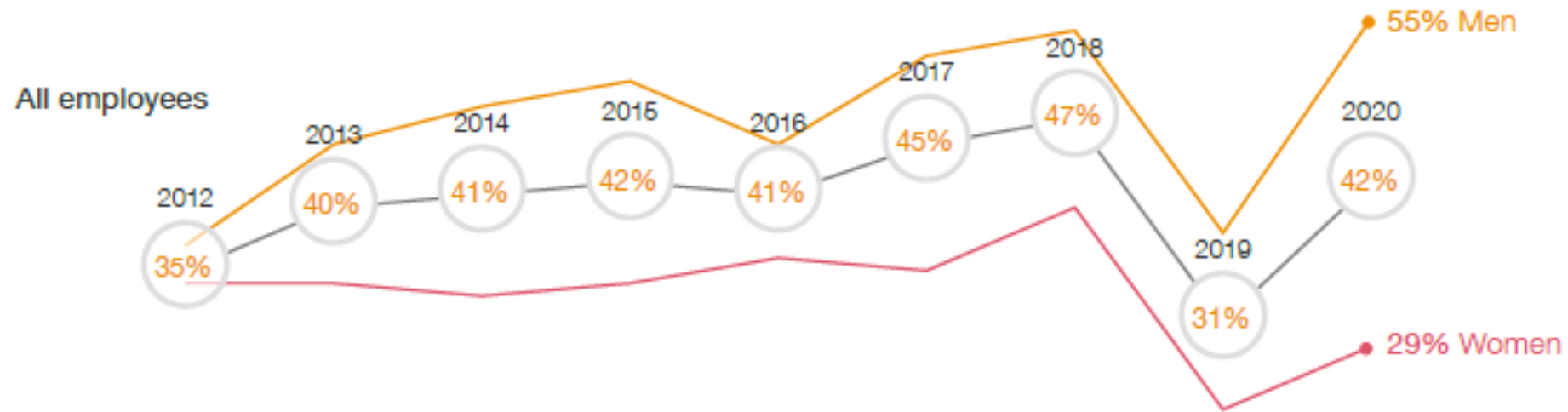
Baby Boomers



All employees

The gender gap is widening.

Employees who would be able to meet basic expenses if out of work for an extended period of time:



Student loans impact the ability to meet other goals.

Among the 40% of
Millennial employees
with student loans:

39% say their student loans
have a **significant impact**
on their ability to meet other
financial goals.

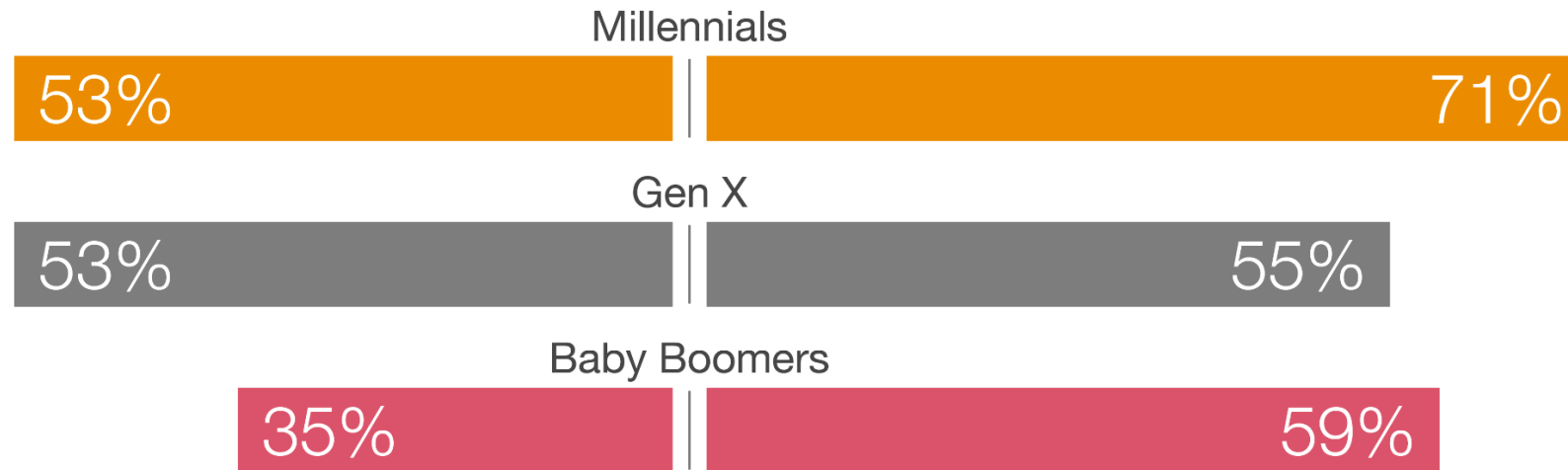
and

35% say their student loans
have a **moderate impact**
on their ability to meet other
financial goals.

Retirement plan withdrawals could further damage already underfunded retirement savings.

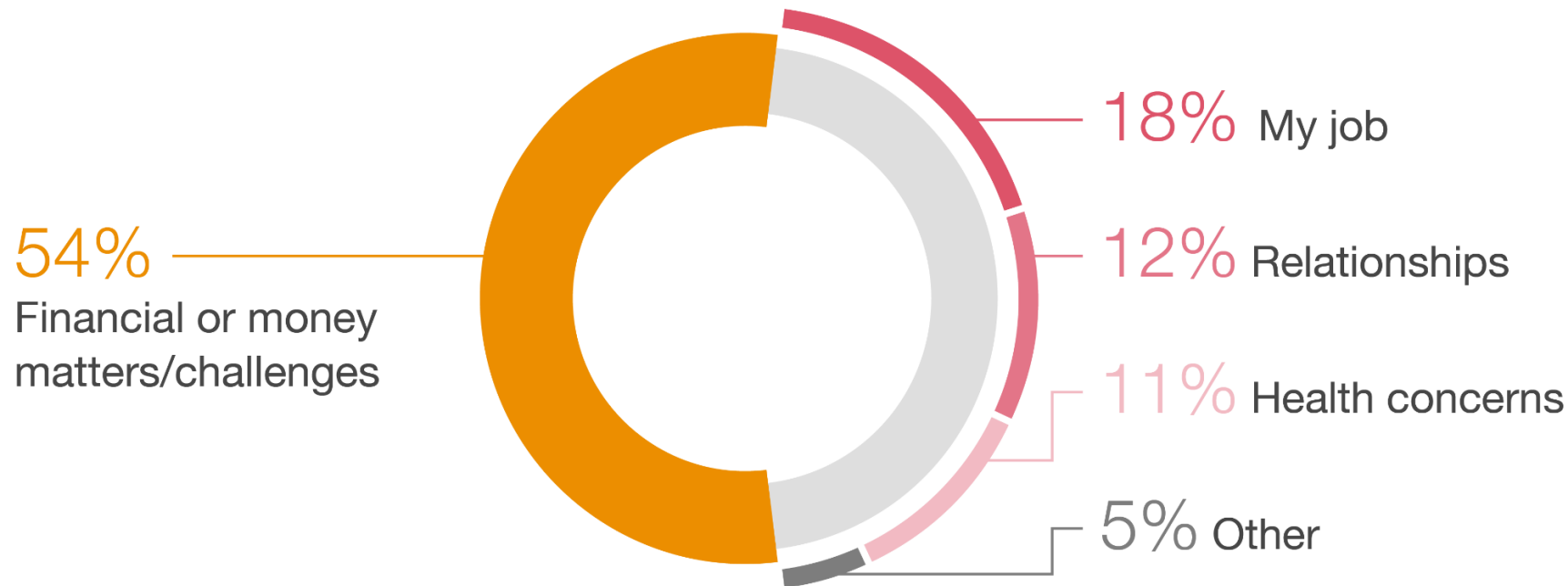
Employees who think it's likely they'll need to use money held in retirement plans for expenses other than retirement:

Employees with less than \$100,000 saved for retirement:



Financial matters are the top cause of stress.

Which of the following causes you the most stress?



