Voya Perspectives

Retirement at risk

Building financial resiliency with an emergency savings fund

How employers can increase workplace productivity and protect retirement accounts by encouraging employees to save for unexpected expenses

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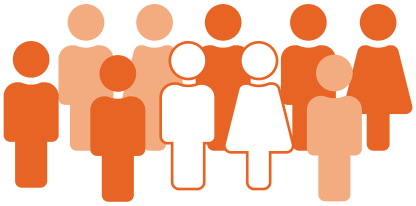
American workers are vulnerable to financial emergencies

Many Americans share a common financial vulnerability—a single unplanned expense can disrupt their financial stability because they have little or no emergency savings. Even relatively small unanticipated expenses, such as a minor car repair or an unexpected medical expense, can be a hardship for families without adequate savings.

Most participants in focus groups conducted by The Pew Charitable Trusts agreed that having enough money to comfortably pay the bills and build savings is a core requirement of a stable financial life.[1] But expenses or lost income that families do not plan for, such as from job loss, illness, injury or a major home or vehicle repair, can create significant financial stress, even for higher-income individuals.

According to Voya internal data:[2]



Two in 10 individuals have less than three months' of emergency savings and three in 10 have no emergency savings at all. Only 28% of individuals have six or more months.

Few respondents in a recent Bankrate survey[3] have six months' of emergency savings. In fact, a majority of respondents to a recent Voya survey said if they experienced a job or income loss due to COVID-19, they would draw down savings and more than a quarter would rely on credit cards.[4] A lack of emergency savings is not surprising, as many low- to middle-income workers see it as an unreasonable goal on top of day-to-day living expenses and saving for retirement. However, 52% of the Bankrate survey respondents said they need that much money readily available to feel comfortable about their financial situation. Clearly, desire and reality are not aligned.

Voya defines "inadequate emergency savings" as the inability to cover three months or more of expenses without borrowing money.

The coronavirus pandemic has made the situation even worse. Job furloughs, layoffs, reduced hours of work, significant market volatility, medical bills and general economic uncertainty are just some of the financial consequences putting increased financial pressure on workers—particularly those with inadequate emergency savings.

[1] The Pew Charitable Trusts, American's Financial Security: Perception and Reality, March 2015.
[2] Voya internal data, October 2020.
[3] Bankrate, Financial Security Index, January 2020.
[4] Results from an Ipsos survey among adults aged 18+. With additional question content that is specific to Voya Financial. Wave 1 = 1,005 interviews from March 25-26, 2020, Wave 2 = 1,005 interviews from April 23-24, 2020, Wave 3 = 1,007 interviews from May 29 – June 1, 2020, Wave 4 = 1,002 interviews from June 29 – June 30, 2020, Wave 5 = 1,005 interviews from July 30 – July 31, 2020, Wave 6 = 1,005 interviews from September 24 – September 25, 2020, Wave 7 = 1,005 interviews from October 22 – October 23, 2020, Wave 8 = 1,004 interviews from November 19 – November 20, 2020. The data is weighted to be representative of the general adult US population age 18+ according to the most recent census data. The precision of Ipsos online polls are calculated using a credibility interval with a poll of 1,000 accurate to +/- 3.5 percentage points. For more information on the Ipsos use of credibility intervals, please visit the Ipsos website (www.Ipsos.com).

Unplanned expenses are surprisingly common

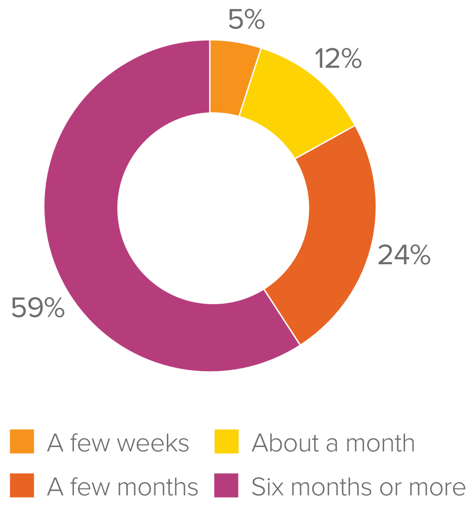
People of all ages and income levels experience unexpected financial setbacks.

