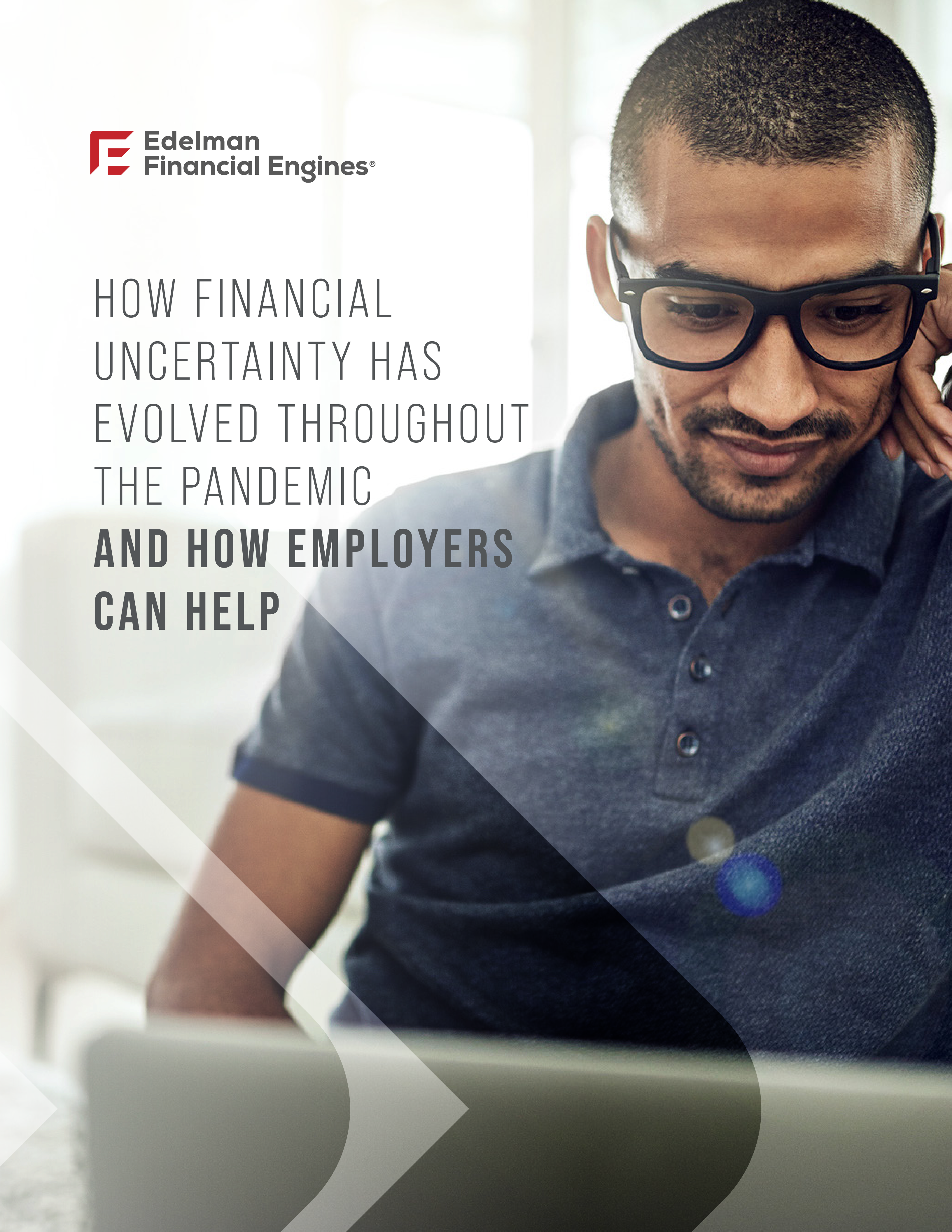
Edelman Financial Engines®

HOW FINANCIAL UNCERTAINTY HAS EVOLVED THROUGHOUT THE PANDEMIC **AND HOW EMPLOYERS CAN HELP**



INTRODUCTION

Levels of financial stress surged during the pandemic, negatively affecting every aspect of employees' lives, from their personal lives to their productivity at work. Employers also faced challenges on multiple fronts, including the uncertainty of the Great Resignation — a concern they still grapple with today.