What's causing financial stress today

Decrease in household income

Paying for monthly expenses

Medical bills

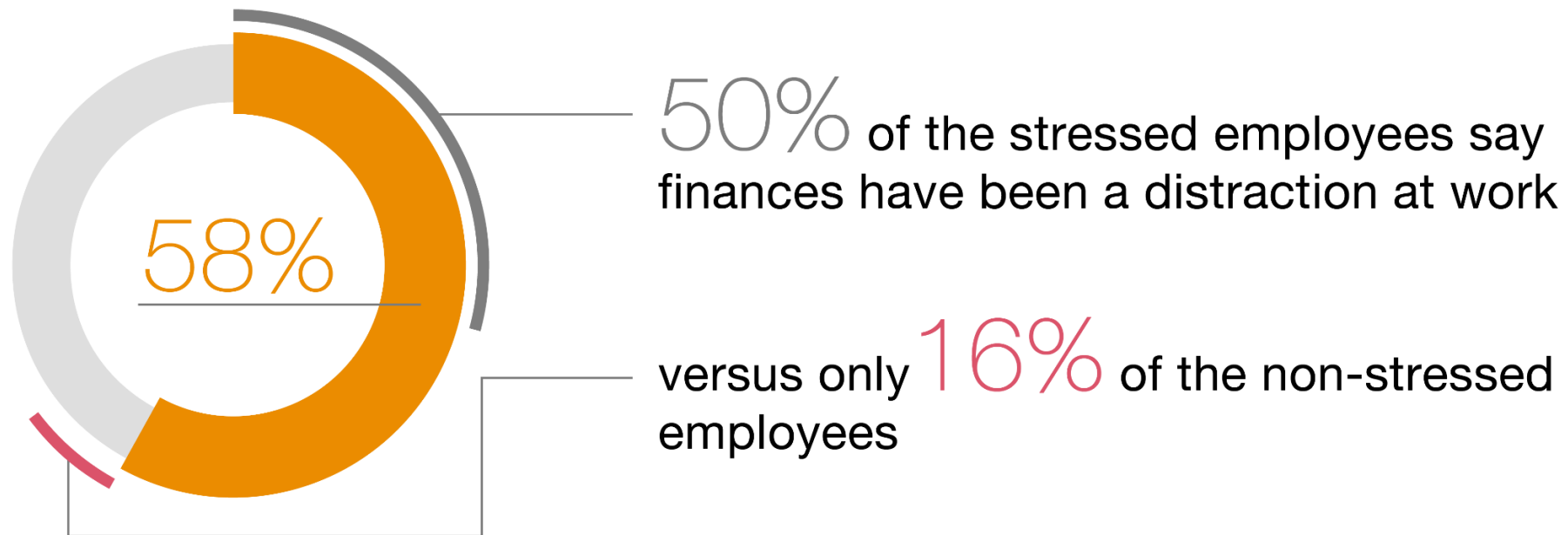
Managing debt payments

Stock market fluctuations



Financial stress is a major distraction at work.

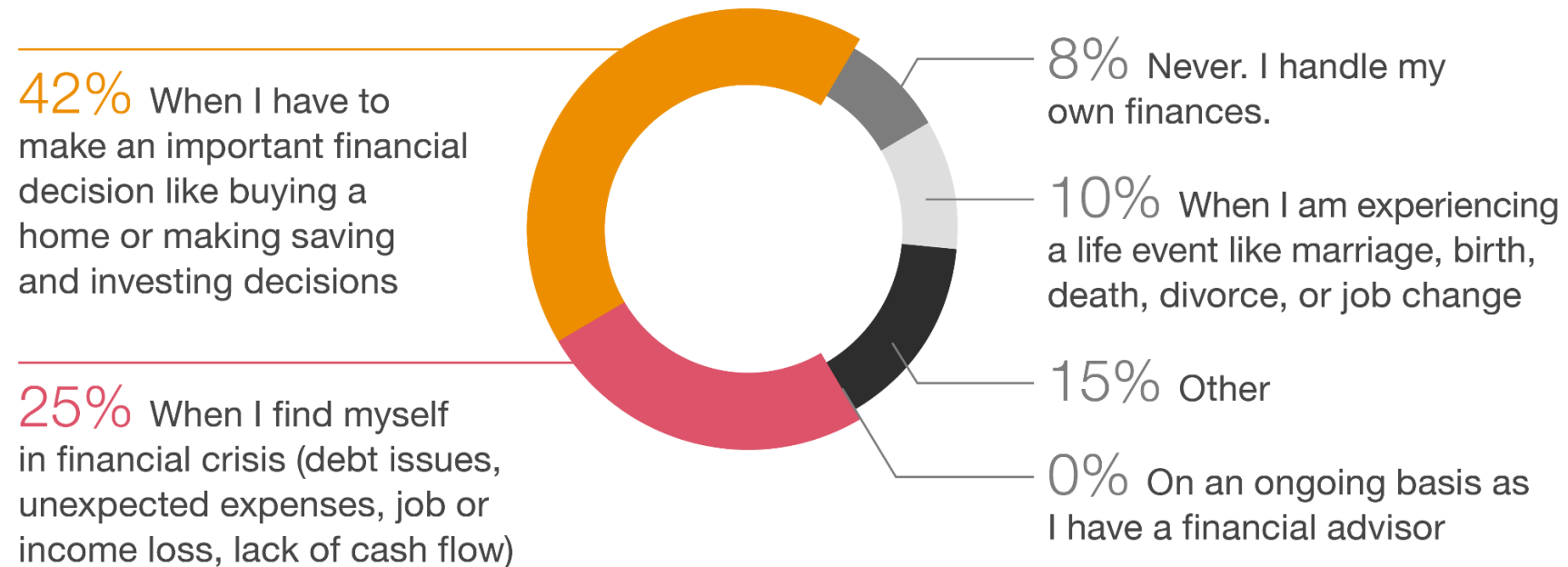
58% of employees admit that they're stressed about their finances.



Employees want help with their finances.

Most employees seek financial guidance at key decision points or when they're already in crisis.

When are you most likely to seek financial help or guidance?



What we've seen with clients

Employees need help in the short-term:

- Prioritizing expenses
- Understanding available assistance and resources
- Managing student loan payment decisions
- Evaluating implications of accessing retirement funds



What we've seen with clients

And for the longer-term:

- Building emergency savings
- Planning an appropriate investing strategy
- Re-evaluating goals put on hold during the crisis
- Recontributing retirement funds withdrawn during crisis
- Estimating retirement needs and savings sufficiency

Financial fragility: Employee actions and attitudes



Questions?

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Deborah Winshel

Global Head of Social Impact

BlackRock

Social Impact at BlackRock

Where We Are and How We Got Here

We're a **start-up**; our journey began in 2015.

Our work advances BlackRock's positive contribution to society and furthers BlackRock's purpose of helping more *and more* people experience financial well-being.

What We Do and Why We Do It

We invest in ideas and solutions to help address pressing social problems, with a focus on **inclusive economic sustainability**.

We know that it's difficult for people to build for the future when they are worried about *today*.

The role of a short-term savings buffer in preventing longer term financial devastation is well-documented and underinvested in. This has only been underscored by the tenuous situation facing millions of people due to the COVID-19 pandemic.

Today's Discussion

BlackRock's Emergency Savings Initiative



Payroll platform



Payment provider



W2 Employer



Gig platform

Why emergency savings now, in light of COVID-19?



Increase in Savings Behaviors in Early Data



Deepening Consumer Motivation



Focus on Innovation from Policymakers, Financial Institutions

+5%

Increase in US national savings rate as of March, up from February

Source: Bureau of Economic Analysis

+57%

Increase in net savings over \$100 for LMI households in March 2020, up from March 2019