A recent Pew Charitable Trusts survey found that 60% of households had experienced a financial shock in the previous 12 months. And, a third of those had to contend with two or more emergencies in the same timeframe.[5]

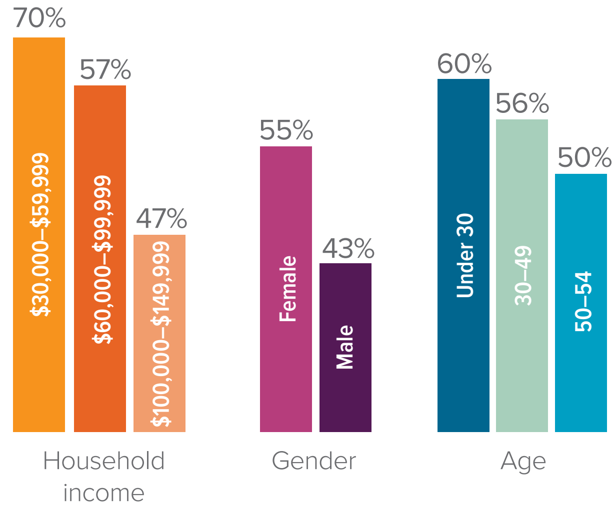
The average unexpected expense Americans faced in 2019 was about $3,500.[3]

Even one major event may deplete any existing cash reserves, making it difficult to rebuild the emergency account. Add another financial shock in short order and it becomes a frustrating seesaw effect. If one were to plot it on a chart, it would be a jagged, up-and-down line indicating a perpetual save, spend, save, spend pattern that prevents a full financial recovery. It is one reason why financial emergencies can negatively impact a person's financial wellness and confidence long after the triggering event is over.

How long it takes to recover from a financial shock[5]



The prevalence of inadequate emergency savings:[2]



[5] The Pew Charitable Trusts, Financial Security and Financial Shocks, May 2015.

Common unplanned events and financial emergencies with estimated costs:

Car expenses
Most common
unplanned expense.[1]
New transmission — $2,324[6]

Household repairs
Second most common
unplanned expense.[1]
*Flooded basement repair —
upwards of $10,000+*[7]

Medical emergencies
Insurance may not cover all
medical expenses.
Emergency room visit — $150–$3,000+[8]

Funeral costs
In addition to the funeral itself,
there are often bereavement
travel expenses.
Full-service funeral — $15,000+[9]

Vet bills
Pets are family members, and
owners will go to extraordinary
lengths to keep their pets healthy.
*Canine radiation therapy —
$2,000–$6,000 per treatment*[10]

Job instability or loss
Bridging the income gap for at
least three months is critical to
remaining financially and
emotionally healthy.

[6] Costhelper, How much does replacing a transmission cost?, 2020.
[7] Costhelper, How much does a flooded basement cost?, 2020.
[8] Costhelper, How much does an emergency room visit cost?, 2020.
[9] Costhelper, How much does a funeral cost?, 2020.
[10] Costhelper, dog cancer treatment cost?, 2020.

Having inadequate emergency savings negatively impacts workplace productivity

Not having enough emergency savings for unexpected expenses is the top concern of Millennial and Gen X employees. It's a major contributor to financial stress, which is the leading stressor in the workplace—more than all of the other stressors combined.[11]

Stressors in the workplace[12]

Financial stress, which can be caused by financial emergencies, affects the mental and physical well-being of employees. This, in turn, impacts how they perform their jobs. It can even influence when they plan to retire. In short, employees' financial stress hits an organization's bottom line.

A recent survey of working adults nationwide found striking differences in the financial well-being of those who are stressed about finances and those who aren't. Stressed employees are far less prepared for retirement. They have saved less and are more likely to pull money out of their retirement plans before retirement.[11]

In addition, the survey found that among stressed employees:

40%	47%	78%
indicate their health has been impacted by financial worries	report financial issues have been a distraction at work, and nearly half of those employees spend three hours or more at work each week dealing with personal finances	would be attracted to another employer that cares more about their financial wellness

[11] PwC, Employee Financial Wellness Survey, 2019.
[12] PwC, Employee Financial Wellness Survey, 2020.

A lack of emergency savings puts retirement at risk

Individuals without adequate emergency savings often turn to their retirement plans to meet short-term financial needs. These early withdrawals come with costs. In addition to fees, penalties and taxes, the opportunity costs of reduced savings and potential investment earnings impact long-term retirement savings. About half of workers across all age groups think it's likely they will need to use money from their retirement plans to deal with unexpected expenses.[12] While retirement savings seems like an easy source of cash, it could mean selling investments when markets are down, and then missing out on the potential for growth when markets recover. In addition, tapping retirement savings for emergencies often creates two quantifiable problems:

Savings rates go down

Participant contributions to a workplace retirement plan directly affect retirement outcomes. The lower the contribution rate, the harder it is to reach retirement income goals. Voya analyzed contribution rate activity for Voya's Financial Wellness assessment respondents based on whether they had inadequate or adequate emergency savings.

