The New Normal: Achieving Financial Flexibility

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Introduction

It's somewhat hard to believe that most U.S. workers today continue to live paycheck-to-paycheck. In spite of the fact that Americans have recovered from the Great Recession a decade ago and that the unemployment rate is the lowest it has been in many years, employees are essentially making the same amount of money they did during the pre-recession 'good days' many years ago.

That means employees are stressed about their finances. They don't have enough emergency savings for unexpected expenses and struggle to make minimum monthly payments on credit cards and loans. And the problem is bigger than that because their financial stress also distracts them at work. Whether it's student loans, car payments, mortgage/rent payments, credit card debt, an unexpected expense or some other financial matter that they are worried about, the bottom line is they are spending time at work on these issues rather than doing the job employers are paying them to do.

Thus, employees' personal financial stress affects employers as well. When employees bring that financial stress to work, it results in low productivity, absenteeism and, in many cases, higher healthcare costs.

Today's employees want to make their money stretch further. Financial flexibility can help them get there. There's a role for employers in helping their workers do more with their money and achieve some financial flexibility.

Financial Stress: By the Numbers

Statistics tell the story about financial stress.

Nearly half (47%) of employees report that they are stressed dealing with their financial situation, and 41% say that their stress level related to financial issues has increased over the last 12 months.[1]

Why? Because nearly 80% of American workers (78%) report that they're living paycheck-to-paycheck. It's not merely those earning low wages who are struggling. Nearly 10% of Americans with salaries of $100,000 or more live paycheck-to-paycheck as well.[2]

In today's growing economy, with unemployment currently at a low 4.0%,[3] how can the state of employees' financial affairs be one of living paycheck-to-paycheck? The problem is that employees' money just doesn't do as much as it used to. The typical American worker today earns $44,500 a year, not much more than what the typical worker earned 40 years ago, adjusted for inflation.[4]

Causes of Financial Stress

When employees experiencing financial stress were asked in a recent survey what the cause of their stress was, **they said:**

47%
Household Bills

43%
Lack of Funds to Cover Unexpected Expenses

37%
Retirement Planning

34%
Healthcare Expenses

30%
High Credit Balance

29%
Accumulating Credit Card Debt

25%
Lifestyle Changes
(e.g., loss of/decrease in household income, family addition, increase in household occupants, elderly care)

21%
Education
(e.g., tuition, daycare fees, student loan payments) [5]

Looking closer at the statistics behind some of these causes underscores the need for financial flexibility.

A Closer Look:

Mounting Credit Card Debt

Credit cards may have simplified our lives but their overuse has also contributed to an ever-growing debt problem. Even with a shaky financial history, consumers can typically find a creditor willing to offer a line of credit, but it will likely come with a steep annual percentage rate that accrues each month. Furthermore, when making only the monthly minimum payments, the card holder ends up carrying that debt for years before it's fully paid down. Being able to open multiple credit cards easily and have credit at your fingertips means that many Americans can spend more. But not paying off bills in full each month means that debts start to build up. This makes it easy for people to buy things they can't actually afford.

Credit card debt has reached a record high. The average credit card debt per U.S. household was $8,169 in November 2018. That's $1.042 trillion in total credit card debt. It exceeds the pre-recession record of $1.02 trillion reached in 2008. Credit card debt per card-carrying adult is $5,839.[6]

Student Loan Repayment

Statistics about student loan debt are frightening. Student loan debt continues to reach record highs, and it even exceeds credit card debt and auto loan debt. U.S. student loan debt outstanding reached a record $1.465 trillion in December 2018. The record student debt level is more than double the $675 billion outstanding in June 2009 when the recession ended.[7] Just over 42.2 million Americans have student loan debt and more than 2.7 million of those people owe $100,000 or more.[8]

