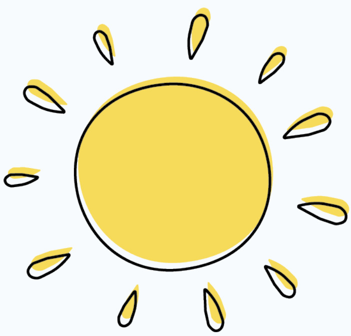

RECOVERING WITH RESILIENCE

2021 Report on Americans' Financial Well-Being and Evolving Preferences for Employee Benefits

SUMMARY

We sought to understand Americans' overall financial well-being and capture changing preferences resulting from the Coronavirus pandemic. Almost everyone has been negatively impacted by the pandemic and while recovery is underway, it's uneven across income levels. We've also learned that people are looking to their employers as trusted sponsors of their personal financial well-being. However, where and how they want help continues to evolve – emergency savings has become a top-of-mind concern, with ~50% saying such a benefit would influence their decision to join or stay with a company. As individuals lean more heavily on their employers, there's an opportunity for businesses to stand out as leaders in this space and for policymakers to create an ecosystem that encourages both stakeholders' financial behaviors.

Sid Pailla and Jack Fallon

Based on findings from Sunny Day Fund™'s Personal Finance & Preferences Survey, administered Dec 22, 2020 – Jan 6, 2021.

Most Americans are Financially Vulnerable

Our first series of findings focus on the financial state of Americans. We deployed the Financial Well-Being (FWB) Scale developed by the Consumer Financial Protection Bureau to remain consistent with existing research in the space and to draw comparisons, at a high level, across different batches of surveys.

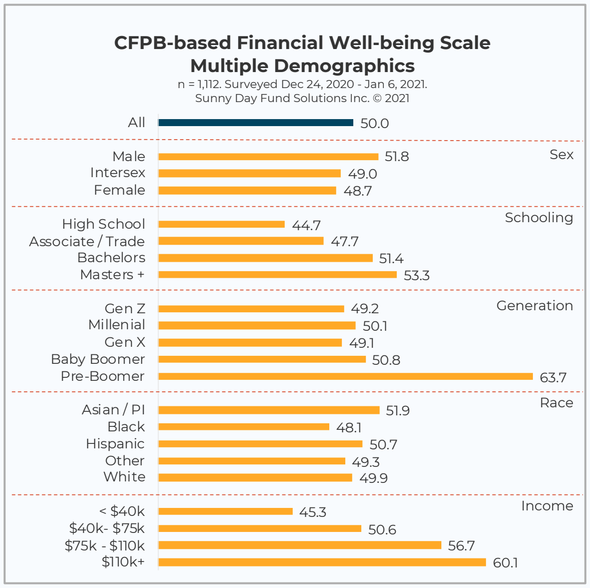

Figure 1: Financial Well-Being (CFPB Scale) by Demographics

Fig. 1 summarizes our findings across multiple demographics. We found that compared to April 2020, Americans' FWB increased slightly but recovery was unequal – the recovery was particularly unequal across income, race, gender, and education. Low and middle earners (< $75k income) continue to have lower overall scores than higher-income respondents. The economic impact of the global pandemic may have played a role – over half reported a shock to their personal income through salary cuts, furloughs, or layoffs, and two-thirds had a household-level shock (again mostly in low- and middle-income households). Those impacted generally had much lower FWB scores than those who were not impacted.

We also inquired whether individuals have tapped or plan to dip into their retirement savings, including via loans and hardship withdrawals. We were surprised to find that 21% already tapped into their retirement savings since the pandemic, and 12% plan to do so in the near future. When considering those with less than $5,000 in liquid savings, nearly a third reported having no retirement savings and a quarter said they already accessed their retirement savings. These findings contrast with reports from recordkeepers who continue to report fairly low loans and hardship withdrawals. We believe the discrepancy may be because we asked from an individual perspective, whereas other surveys of companies or recordkeepers may have framed the question from an account perspective.