Participants with inadequate emergency savings were **30% more likely to decrease contribution rates** (15.3% with an inadequate emergency fund vs. 11.8% with an adequate emergency fund).[2]

Hardship withdrawals and loans go up

Participants with inadequate emergency savings are 13 times more likely to take a hardship withdrawal than those with adequate savings.[2]

Workers may justify the withdrawal by saying they will "pay themselves back" when they replace the money they took out. Unfortunately, "repaying" the withdrawal can be difficult if medical and other costs continue to pile up.

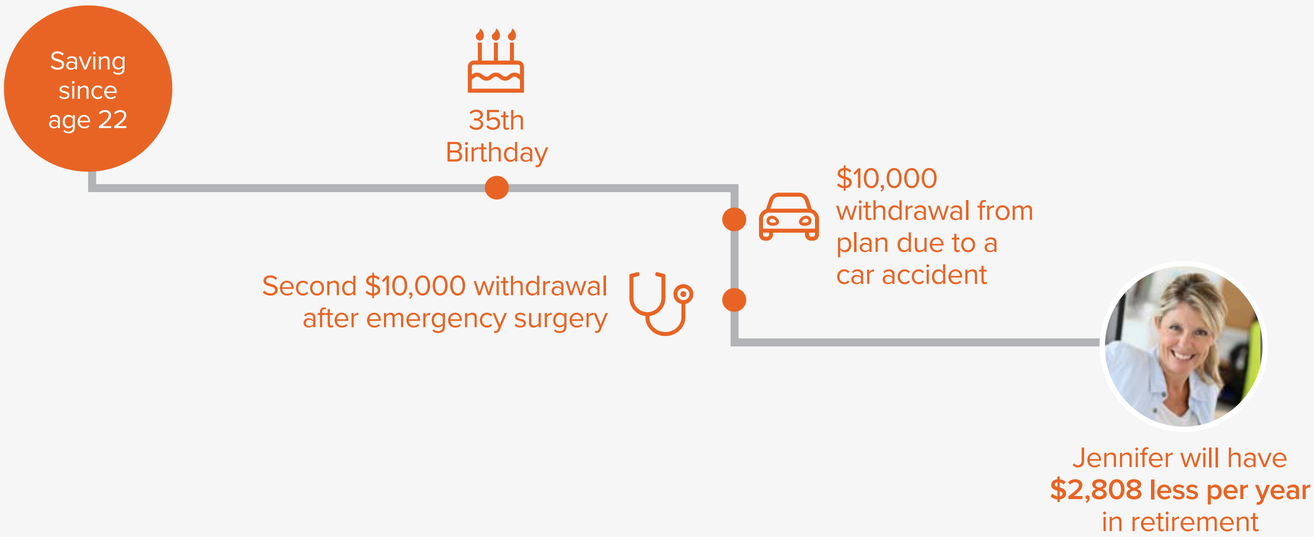
Participants with inadequate emergency savings are three times more likely to take a loan from their retirement plan. In addition, participants who borrow from their plan save 9% less than participants who don't borrow.

Importantly, those *with* adequate savings feel more positive about their finances. Not only do these individuals save more (51% more, in fact), they're also, on average, on track for a secure retirement and have a higher income replacement (14% higher).[2]

Taking early distributions can create compounding shortfalls for younger workers that will require them to increase savings rates for years to come. This could make it harder for them to build emergency savings funds alongside their retirement contributions. For employees who are nearing retirement, lower plan balances due to early withdrawals may require them to work longer. **Voya has calculated that the average cost of delayed retirement to an employer is $51,000 per employee.**[13]

[13] Voya Internal Data. Assumptions: An incremental aggregate cost of $51,000 for every individual whose retirement is delayed by three years. This cost is estimated assuming that a 65 year old employee is not replaced by a mid-career employee for three additional years, and assumes a flat 31% cost of benefits as per Bureau of Labor average.