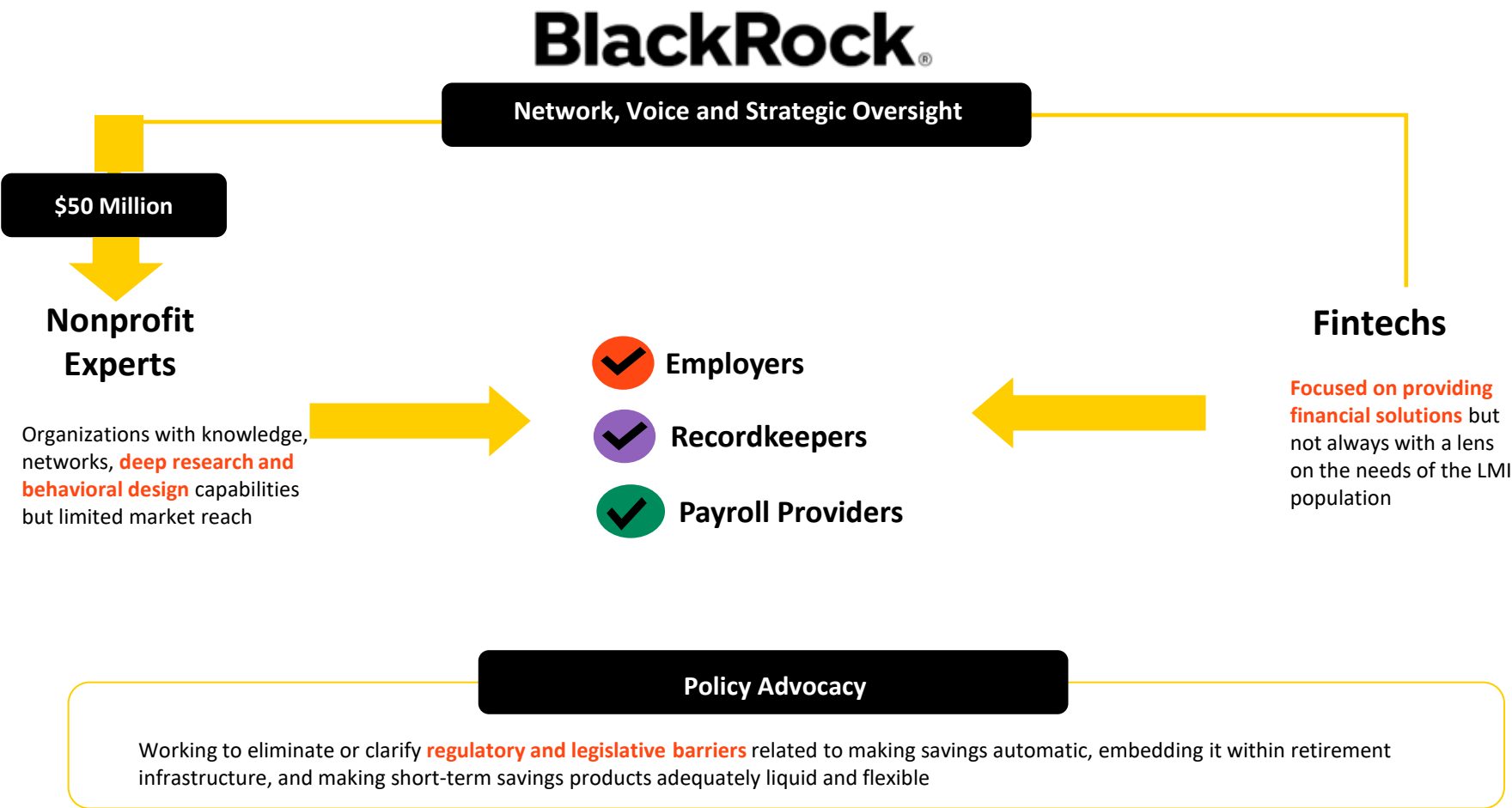
Source: SaverLife Insights

+500%

Increase in proportion of new LMI users creating 'Emergency Savings' goals on app Qapital in March, up from February

Source: Common Cents Lab

Ecosystem View: How we're eliminating barriers to saving



Will Sandbrook

Executive Director

UK NEST Insight



‘Retirement adjacent’ emergency savings

**Update on the UK context and
Nest Insight’s ‘sidecar savings’ trial**

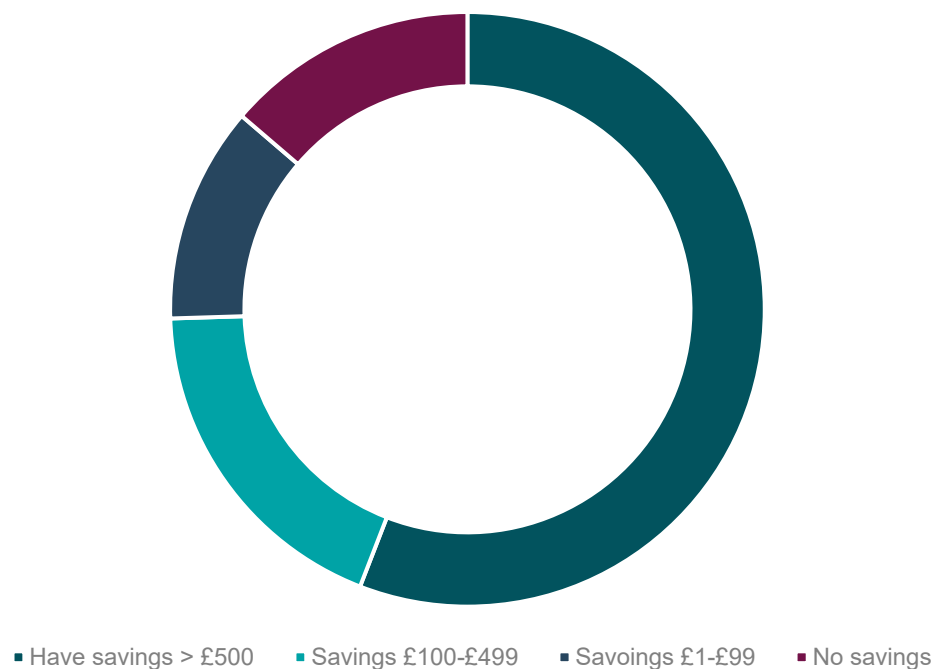
Will Sandbrook,
Executive Director, Nest Insight

What I'll cover

- › Financial resilience pre-crisis
- › Impact of COVID-19 on consumer finances – early evidence
- › UK regulatory context for retirement adjacent workplace emergency savings
- › Nest Insight's sidecar savings trial: structure and what we're learning
- › Future focus of our work

Pre-crisis levels of financial resilience

Savings levels among 'Squeezed' and 'Struggling' segments



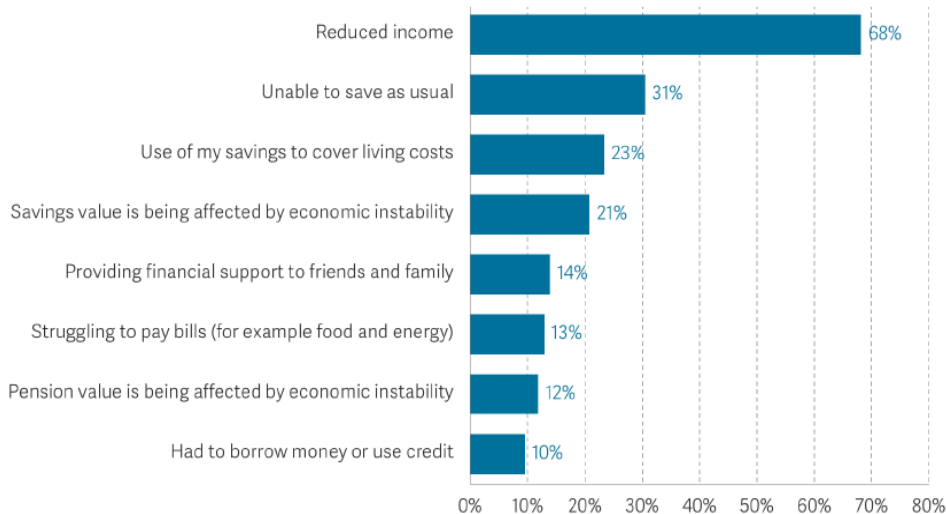
- › 'Struggling' and 'Squeezed' segments represent around 50% of adult population
- › Deemed those at more significant financial risk by the Money and Pensions Service (MAPS)
- › Almost half have less than £500 in savings, and a quarter have less than £100
- › Unsurprisingly, these groups are also more likely to have debts

Source: Money and Pensions Service, n = 25.8m

Impact of COVID-19 – early evidence

This is a huge crisis: households incomes have fallen

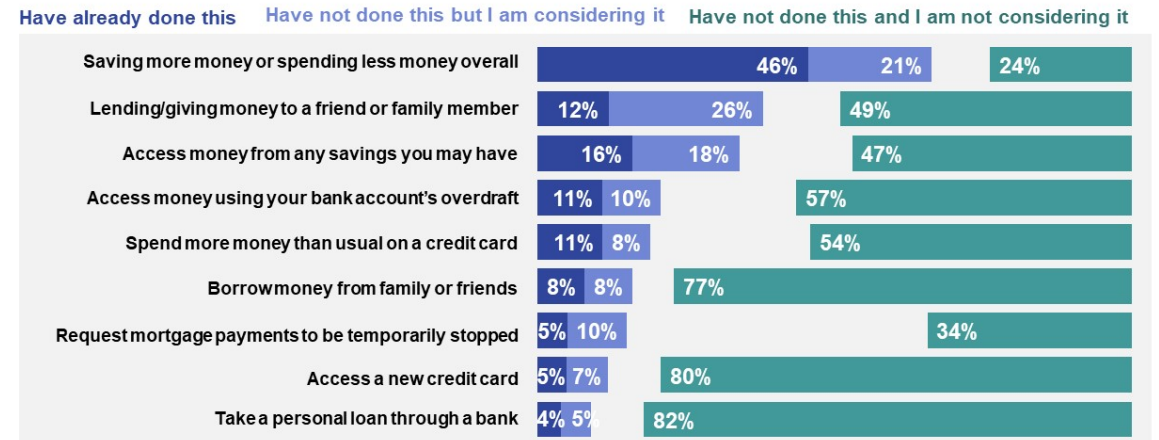
Proportion of household's reporting finances being affected by the following: GB, 9 Apr – 20 Apr



Source: ONS.

Financial measures taken due to the Coronavirus

Thinking about your current financial situation, have you done, or are you considering any of the following due to the Coronavirus outbreak? If the statement does not apply to you please say so.



Base: 1,072 Online British adults 16-75, 27-30 March 2020. Certain questions included "non-applicable" options.