With this in mind, we set out to create a series of snapshots of employee financial wellness at three critical points during the pandemic:

→ **April 2020**
As a shell-shocked world reacts to the onset of COVID-19.

→ **August 2020**
As months of economic disruption take their financial toll.

→ **June 2022**
As employees prepare to enter their "next normal."

Our study delves into how workers feel about their financial health and explores the impact of financial planning as the pandemic unfolds. It also lays bare the critical importance of financial advice to improve outcomes for employees and employers — and how employers must take a more proactive role to encourage staff to seek financial advice.

Key findings

64%↑

Since the early days of the pandemic, there's been a **significant increase (64%) in those employees who would need to take drastic measures to raise $2,000** in case of an emergency, with women being especially hard hit.

COVID-19 has employees rethinking retirement, with nearly **1 in 3 workers eligible to retire in the next 1-5 years delaying retirement** due to financial concerns related to the pandemic.

17%

Consulting a financial advisor boosts financial confidence and security, but **just 17% of employees were financial advisory clients** in 2022.

While concerning, these findings can also create a unique opportunity for employers: those who deeply understand their employees' financial concerns can tailor their benefits strategy accordingly, curating benefits packages that both support their staff's financial wellness and bolster productivity.

THE STATE OF FINANCIAL STRESS DURING THE PANDEMIC

Amid layoffs, economic uncertainty, and medical expenses, it's no surprise that the COVID-19 pandemic undermined many employees' sense of financial security. And while, eventually, most households experienced some financial consequences from the pandemic, certain cohorts — more specifically women, divorced or separated individuals, and employees with fewer opportunities to work remotely — felt it the most.

Employees' financial confidence is in free-fall

During the first year of the pandemic, those already in a precarious financial position felt its effects the fastest. From April 2020 to August 2020, individuals with a "very high" financial stress level experienced a 38% increase in financial desperation, while those with strong emergency readiness in April 2020 — defined as the ability to build a $2,000 emergency fund within 30 days — remained confident in August 2020.

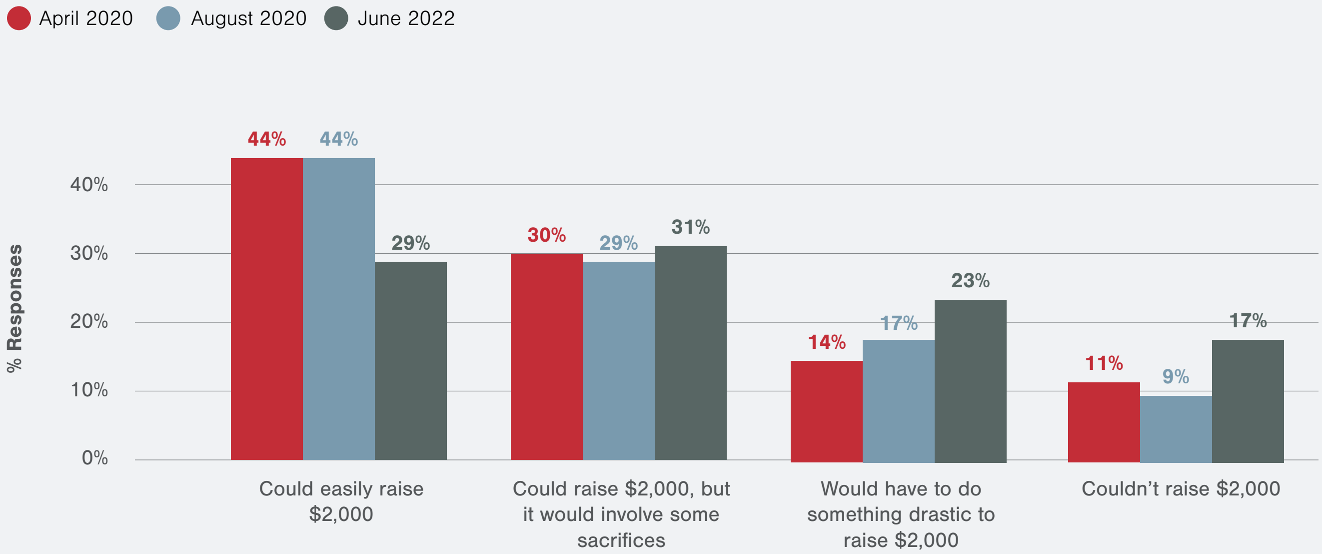
However, by 2022, overall emergency readiness had fallen significantly across the board. The number of employees confident they could easily raise $2,000 fell 34% between 2020 and 2022, from 44% to 29%.