The long-term impact of an emergency



Jennifer is considering retirement and discussing with her advisor when she might be able to do so. Jennifer started working at age 22 and has been saving consistently for the length of her career. However, when Jennifer was 35 years old she had to make two unexpected $10,000 withdrawals from her retirement plan. The **first withdrawal was due to a car accident**. Later in the year, Jennifer made a **second withdrawal after a trip to the emergency room** that resulted in emergency surgery. **These two withdrawals mean that Jennifer will have $2,808 less per year in retirement than she would have had if she hadn't taken any withdrawals,** or she can delay retirement by more than a year.

COVID-19 has heightened awareness of the need for emergency savings

The pandemic has shocked employees into focusing on the need for emergency funds. In a survey of retirement plan participants, conducted in March 2020, Voya found that, in terms of preparation for future emergencies, COVID-19 reinforced the need for an emergency savings fund.[14] Over one-quarter (27%) of employees say that saving money for a possible emergency is an action they have already taken, and 58% are more likely to save for emergencies in this environment.[15] According to Voya proprietary data, nearly half of Americans report that achieving financial security is their top goal in a post-COVID world.[4] While the actual dollar amounts may not be very large, this change in savings attitude is a positive sign going forward.

Since the COVID-19 crisis began, two-thirds of employers have taken action to understand their employees' financial wellness needs. A third have surveyed employees and a quarter have examined existing employee benefit data during this time.[15]

[14] Voya's COVID-19 Poll was conducted through our proprietary research platform, the Online Consumer Community. This is a private digital space where a targeted group of consumers have been recruited to participate in research-related activities over an extended period of time. There are n=400 consumers in the Online Consumer Community, balanced by age, gender and U.S. Census region. For this research, we executed an online survey and discussion with n=192 (n=108 Ages 18-44; n=84 Age 45-70) consumers from March 20 to March 25, 2020 in order to understand current consumer sentiment regarding COVID-19.

[15] Employee Benefit Research Institute, 2020 Employer Financial Well-Being Survey, August 2020.

Employees are looking to their employers for savings help

American workers are continuing to look towards their employers for financial support and guidance on how to prioritize their spending and manage debt. When these cornerstones of a household budget are under control, it's much easier for individuals to allocate money to savings accounts—both retirement and emergency. And emergency savings is the number one financial challenge workers want their employer to help with as a result of COVID-19.[16] Employers also have a unique opportunity to help employees avoid short-term financial decisions, such as taking retirement plan distributions to cover emergency expenses that could hurt their long-term financial wellness.

Nearly 90% of employers say they are somewhat or very interested in offering the protection of an emergency savings program to their employees. And, even before the start of the COVID-19 pandemic, two-thirds of employees were interested or very interested in this offering.[17]

As Americans began to experience the financial impact brought on by the COVID-19 pandemic, interest in receiving support and guidance—specifically related to emergency savings—became employees' top priority.[4]

There are many different approaches that plan sponsors can take to help employees with emergency savings. Solutions can run the gamut from adjustments to existing benefits, to stand-alone programs solely focused on building and maintaining an emergency fund.

[16] LIMRA Secure Retirement Institute, Institutional Retirement Reference Guide, 2019.

[17] Results from an Ipsos survey among adults aged 18+. With additional question content that is specific to Voya Financial. Wave 1 = 1,005 interviews from March 25-26, 2020, Wave 2 = 1,005 interviews from April 23-24, 2020, Wave 3 = 1,007 interviews from May 29 – June 1, 2020, Wave 4 = 1,002 interviews from June 29 – June 30, 2020, Wave 5 = 1,005 interviews from July 30 – July 31, 2020, Wave 6 = 1,005 interviews from September 24 – September 25, 2020, Wave 7 = 1,005 interviews from October 22 – October 23, 2020, Wave 8 = 1,004 interviews from November 19 – November 20, 2020. The data is weighted to be representative of the general adult US population age 18+ according to the most recent census data. The precision of Ipsos online polls are calculated using a credibility interval with a poll of 1,000 accurate to +/- 3.5 percentage points. For more information on the Ipsos use of credibility intervals, please visit the Ipsos website (www.Ipsos.com).

Six steps plan sponsors should consider

There are a variety of actions that plan sponsors can take to help their employees. These range from employee engagement methods to emerging solutions for funding emergency savings.

Employee engagement methods

1. Increasing education and communication

Employees need encouragement to save more for emergencies. They are looking for information that speaks to the real-world ramifications of having adequate or inadequate emergency savings, such as testimonials and motivational stories from their peers. They also want actionable information on how to achieve positive outcomes. Employers may consider offering guidance on household budgeting, spending and cost cutting plans, along with step-by-step saving strategies.