Little Savings & No Emergency Fund

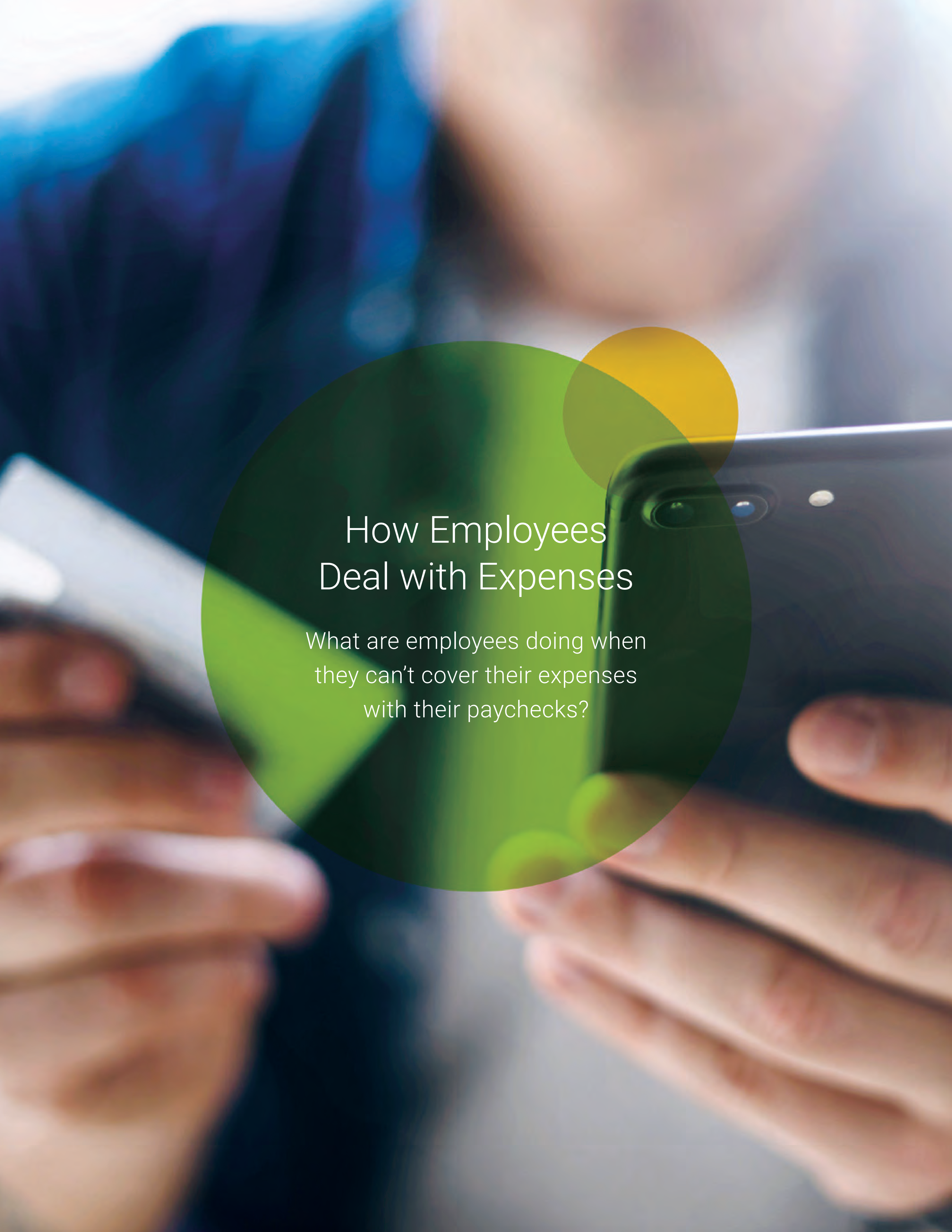
Emergency funds should be used to cover unexpected expenses that occur, such as car repair, a broken appliance, house repair or an emergency room visit. However, statistics show that 58% of Americans don't even have $1,000 in savings.[9] Why is that? Americans report that the obstacles preventing them from saving more money are high cost of living, low salary, debt, not budgeting, no savings account and paying for non-essentials.[10]

Caring for Parents & Adult Children

Nearly one in four employees is providing financial support for parents or in-laws, and they face additional financial challenges as compared to other employees – more than twice as many use credit cards to pay for monthly necessities they couldn't otherwise afford.[11]

Among those with adult children, 42% provide financial support to their adult children and more than half are willing to sacrifice their own financial well-being to do so. That willingness sometimes comes with dire consequences as those providing financial support to adult children find themselves: [12]

- nearly three times as likely to use credit cards for monthly necessities they couldn't otherwise afford.
- twice as likely to find it difficult to make minimum payments on their credit card balances.
- twice as likely to report that their finances have been a distraction at work.



How Employees Deal with Expenses

What are employees doing when they can't cover their expenses with their paychecks?

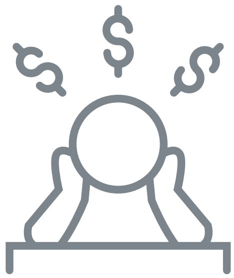
When employees can't cover their expenses with their paychecks, they are using a number of methods that cost them more than the actual money value.

They are using their credit cards and building mounting debt because they can't afford to pay it down. Many employees are withdrawing from their retirement plans to pay expenses and, unfortunately, these funds usually don't get replaced. They are also using high risk credit options that often come with hidden costs and associated fees that take a financially fragile situation and make it worse, such as rent-to-own deals and payday/title loans.

Stress and the Employer

Personal finance issues have been a distraction at work for 25% of employees. And 43% of those who are distracted by their finances at work say that they spend three hours or more at work each week thinking about or dealing with issues related to their personal finances.[13]

Add that up. That's 150 hours per year of lost productivity per employee for almost 11% of a company's workforce who are sidetracked from doing their work because they focused instead on their finances.



Employees’ financial stress impacts their employers several ways including:

Increased Absenteeism

Financial stress has resulted in a 34% increase in absenteeism and tardiness.[14] Additionally, stressed employees miss almost twice as many days (3.5) each year compared to their unstressed counterparts.[15]

Lower Productivity

Even when some employees are present, they aren’t working at full capacity. With financially-stressed employees spending time at work dealing with their finances, productivity suffers and that affects the employers’ bottom line.