This year, just 1 in 3 employees say they could "easily raise" $2,000 in case of an emergency.

Correspondingly, the number of employees with low emergency readiness has increased. Roughly one in four respondents (23%) said they'd need to take drastic action to raise $2,000 in an emergency, up 64% from 2020. And nearly one in five (17%) say they wouldn't be able to raise $2,000 at all — a 55% increase since 2020.

> *"If something drastic were to happen now, I may not have the finances to get through it."*
>
> *-Divorced female, with HHI less than $74,999/year, age 62 (June 2022)*

Emergency readiness among employees throughout the pandemic



Single-income households are particularly hard hit

Perhaps not surprisingly, divorced and separated individuals were particularly affected by the financial uncertainties of the pandemic.

While, initially, divorced and married households had similar emergency readiness — roughly one in two respondents felt they could easily raise $2,000 — divorced households lost financial confidence at twice the rate of their married counterparts. By 2022, just 24% said they could easily raise $2,000, compared to 36% of married couples.

Respondents who said they could easily raise $2,000:

	2020		2022
Divorced:	50%	→	24%
Married:	49%	→	36%

Separated individuals — already grappling with lower financial confidence than divorced or married respondents — saw their emergency readiness drop from 30% in 2020 to just 8% in 2022.

Workers are putting their retirement plans on hold

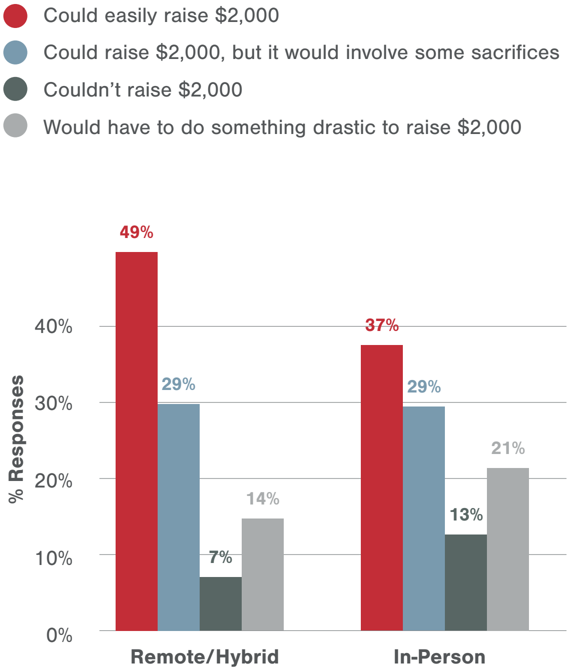
Dwindling financial confidence can keep employees from reaching their goals — and our research indicates that financial uncertainty is spurring them to rethink their retirement plans.

Those nearing retirement are particularly feeling the pinch: nearly one in three workers eligible to retire in the next one to five years say COVID-19 impacted their retirement plan. And, of those already eligible to retire, more than one in five (22%) rescheduled their exit from the workplace due to the pandemic.

22% **of those who are currently eligible for retirement say that COVID-19 has impacted their expected retirement time horizon.**

32% **of those eligible to retire in the next 1-5 years say that COVID-19 has impacted their expected retirement time horizon.**

Nearly half (49%) of remote/hybrid workers said they could easily raise $2,000 in 2022, compared to 37% of in-person workers.



Remote and hybrid workers fared better, on average, than in-person employees

Remote workers earn higher pay, on average, than those in in-person roles[1], and our data shows that remote and hybrid employees have greater emergency readiness, too.