Voya Learn is a comprehensive education platform that offers live and on-demand sessions on a variety of topics, including saving for emergencies, market volatility, retirement investing, debt management and more. Individuals are presented with actionable steps, as well as additional tools and resources to help them achieve the future they envision.

When educating, be straightforward with terminology. Voya research[18] found that a majority of consumers use the term "emergency fund" in conversations. Euphemisms such as "rainy-day fund" were less well-received. "Emergency fund" directly explains what the fund is for and provides a sense of urgency around the need to save. Additional consumer feedback suggests that terms such as "unexpected expenses" and "reserve account" boosted affinity for the emergency fund moniker.

Messaging should also be simple but comprehensive and presented in a logical order to take employees through the saving journey. It should help them understand that even a few hundred dollars is a good place to start and even relatively small balances in an emergency fund may help them limit credit card debt or keep them from dipping into their retirement savings.

Communications should answer the basic questions an employee might ask, including:

- What is an emergency fund?
- What would I use it for?
- How much do I need to save?
- How can I allocate money to my emergency fund and still save for retirement?
- Where should I keep my emergency savings?

Employer opportunity—Providing employees easy access to relevant and actionable financial information will help them gain the confidence to take control of their finances. According to Voya data, 73% of individuals with adequate emergency savings feel positive about their financial situation.[2] This can help to reduce financial stress, which can translate into happier, more productive workers. Employees will see that their employer cares about their financial well-being.

[18] Voya "Emergency Funds" study conducted through Voya's Online Consumer Community with n=101 consumers balanced by age (August 2018).

2. Driving action with tools and calculators

Promoting interactive tools and calculators in conjunction with education initiatives gives employees the ability to turn their knowledge into action.

One example is Voya's myOrangeMoney® experience. This personalized, interactive calculator is built into a sponsor's participant website and illustrates how a participant's current savings strategy translates into monthly retirement income. Users can model different savings scenarios to help close savings gaps, factor in other sources of income like Social Security or pensions and explore how healthcare costs in retirement might impact their income needs.

A budgeting calculator is another example that is relevant to the emergency savings discussion. A common reason given by employees as to why they can't save money is: "I can't afford it." A budget calculator can help employees understand spending patterns and guide them to make small changes to free up extra money that can be directed into an emergency savings account. It's important to build in goals and progress meters so users can make adjustments and actively manage their budgets over time.

IMPORTANT: The illustrations or other information generated by the calculators are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. This information does not serve, either directly or indirectly, as legal, financial or tax advice, and you should always consult a qualified professional legal, financial and/or tax advisor when making decisions related to your individual tax situation.

Employer opportunity—Calculators that are served up at the point of employee engagement, such as a pop-up calculator that spells out the long-term impacts of taking a loan or hardship withdrawal right on the application web page, may convince some employees to explore other options.

3. Promoting Health Savings Accounts as a general safety net

Health Savings Accounts (HSAs) provide employees covered by a high-deductible healthcare plan a way to use tax-advantaged dollars to help cover medical expenses. **According to Voya internal data, 32% of unexpected expenses are medical in nature, so the HSA can be used to directly defray some of these costs.**[2] However, employees may need help understanding the benefits of an HSA. According to a study Voya conducted, if faced with an unexpected medical emergency, employees were most likely to rely on their savings (54%) vs. on their HSA (20%).[19]

But employees may be able to broaden how they utilize their HSA balances. If an employee can pay covered medical expenses out-of-pocket, and they save their receipts, they can submit those receipts months or years later for reimbursement, and then use the reimbursed funds to pay for non-medical emergency expenses.

Employer opportunity—Promote HSAs, if offered, as a retirement savings vehicle. And, thinking outside the box and coming up with different ways to utilize existing benefits, such as the HSA future reimbursement process, provides a way to effectively "add" a benefit without actually making a change to the benefits structure.