The survey also asked respondents to self-report their assets, debts, and savings runway. We found a positive correlation between the amount of liquid savings and FWB, and negative correlation between amount of short-term debt and FWB. As seen in Fig. 2, those with less than $1,000 in liquid assets and over $1,000 in short-term debt have remarkably lower FWB scores. Overall, nearly half of all respondents had less than three months of savings available. Among those earning less than $75k per year, one in three reported having less than three weeks of savings available and nearly half self-reported liquid assets less than $1,000, compared to the overall average of 29% and 39% respectively. In the same income segments, Black and Hispanic Americans reported more limited emergency savings runway (by 11%) and liquid assets on hand (by 8%).

Workers in the leisure and hospitality industry had the least amount of liquid savings, with over 43% reporting less than $1,000. In other words, most Americans report being very financially vulnerable, with some demographics faring even worse.

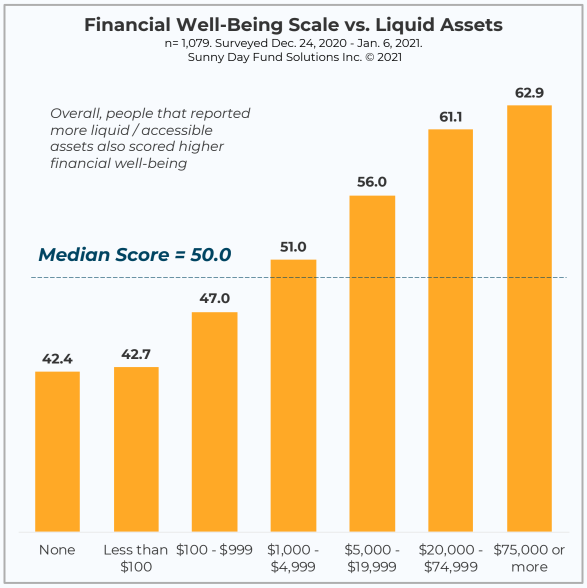

Figure 2: Based on self-reported assets, we found positive correlation between liquid assets (like cash savings) and Financial Well-Being

Survey respondents were also asked how they would handle unexpected expenses. Liquid assets continue to be the first line of defense for unexpected emergencies followed by different forms of loans. However, a significant number of people still say they can't pay these expenses at all. While a quarter of overall respondents are unable to pay for a $2,000 expense, that number skyrockets to 40% for those earning less than $40,000. Black Americans struggle as well – a quarter remain unable to handle a $400 expense, and a near 40% unable to handle a $2,000 expense. As a whole, access to liquidity is a serious issue for lower income groups, and their challenges with dealing with unexpected expenses illustrate the necessity for emergency savings.

Employee Benefit Preferences Are Evolving

Given the pandemic's impact on personal financial well-being, we explored whether it also impacted the way individuals approached employee benefits. At a high level, it is apparent that since the start of the pandemic, employees are leaning on employers more and place a significant importance on benefits. Unsurprisingly, since our previous survey in April 2020, paid sick leave has topped preferred benefits and specialty insurance like short-term and long-term disability and risk-specific coverage have also become popular. While individuals see their employer playing a role in providing access to these benefits, interestingly, their answers on what would actually influence their decision to join or stay with a company differed.

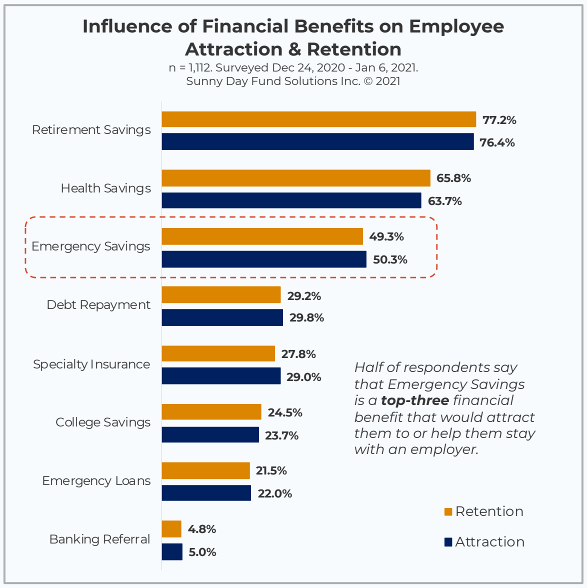

Figure 3: People say they're influenced by financial benefits to join or stay with a company, with Emergency Savings becoming top-of-mind