What's driving this trend?

The underlying reason could be simple — that digitally-savvy workers with in-demand skills can access higher-paying remote jobs to achieve greater financial security. But the average American also spends an average of $8,466, or 19% of their income, commuting each year[2], and working remotely may directly benefit financial wellness, too.

WOMEN BORE THE BRUNT OF FINANCIAL STRESS DURING THE PANDEMIC

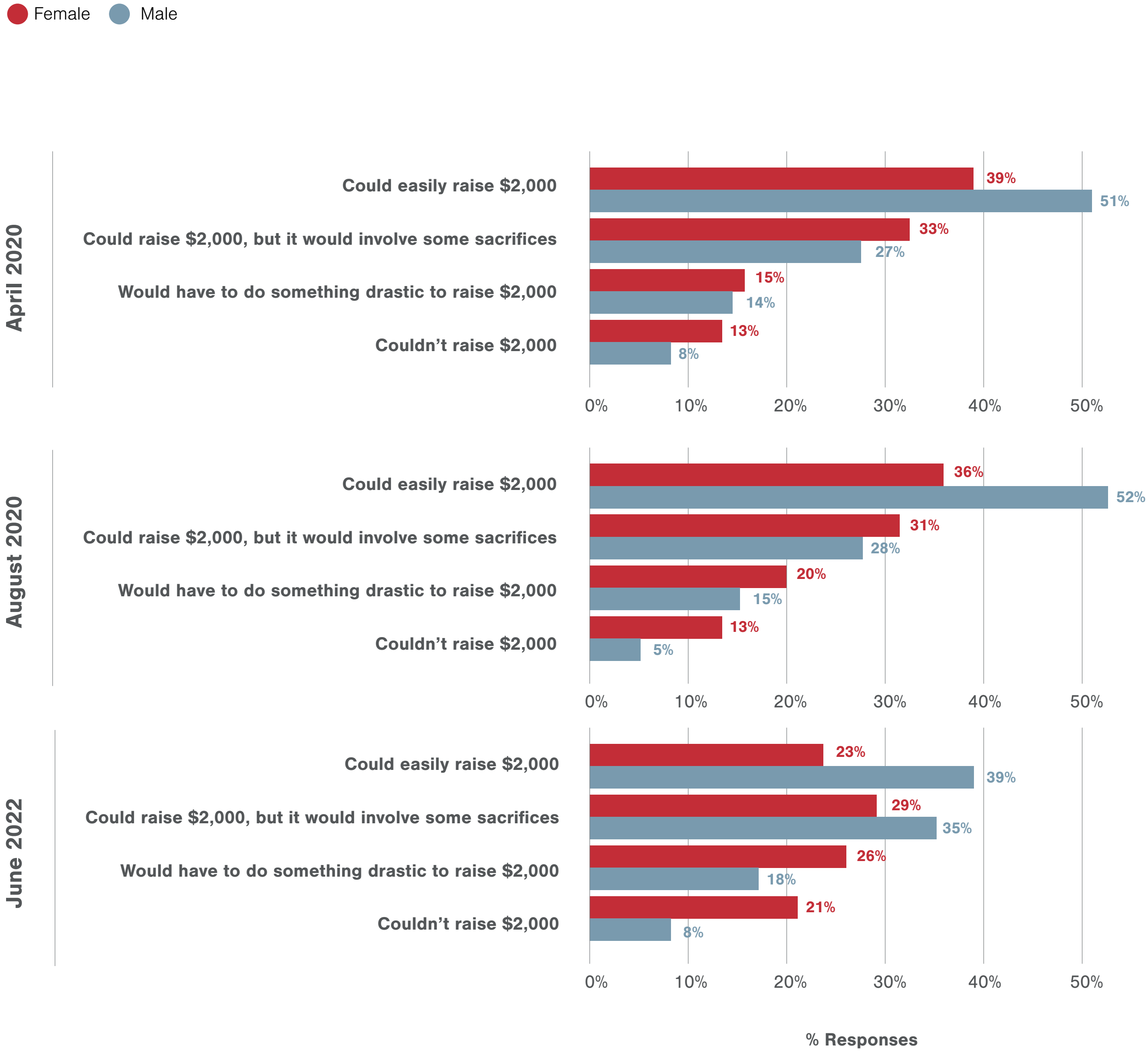
The sectors where women are disproportionately represented — including education, human health/social work, and accommodations/food service — are also those hardest hit by the pandemic[3]. And our data indicates that financial confidence and stress in the wake of COVID-19 also vary across gender lines.