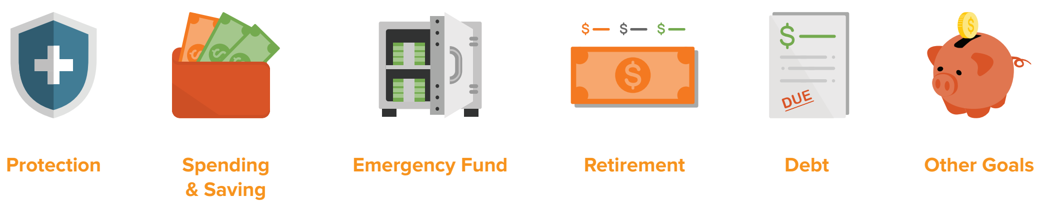
[19] The online survey was conducted September 2 – 6, 2020 among 315 U.S. Consumers currently enrolled in an employer-sponsored health plan. For research-related inquiries, email info@russellresearch.com.

4. Expanding financial wellness programs

According to the Employee Benefit Research Institute (EBRI), 52% of companies with at least 500 employees are currently offering financial wellness programs to their employees. Another 25% are in the process of implementing these benefits. Larger firms are more likely to offer a holistic program with a defined strategy for improving their employees' financial well-being.[15] And, employees are interested: 75% of plan participants are interested in receiving information about ways to address their overall financial wellness.[20]

The top two issues addressed by 40% of employers through their financial wellness programs are helping employees with healthcare costs and retirement preparedness. Slightly less than one-quarter of employers focus on helping employees cover unexpected expenses. And just 27% are offering emergency fund or employee hardship assistance as part of their financial wellness programs.[15]

Voya's Financial Wellness Experience offers one example of how to incorporate emergency savings into a holistic program. The guiding principles of Voya's program center around six financial pillars:



When an employee completes a Financial Wellness assessment, they are given a score for each of the pillars and provided with guidance on how to improve their wellness in each area. Nine out of 10 users who complete the assessment take action to improve their financial situation.[2]

> **Employer opportunity**—About 75% of organizations are not addressing emergency savings in their financial wellness initiatives.[15] Consider adding saving incentives, such as matching contributions and access to high yield savings accounts. This may further motivate employees to take action. Employers who direct more attention to helping employees manage unexpected expenses within their holistic financial programs could be seen by employees and prospects as leaders in offering benefits that workers are asking for today.

Emerging solutions

5. Offering out-of-plan savings accounts

Some employers are giving their employees access to third-party emergency savings accounts by forming partnerships with a bank, credit union or taxable trust. This helps employees keep their emergency funds separate from other money sources.

Employers can incentivize sign-ups by negotiating favorable fee structures and interest rates that would not be available to individuals in a retail setting, and by streamlining the account set-up process through direct links to specially branded landing pages on the banking institution's website.

> Just 20% of employers currently offer any type of emergency savings vehicle that leverages payroll deductions, and even fewer (13%) offer out-of-plan or other types of emergency savings accounts.[17]

[20] Voya's Voice of Customer Research (July/August 2020).

Best practices for out-of-plan savings accounts

While out-of-plan accounts are still a relatively new approach, there are best practices emerging that can improve the success of these programs.

Automatic payroll deductions
Automation features have proven effective in retirement plans and will make it easier for employees to make steady contributions to their emergency fund.

Employee engagement
Awareness campaigns should promote the value of the program, encourage action and make it easy to get started.

Employer contributions
Similar to matching contributions in a retirement plan, employer contributions to an emergency fund can be a powerful incentive for employees to save and speed up balance growth. It also demonstrates a bottom-line commitment by the employer to improving employees' financial health.

Campaign monitoring
It's important to track progress on awareness and enrollment campaigns to ensure employees are taking advantage of the program or if messaging alterations need to be made. Results monitoring can provide sponsors with insights into how to drive engagement and improve outcomes for the sidecar program and other employee benefit initiatives.

> **Employer opportunity**—If an emergency savings account is attached to or marketed alongside the defined contribution plan, it can act as a gateway for employees who are not yet saving in the retirement plan. Non-participants may be more apt to save for short-term emergency needs knowing they can get at their money. Once they are in the habit of saving, they may be more receptive to retirement savings communications, which could help drive retirement plan enrollments.