13 © Ipsos | Coronavirus polling | March 2020

Ipsos MORI Ipsos

- › The impact of the crisis on household finances has been immediate and significant
- › Initial response was to reduce spending, but tapping into savings and borrowing more not far behind

A note on the UK regulatory context

- › Retirement saving in the UK is inaccessible until age 55
- › Important in this context for two reasons:



Not currently an option for people to tap into retirement savings to smooth COVID-19 impact

(Retirement impacts more about opt-out/cessation)

Workplace emergency savings discussion in UK is ALL about secondary savings account models – no 'in plan' option

- › As it stands – no clear legal mechanism for an employer to 'auto enrol' to a non-retirement account

Nest Insight's sidecar savings trial

- › Voluntary opt-in, payroll deduction workplace savings account
- › Provided in partnership with savings technology provider (Salary Finance) and a traditional savings account provider (Yorkshire Building Society)
- › Research led by Professor David Laibson working with his academic team, Nest Insight and the UK Money and Pensions Service
- › Funding from Blackrock, MAPS and the JPMorgan Foundation

Nest Insight's sidecar savings trial

Does creating a link between liquid and illiquid savings create an appropriate balance of overall liquidity, and enhance the financial wellbeing of savers?



How many workers sign up? Who signs up?

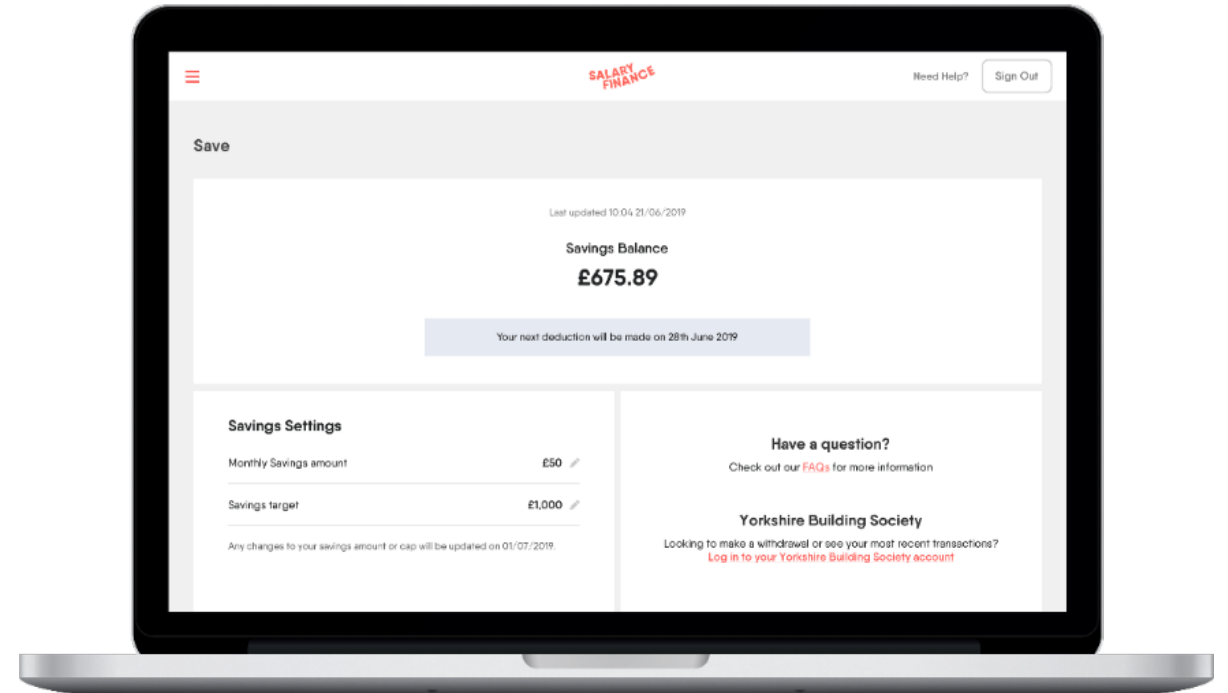
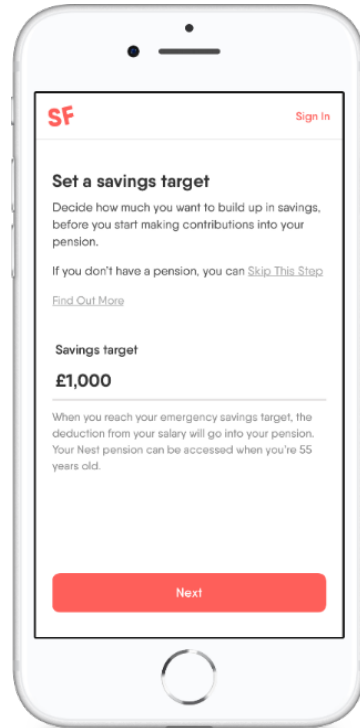
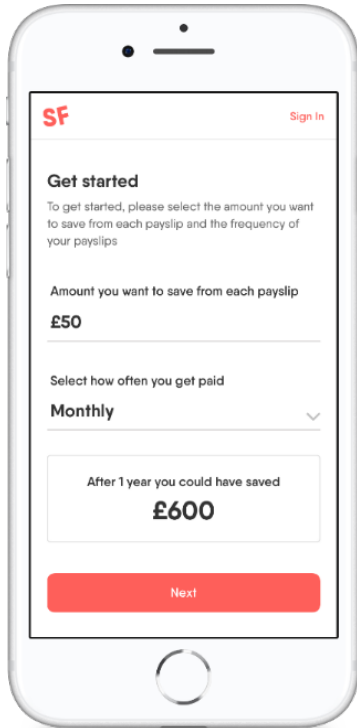


How do workers use the emergency account?
How much do they save?



Has sidecar had a positive impact on financial resilience and wellbeing?

Nest Insight's sidecar savings trial



Nest Insight's sidecar savings trial

- › Live with three employers – available to 74,000 employees
 - › Three more due to go live later in the year
- › Data gathering over a 2-year period – but early data from the Autumn
- › Initial (anecdotal) thoughts:

Practically, the product works and is very simple to use

Attractive in theory but barriers to take-up significant

Concerns about take-up also a hurdle for employers

- › And of course, COVID-19 is a disrupting factor...

Future focus of our work

- › Use the current situation to review:
 - › What could we have done better anyway, and
 - › How might COVID-19 change our approach?
- › Renewed focus on take-up, roll-out to remaining employers later this year
- › Exploring additional topics of interest:
 - › Auto enrolment
 - › Employer matching contributions/other financial incentives
 - › Changes to the proposition – more than two accounts?

Thank you!



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David C. John

Senior Strategic Policy Advisor

AARP

COVID-19 & Financial Fragility:

The Case for a More-Holistic Approach to Savings to Protect Retirement

David C. John
AARP Public Policy Institute

May 14, 2020

- These are strictly my personal opinions and do not necessarily reflect those of any other individual or organization.

Savings products need to match life

- Today, savings vehicles tend to follow specific product lines/regulatory regimes. Each has its own rules and complexities. Switching money between vehicles as priorities change is difficult to impossible. People face penalties for withdrawing funds.
- In reality, people see priorities shift as circumstances change.
- A more comprehensive, flexible savings structure is needed.
 - Allow auto enrollment, etc. as well as payroll deduction
 - Allow saving for multiple priorities with flexibility to easily move money without penalty
 - Allow employer match for different priorities & favorable tax treatment

As a first step, add emergency savings

- Three major models:
 - In retirement plan using After-Tax 401(k)
 - In retirement plan using Imputed Roth IRA
 - Separate using bank or credit union account – Can also be structured using payroll card
- All three models have regulatory complications.

For details, see:

BUILDING EMERGENCY SAVINGS THROUGH EMPLOYER-SPONSORED RAINY-DAY SAVINGS ACCOUNTS

John Beshears, James J. Choi, Mark Iwry, David John, David Laibson, Brigitte C. Madrian

Working Paper 26498

<http://www.nber.org/papers/w26498>

November 2019

Time to revise regulations

- Certain regulations prevent the use of automatic enrollment and/or hinder a more flexible savings structure.
- These include Know Your Customer, certain DOL retirement account regulations, etc.
- The regulations serve important functions, but the way that they are administered needs to be reexamined.
- Unless there is a clear statement from regulators, employers will be reluctant to adopt more flexible savings platforms.