Overall, women's emergency readiness dropped significantly over the course of the pandemic. Women's emergency readiness between 2020 and 2022 fell at roughly 1.2x the rate of men. By 2022, one in five women (21%) said they could not raise $2,000 in 2022, compared to just 8% of men.

1.2X

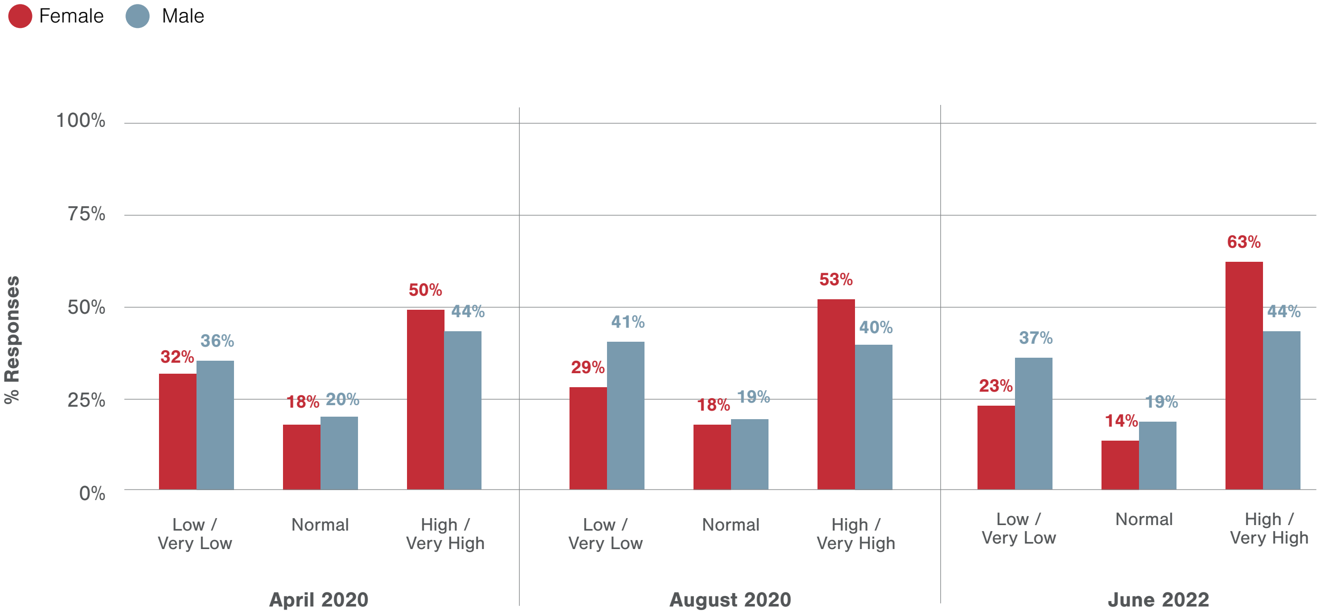
Emergency readiness among women fell at 1.2x the rate for men. In 2022, women were more than twice as likely as men to say they could not raise $2,000 in an emergency.

Emergency readiness among men and women throughout the pandemic



Women also report significantly higher levels of financial stress than men. Most recently, 63% of women say they have high or very high levels of financial stress (vs. 44% of men). Just 23% rate their financial stress as low or very low (vs. 37% for men).

Financial stress levels among men and women throughout the pandemic



THE POSITIVE IMPACT OF FINANCIAL PLANNING

A well-designed financial plan helps households prepare for the unexpected — including an economic shutdown. And those with access to a financial advisor could receive trusted advice to adjust their household's budget in light of the pandemic, as well as find financial help best suited to their situation.