Higher Health Care Costs

Playing a significant role in heart disease, migraines, obesity and accelerated aging, stress can also manifest itself physically.[16] Unfortunately, 1 in 5 people put off or consider skipping health care visits due to the cost.[17] This can result in higher health care costs for employers later if employees don’t schedule preventive care or, worse yet, ignore symptoms of conditions that become serious over time.

How did we get to this point?

The Great Recession Started It

The last major economic event that impacted all Americans – the Great Recession, which lasted June 2007 to December 2009 – began with the bursting of an 8-trillion-dollar housing bubble. The housing market collapsed because a few years earlier, Americans purchased houses they couldn't afford due to low interest rates. When interest rates rose a few years later, they either couldn't pay their mortgage or sold for less than they owed. Foreclosures ensued, and many people filed bankruptcy. This loss of wealth led to sharp cutbacks in consumer spending which triggered a collapse in business investment, resulting in massive job loss during and even after the Recession.[18] Around 27 million workers—roughly one out of every six U.S. workers— were either unemployed or underemployed during the Great Recession.[19]

Post-Recession Aftermath

Americans struggled to get a foothold in the job market immediately after the official end of the recession. For many, it took months to find any type of employment. Job seekers outnumbered job openings by a significant margin—in September 2010, the ratio was 5 to 1. The 5-to-1 ratio meant that for four out of every five unemployed workers, there were no jobs.[20] Consequently, there was a substantial rise in poverty as a result of the weak job market and cut work hours for those who were employed. The typical household brought in roughly $5,000 less in 2009 than it did in 2000. One in seven people were living in poverty, and one in five kids under the age of 18 was living in poverty.[21]

The Last 10 Years – 2009 to 2019

After almost 10 years, job market growth and advancement mirrors where they may have been pre-recession. Unemployment is now as low as it has been in 20 years. But despite the strong labor market, wage growth has lagged economists' expectations. In fact, despite some ups and downs over the past several decades, today's real average wage (that is, the wage after accounting for inflation) has about the same purchasing power it did 40 years ago.[22]

The Case for ***Financial Flexibility***

So, what’s the answer for today’s employees? **They need to have financial flexibility.**

Financial flexibility is the ability to manage expenses and make everyday life affordable. It is the financial stage beyond living paycheck-to-paycheck. It means being smart about how we use our monthly income and finding ways to make our money do more so that we are able to pay bills on time, take a vacation, have an emergency fund for unexpected expenses and perhaps splurge occasionally. Financial flexibility is the stage between living paycheck-to-paycheck and financial security (a level few employees are able to achieve).

Being financially flexible means finding ways to make our money do more by following a monthly budget, being wise shoppers and taking advantage of employer-offered financial wellness tools and voluntary benefits such as financial counseling, student loan refinancing programs, employee purchase programs and payroll-deducted savings programs.

Providing ***Financial Flexibility*** at Work

Financial education benefits can help employees with budgeting and debt reduction needs, and over the past several years growing numbers of employees have begun using the services their employer provides to assist them with their personal finances.

But it takes more to have financial flexibility.

One-fourth of employees who don't have an employer benefit that provides access to unbiased financial counselors say it's the employer benefit they would like to see added.

Employees who use these financial services get help with a wide array of financial needs and are most likely to seek financial help when they have an important decision to make or upon finding themselves in financial crisis. The more employers can encourage employees to use the services on an ongoing basis, the more positive the outcome, as studies continue to show that those who engage in financial planning on a continuous basis are far better off than those who do not.[23]

While financial education benefits can help employees with budgeting and debt reduction needs, employers should adopt additional voluntary benefits that provide employees the opportunity to have some financial flexibility. Among these are:

- **Employee purchase programs** that allows workers to purchase consumer products and services through payroll deduction when they are unable or prefer not to use cash or credit. The program is an alternative to high interest credit cards and other sub-prime financing options for customers desiring to pay for a purchase over time.
- **Low interest installment loans** and credit that help employees avoid payday loans and cash advances from credit cards when they have emergency needs such as unexpected out-of-pocket medical expenses.
- **Student loan repayment benefit programs** in which employers are making contributions to loan balances or providing methods for employees to refinance their debt.
- **Automated savings programs** that encourage employees to start taking control of their financial future by saving money each month from their paycheck. Many employees don't have $1,000 or more in savings to use for emergencies and saving a little each month can help build that emergency fund.
- **Bill payment programs** that empower employees with debt paydown strategies and the ability to make recurring bill payments on-time each month through payroll deduction.

The New Normal

Today's employees want more. They want…and need…their money to do more so they aren't living paycheck-to-paycheck. Employees who are less financially stressed are happier. That results in more engaged, productive workers and an increased bottom line for employers.

The new normal is financial flexibility.

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