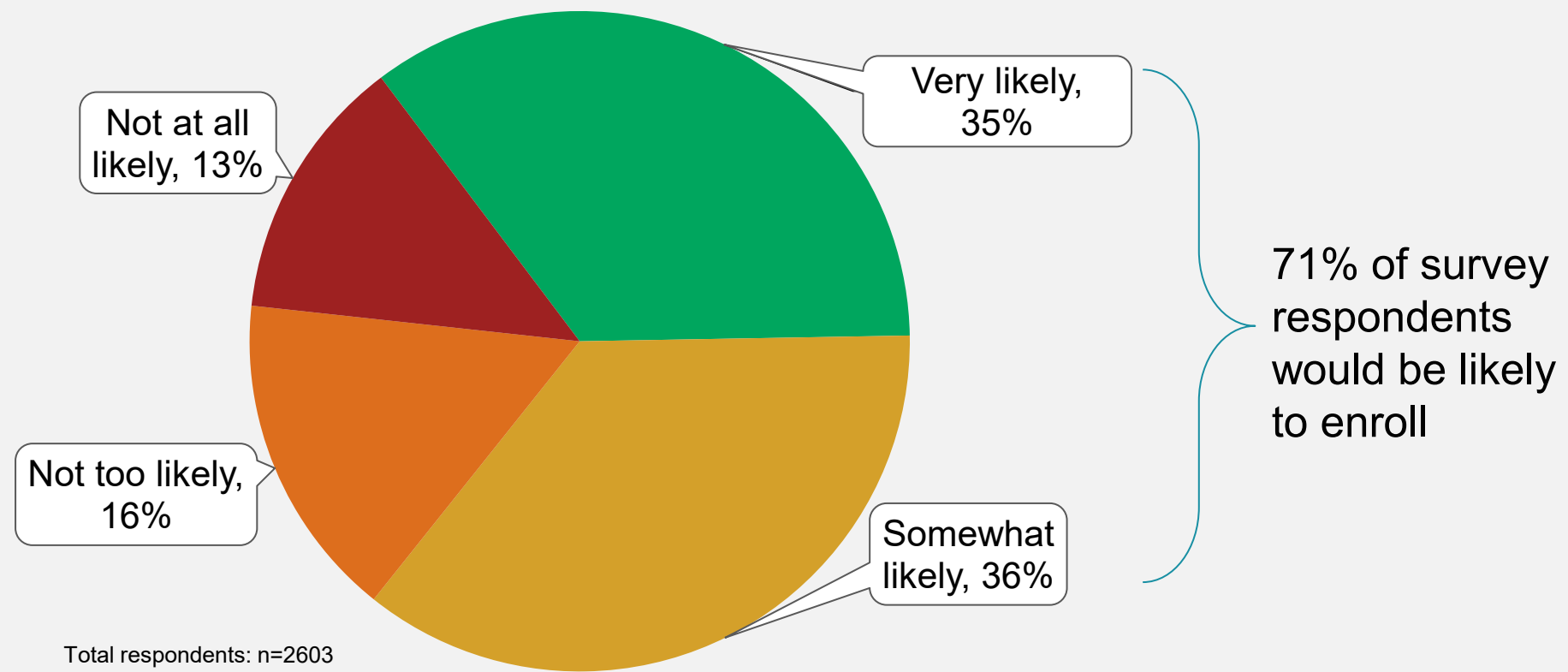
Description of the Rainy Day Savings Program

“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

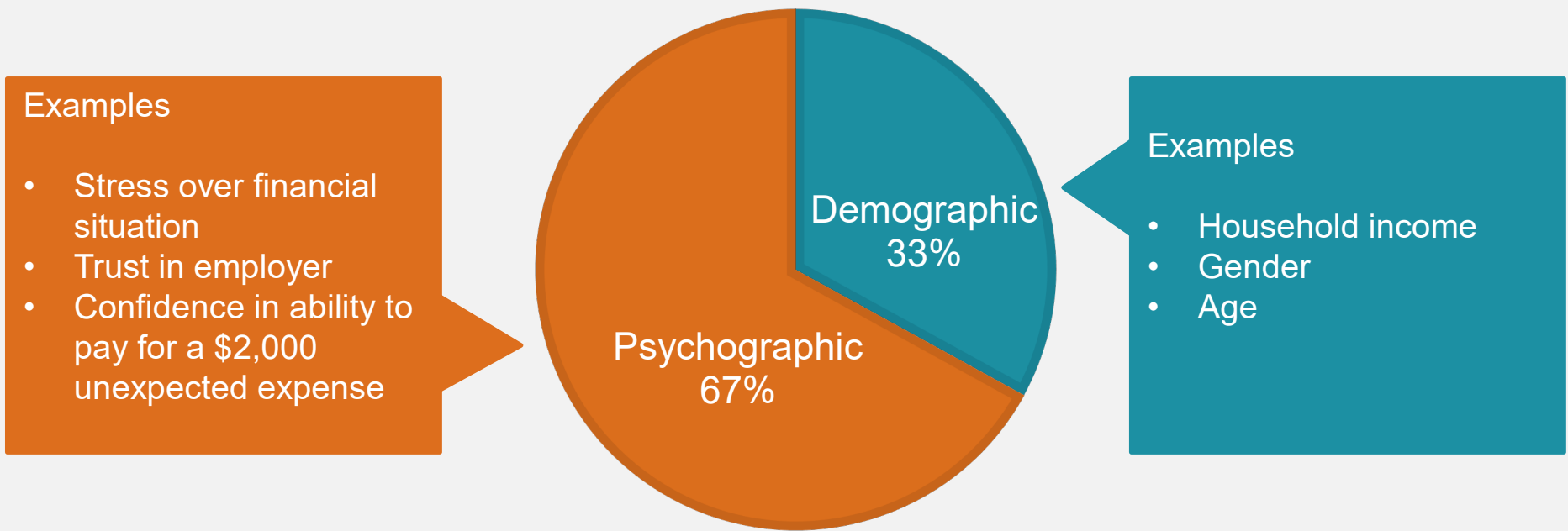
How likely are you to enroll in this benefit?



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



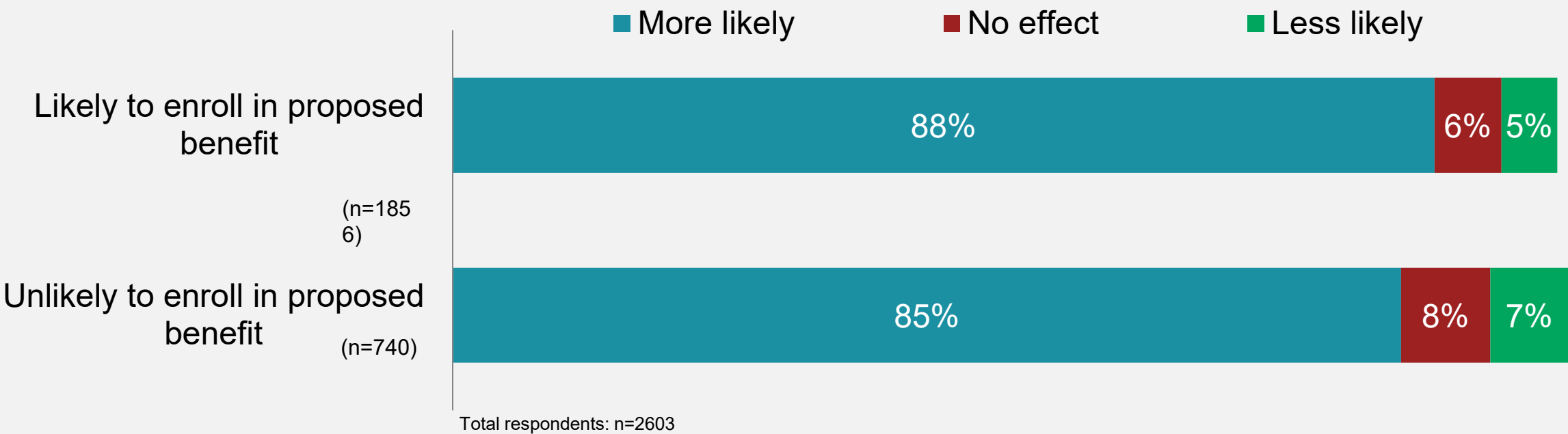
The most powerful drivers* of likelihood to participate in an employer-based rainy day savings program:

- 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.