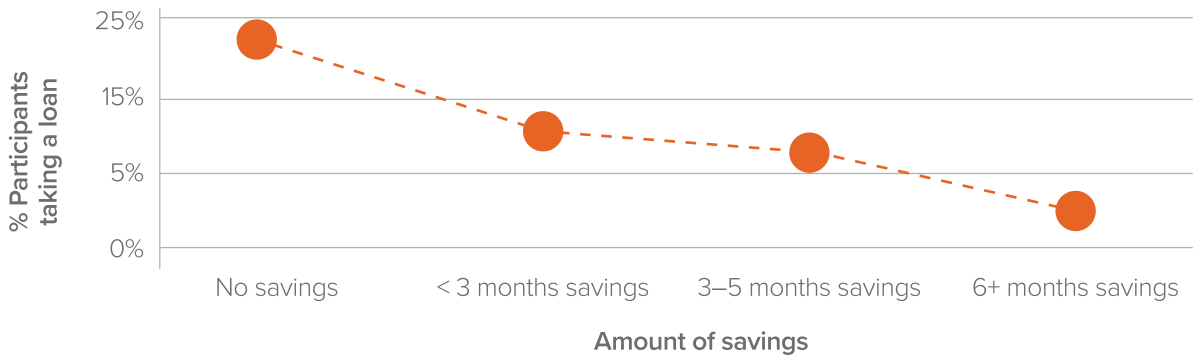
6. Making retirement plan design changes

Rethinking plan loans—Loans are often heralded as a benefit of a workplace retirement plan. And clearly there are instances where a plan loan can make sense for a participant. When faced with a financial emergency, taking a low-cost, low-interest loan from a retirement plan may be a better option than taking a hardship withdrawal or opting for a high-interest personal or payday loan.

But plan loans also carry downsides, and they have the potential to negatively impact a participant's retirement readiness. If a plan loan is used to cover emergency expenses and the participant cannot pay it back on time, the loan is considered a taxable withdrawal and there may be a 10% early withdrawal penalty.

To strike a balance between suggesting loans as an emergency cash solution and protecting long-term retirement savings, sponsors may consider limiting the number of plan loans allowed. A more aggressive approach would be to eliminate plan loans entirely, which removes the temptation to raid retirement savings, but also eliminates a source of cash for unexpected expenses that can't be met by other means. There is evidence to suggest that limiting loan benefits may encourage better long-term savings behaviors. In fact, Voya research shows that, in plans that do not allow loans, participant savings rates are higher than those in a plan that offer one loan (7.2% compared to 6.7%).[2]

The need for a hardship loan



Source: Voya internal data as of October 2020

Repositioning after-tax accounts—Some plan sponsors are encouraging participants to think of their after-tax accounts as a convenient emergency fund. Voya research found that 29% of participants saving to after-tax accounts report they have no emergency savings at all.[2] This may indicate that participants are unaware that after-tax accounts could be used as an emergency savings vehicle.

Advantages for plan sponsors include:	Advantages for participants include:
Leverages an existing plan benefit	Saving through convenient payroll deductions
Eliminates the need to create a separate emergency savings program	Easy access to the money, with the contribution portion not subject to taxes at withdrawal
Requires only an education campaign to shift participant perceptions	Potential for employer matching contributions

One caveat: Encouraging regular withdrawals from a retirement plan account—even though it's after-tax money—may send a mixed message to participants who are accustomed to hearing that retirement plans are exclusively for long-term savings. And any retirement plan withdrawal has the potential to reduce retirement readiness.

Employer opportunity—Work with your plan provider to make plan design changes that give employees the features they want but that also encourage good savings habits—both for retirement and for emergencies. This allows you to frame what could be seen as a takeaway, such as limits on loans, as a convenient way to drive positive outcomes over the long haul.

Key takeaways

- For many Americans, inadequate emergency savings has long been a problem, and it has been exacerbated by the impact of COVID-19. For many, a single unplanned expense can disrupt their financial stability because they have little or no emergency savings to cover household expenses. If experienced a job or income loss due to COVID-19, the majority of Americans would use or draw down savings, followed by more than a quarter who would rely on credit cards.[4]
- Unplanned expenses are surprisingly common across all age groups and economic levels. Sixty percent of households experienced a financial shock in the previous 12 months, and a third of those had two or more financial emergencies in the same timeframe, making it very difficult to get their finances back to normal.[5]
- Not having adequate emergency savings to cover unexpected expenses is a major contributor to financial stress.[11] This negatively impacts workplace productivity and the employer's bottom line, plus it puts employees' retirement at risk.
- Improving financial resilience by maintaining an emergency fund first requires an employee to acknowledge the value of saving for an emergency, and then commit to the savings process.
- Employees are looking to their employers for emergency saving help. Employers can provide access to financial tools, expand financial wellness programs, offer branded third-party savings accounts and look to emerging solutions that would make it easier for employees to build an emergency fund.

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