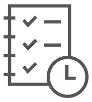
Perhaps not surprisingly, our study found that financial advisory clients, and those with a financial plan in place, fared better than those without a plan. However, it also uncovered a troubling trend: that those who might benefit most from advice are those least likely to seek it out.

> *"I feel that my 401k doesn't take into account the economic situation of the future. I am afraid I will have to work a different job after retirement just to make ends meet."*
>
> *-Never married female HHI $25k-$49k, age 25 (June 2022)*

Having a financial plan boosts emergency readiness

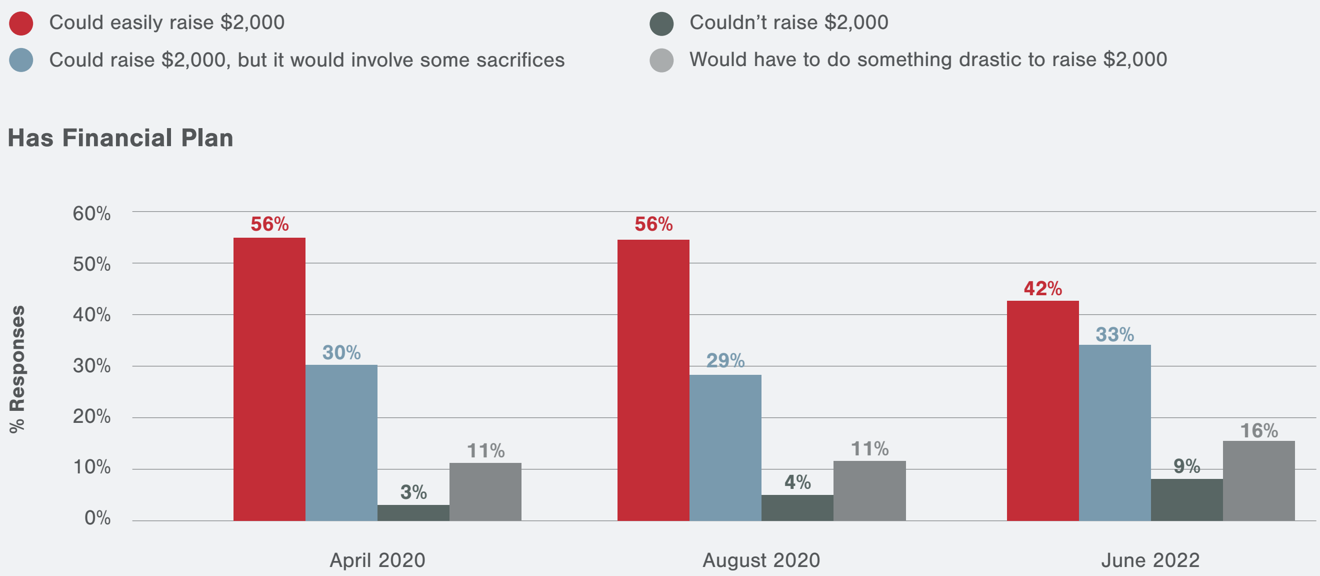
Financial planning offered clear benefits at each stage of the pandemic. Those with a financial plan started the pandemic on stronger financial footing, with 56% saying they could easily raise $2,000 in 2020 (vs. 36% without a financial plan). By 2022, that number had dropped to 42% — but those with a financial plan are still twice as likely to easily raise $2,000 than those without a plan.