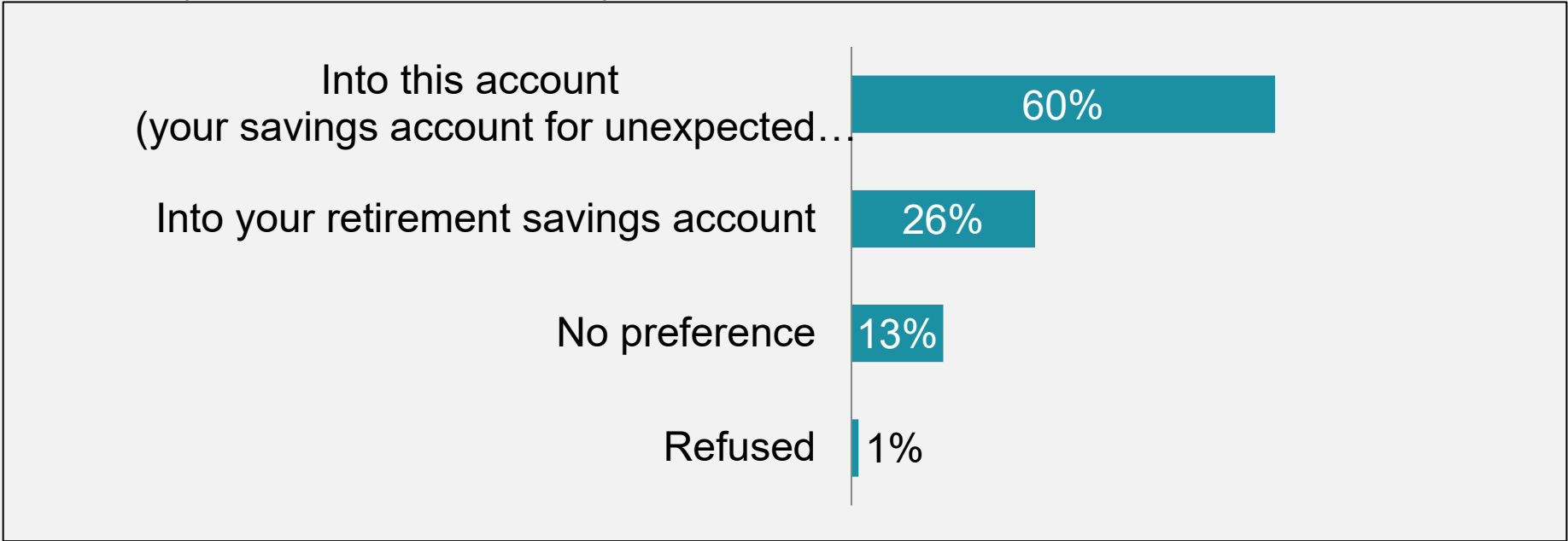
An employer match makes 87% of employees more likely to participate

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

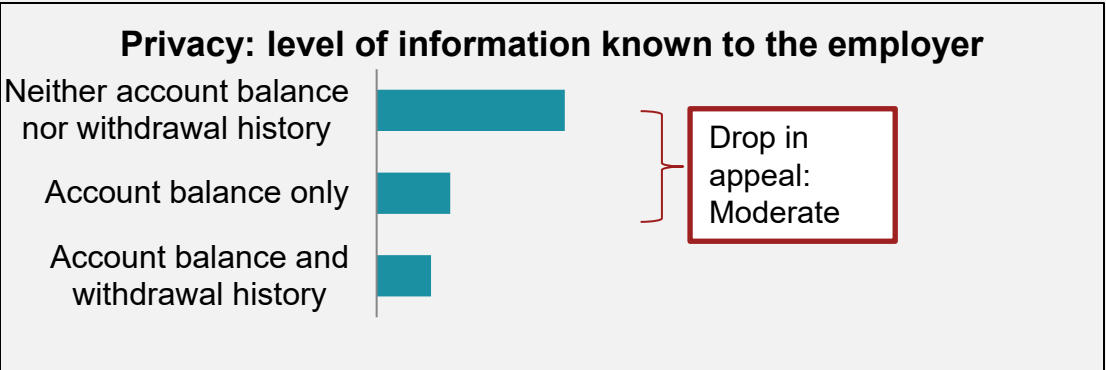
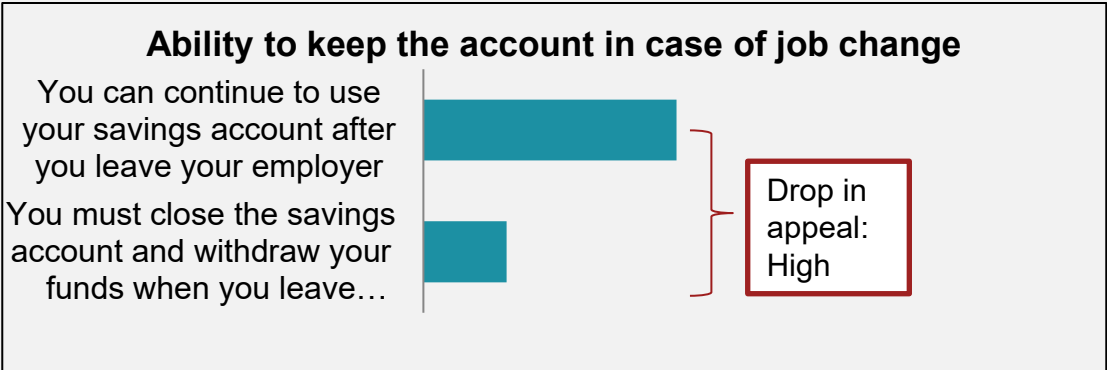
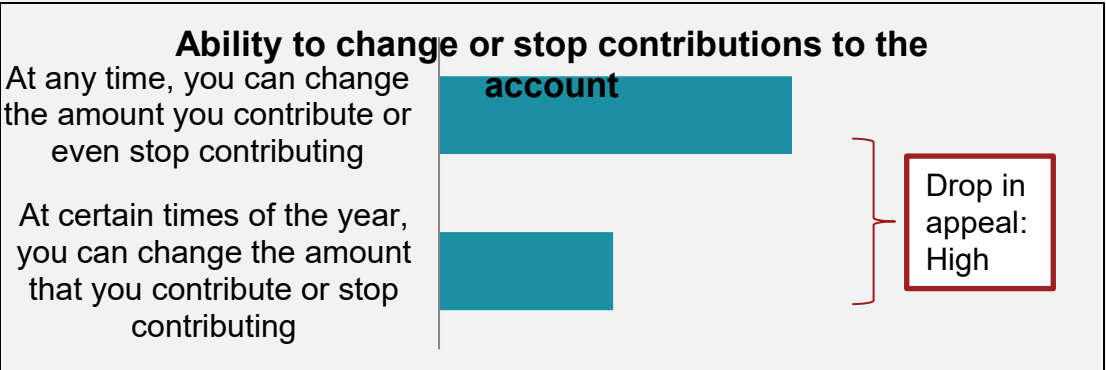
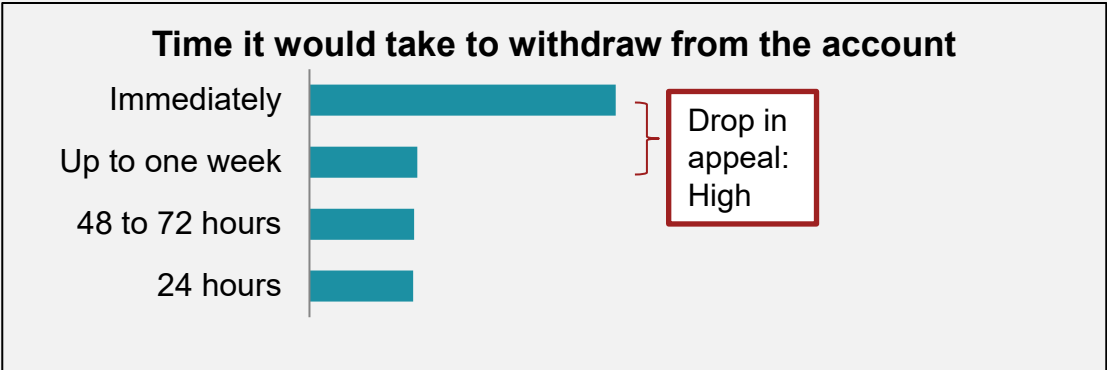
If your employer decided to match at least some of the amount that you put into this account, where would you prefer the employer match be deposited?