We were surprised to find that half of our respondents, as shown in Fig. 3, said they'd be attracted to or stay with a company that offered emergency savings as a benefit, which is not yet a widely offered benefit – and this is rated nearly twice as high as other financial benefits including debt repayment, specialty insurance (with the greatest divergence in interest vs influence), college savings, and emergency loans. In understanding how emergency savings could work as a benefit, people continue to ask their employers to make it easier and more rewarding – an incredible 79% request employee contributions to come directly from their paycheck and 73% ask for their employer to chip in.

Lower income respondents' benefit preferences emphasize liquidity and access to capital, highlighted in their higher response rate for emergency savings and emergency loans compared to higher income respondents. Younger generations, such as Millennials and Gen Z, more strongly prefer emerging financial benefits than older workers – they place emergency savings on practically the same level as debt repayment (which includes student loans) and college savings. We also inquired whether respondents felt that financial benefits today seemed fair – as a whole, nearly one in three believe that current financial benefits favor management over frontline employees, highlighting the need for equity and fairness in a workplace's benefits package. From separate focus groups and interviews, we understand this may be driven by the fact that most companies contribute to retirement savings based on percentage of income, so the incremental benefit to average earners versus high earners can diverge dramatically.

Charting the Course to Financial Well-being

A roadmap for change in the way we approach financial benefits does start to emerge for both private and public sectors based on our ongoing analysis.

Companies clearly need to prioritize on their workforce's financial well-being – the macro numbers show an alarmingly vulnerable workforce. We're not alone in saying that finances remain the primary or one of the top causes of stress for a majority of Americans. Thanks to existing research, we also know that the primary way to improve financial well-being is by ensuring people have enough money on hand – that they have savings to overcome financial shocks. With the financial well-being status quo, most companies face tremendous deadweight loss in the form of employee turnover, productivity loss, and administrative overhead – all of which we and others predict to be roughly 6 – 12% of payroll costs. Thus, as a starting point, companies should at least measure financial well-being in their own workforce and chart a course for improvement.

For many companies, as a next step, a clear win-win would be to start offering emergency savings a benefit, which half of Americans already say they want – helping Americans save for their next three months to three years can be just as valuable as helping them save for eventual retirement. Preliminary results from our own early adopters show tremendous promise – high enrollment rates and significant paycheck contributions show that it's not just talk from employees.

From a public policy standpoint, lawmakers and regulators already recognize that employers play an outsized role as a trusted channel and service provider. Our findings indicate support for policy initiatives that further lean into that relationship by removing barriers for employers that want to do more and adding incentives for both employers and employees. Emergency savings can be automatic, as one of the most recent CFPB Opinions stated and published with a Compliance Assistance Sandbox Template, and can be more freely deposited in ways that streamline adoption. Similar to retirement savings, employer contributions to emergency savings should also be incentivized, even if marginally. Doing so would also create a more equitable tax benefit to the tens of millions of Americans who cannot afford to take advantage of retirement savings. More broadly, policymakers should adopt a more inclusive and equitable approach to define the guardrails of employee benefits so every American stands to gain for their hard work.

Sunny Day Fund™

Sunny Day Fund™ is a financial inclusion company that makes it easy for everyone to save for emergencies - and even easier for employers to help out. You care about offering competitive benefits and advancing equity – so contact us here to learn more!

The survey and data analysis were conducted by Sid Pailla and Jack Fallon of Sunny Day Fund Solutions Inc. © 2021. Our first survey (n=1,104) was conducted in early April 2020, just as the global pandemic took hold, and our second survey was conducted in late December 2020 and early January 2021, as vaccine, economic, and political uncertainty started to diminish. There were 1,137 total respondents in the second survey and the data cleaning process yielded a net of 1,112 responses for analysis. Data visualizations were completed using Microsoft Excel and Tableau software.