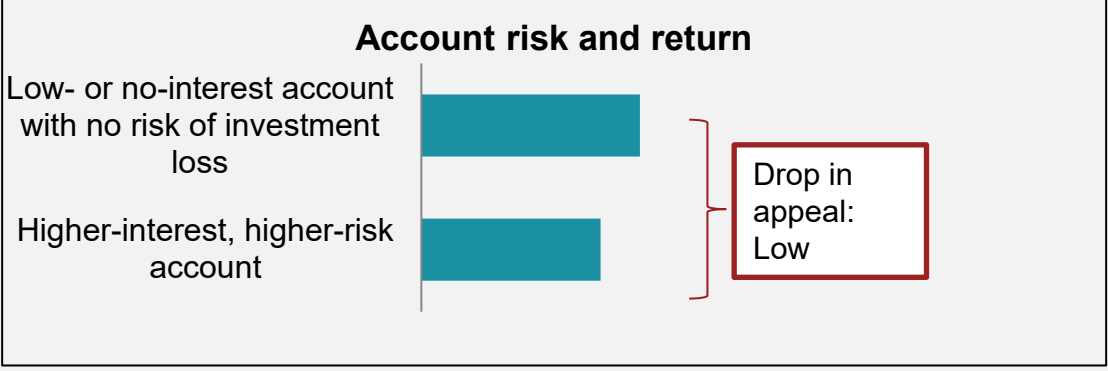
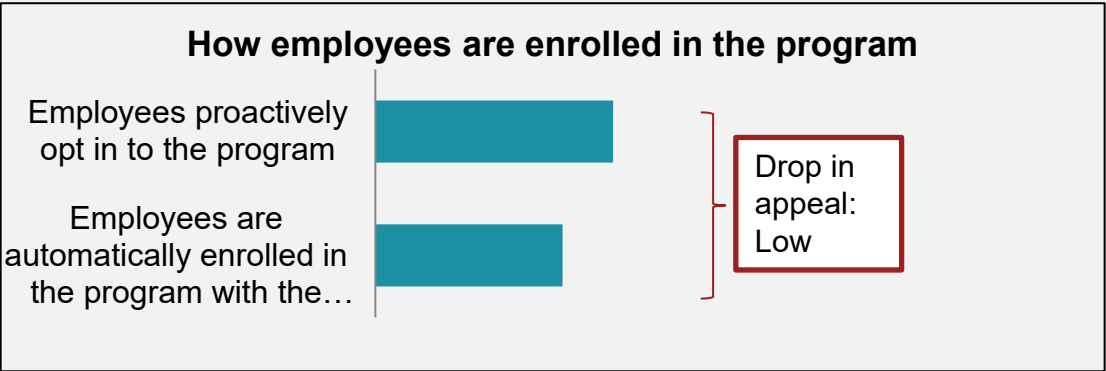
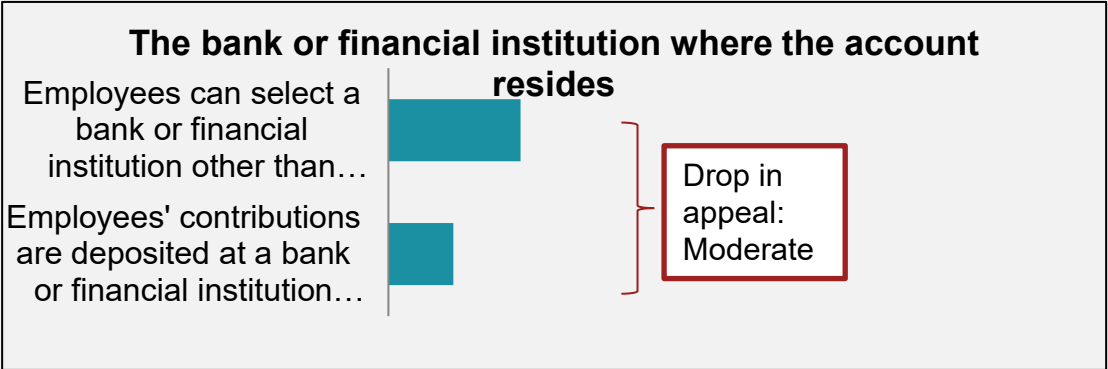
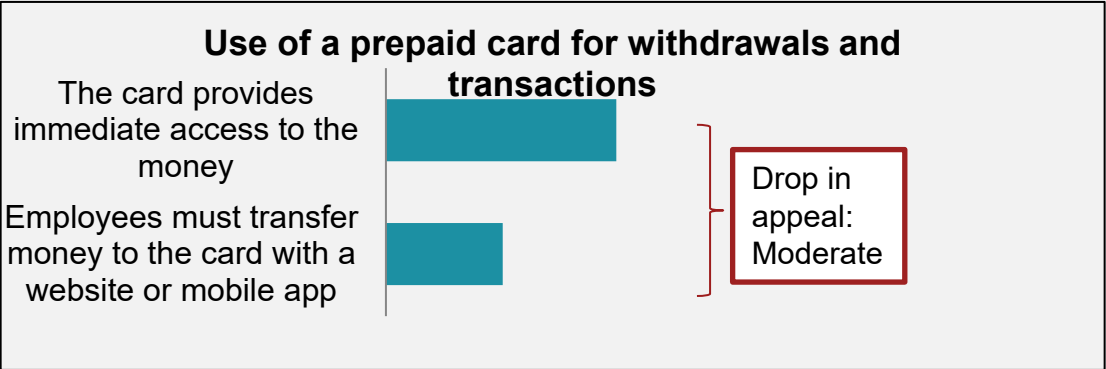
Respondents whose employer offers a retirement savings plan at work that allows employees to make contributions from their paychecks: n=2216

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

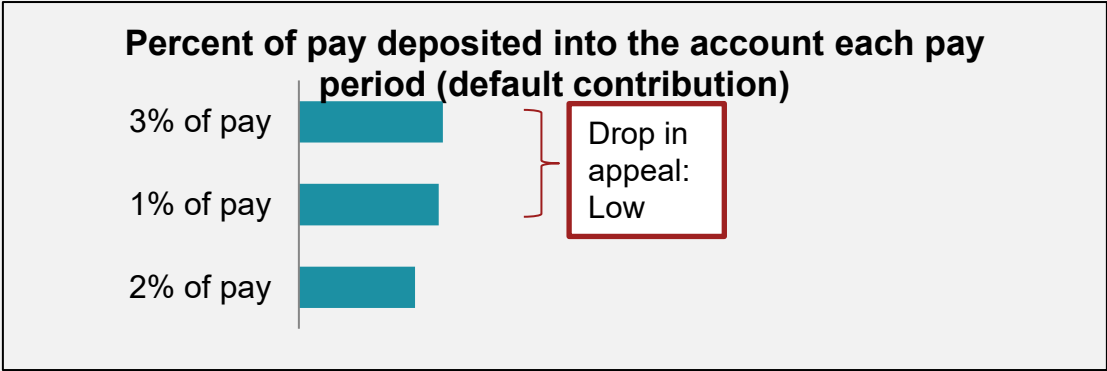
Employees are least willing to compromise on the ability to access their money immediately, start or stop contributing, keep the account if they leave their job, and maintain privacy



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”

Questions or suggestions?

David John

Senior Strategic Policy Advisor

djohn@aarp.org

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.

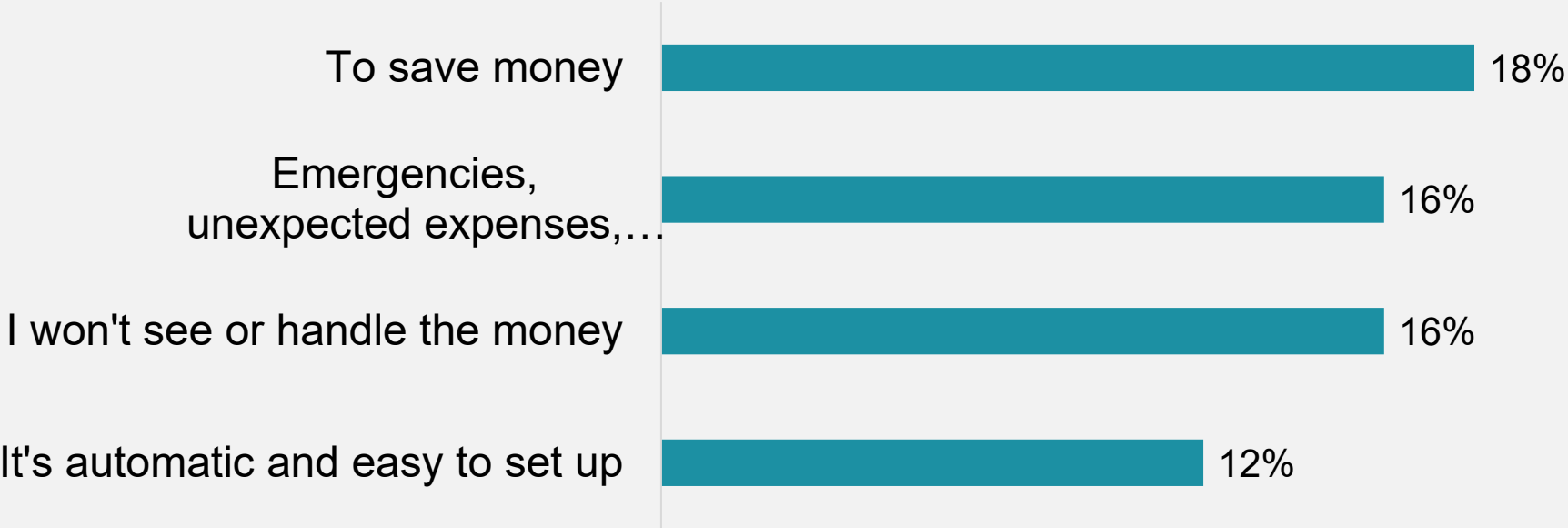
The data are weighted by age, gender, education, race, Hispanic ethnicity, housing tenure, telephone status, and census division, to benchmarks from the Current Population Survey (CPS) for persons ages 25-64.

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.

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

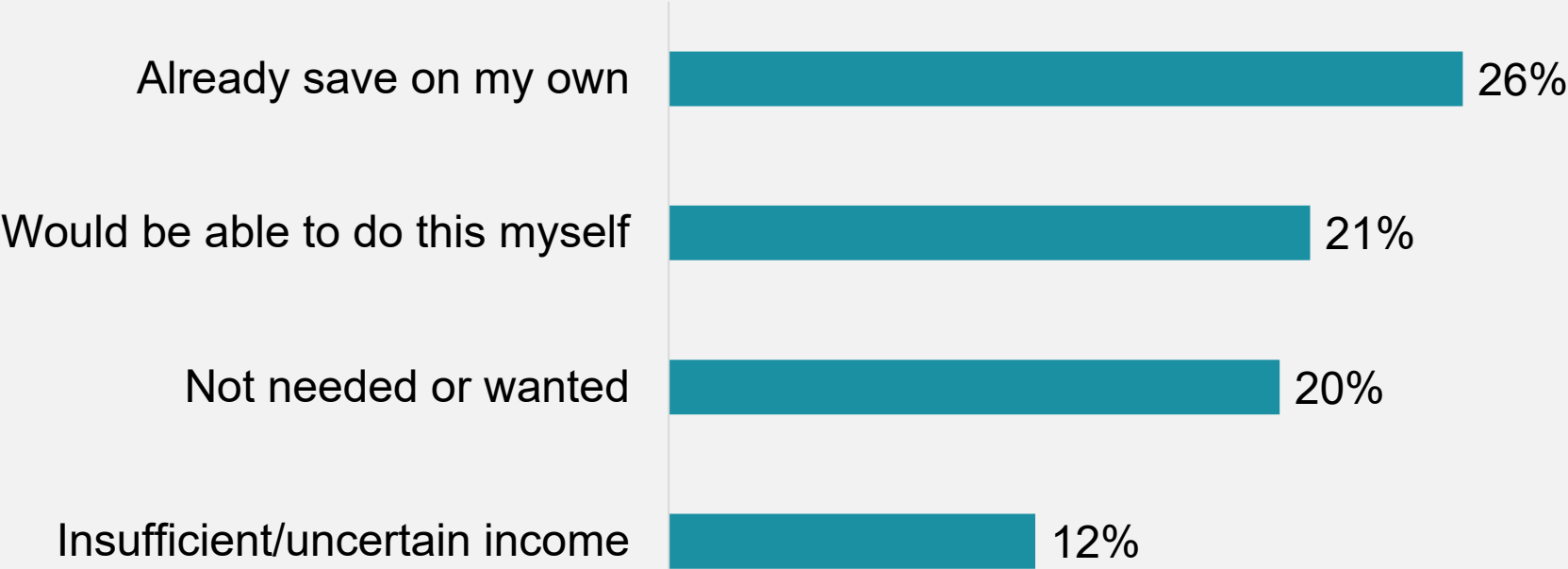
Please explain why you would be **likely** to enroll in the benefit (open-ended).



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

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**

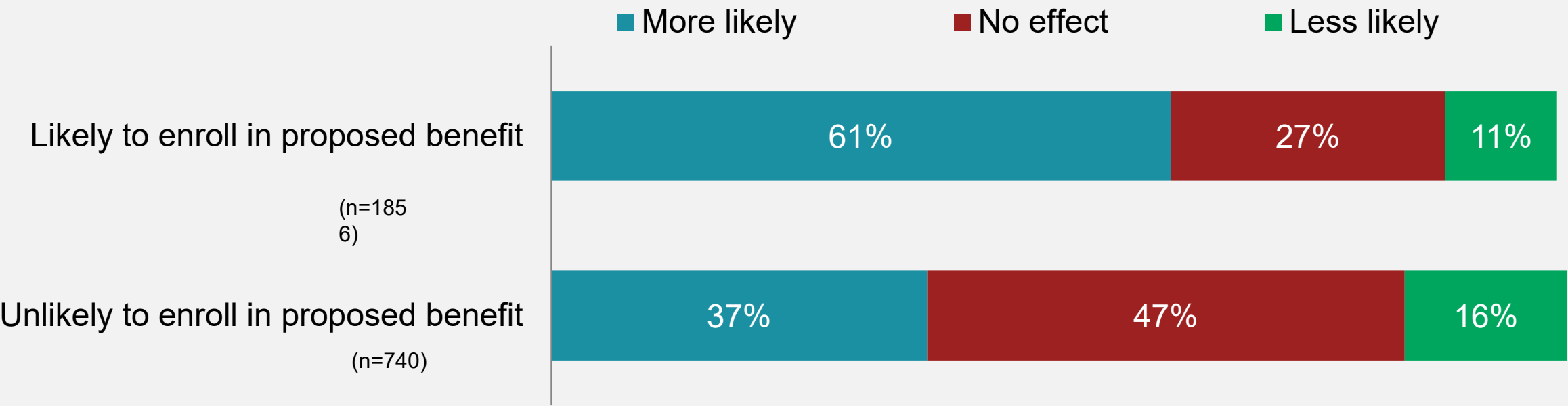
*Based on regression analysis. Factors are listed in order of the degree to which they appear to impact likelihood to enroll in the program.

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

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?

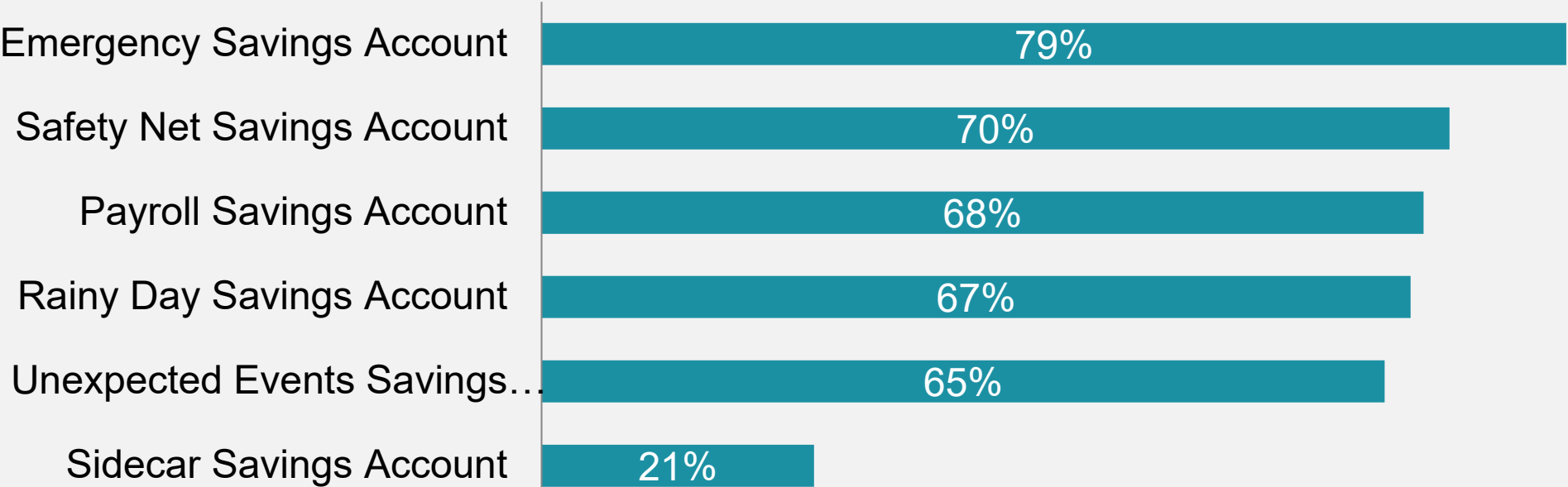


Total respondents: n=2603

What to call the program

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

Share of respondents that say the name describes the program “very well” or “somewhat well”



Total respondents: n=2603

Wendy Carter

Vice President, DC Contribution Director

Segal Consulting

Lessons Learned

It's not all about “U.S.”

Key considerations:

- 63% of Americans can't cover a \$500 emergency¹
- Student loan debt is a big concern and for more than millennials — \$260 billion of student loan debt is currently owed by Americans over the age of 50²
- Employer-sponsored retirement accounts are the primary savings vehicle for most employees.¹
- 75% of employees trust their employer as a source of financial information and advice³

¹ Forbes.com, “63% of Americans Don't Have Enough Savings To Cover a \$500 Emergency,” Jan. 6, 2016

² Federal Reserve, 2018

³ 2019 Edelman Trust Barometer.



Lessons Learned

It's not all about “U.S.”

We need to start at the source:

- 45 states have personal finance education in their K-12 curriculum standards
- GAO has identified employers as playing a critical role in improving financial literacy and wellness

¹ Forbes.com, “63% of Americans Don’t Have Enough Savings To Cover a \$500 Emergency,” Jan. 6, 2016

² Federal Reserve, 2018

³ 2019 Edelman Trust Barometer.



Solving for Success

Some Solutions

Adding financial wellness tools

- Independent service or leverage an existing service provider
- Monitor use and statistics, including take up on ancillary services or products



Solving for Success

Some Solutions

Considering approaches for your specific workforce needs



Assistance with tuition and student loan debt



“Side car” emergency savings programs



Communicating total retirement income



Paid leave

- Only (31% of workers in bottom 10% of income) paid **sick** leave
 - Only 17% of civilian workers have access to paid **family** leave
-



Secure choice plans



Corona virus assistance

Questions?

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