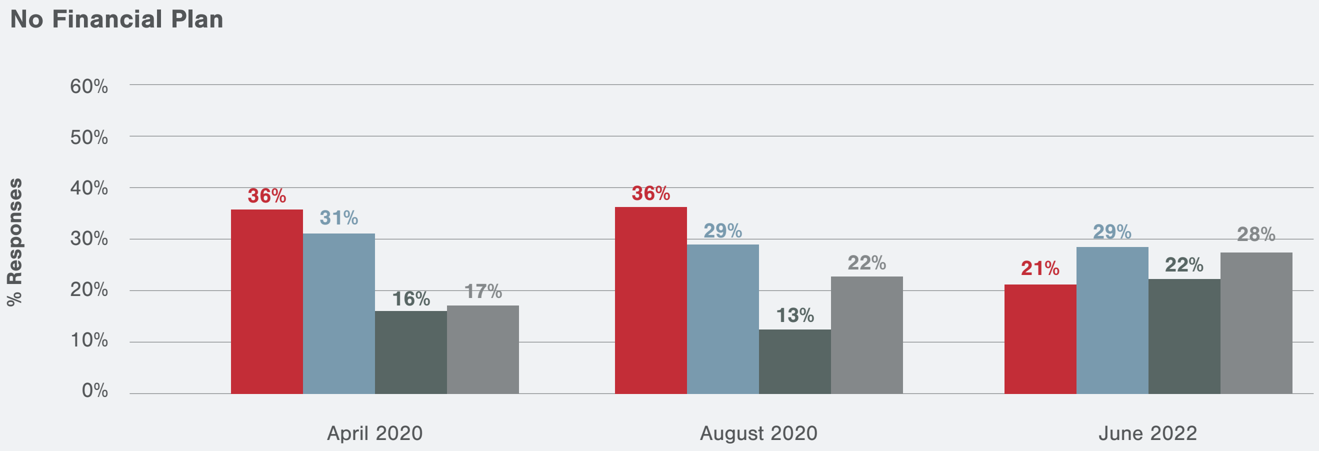
2X



Those with a financial plan are now twice as likely to say they could easily raise $2,000 than those who do not have a financial plan.

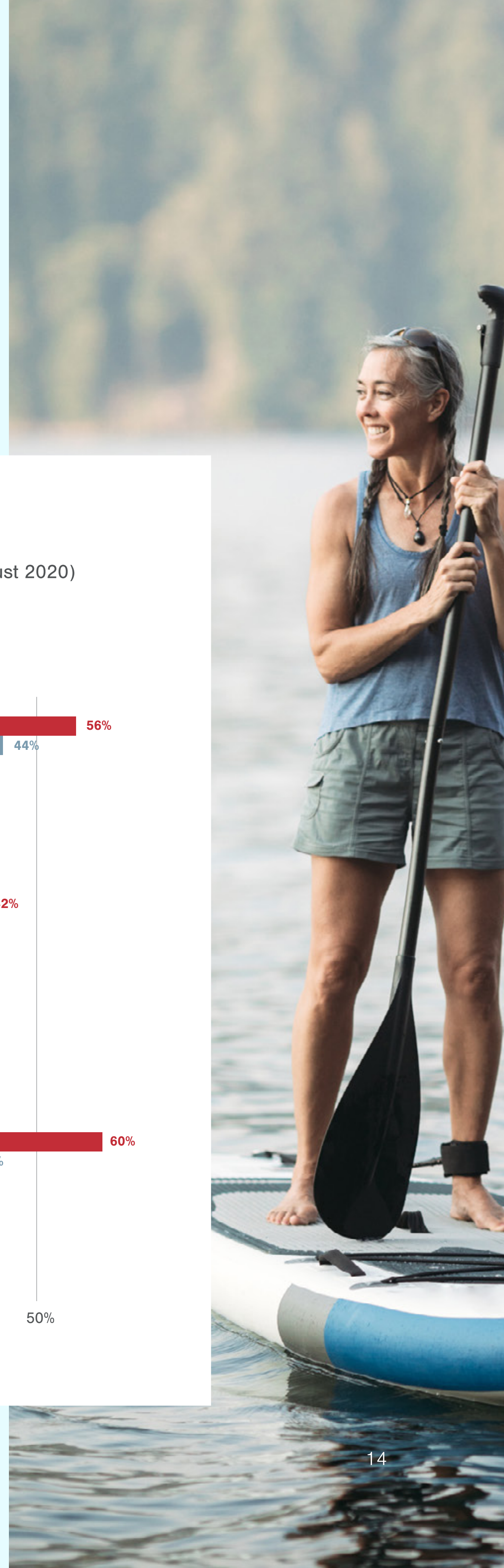
The impact of financial planning on emergency readiness throughout the pandemic





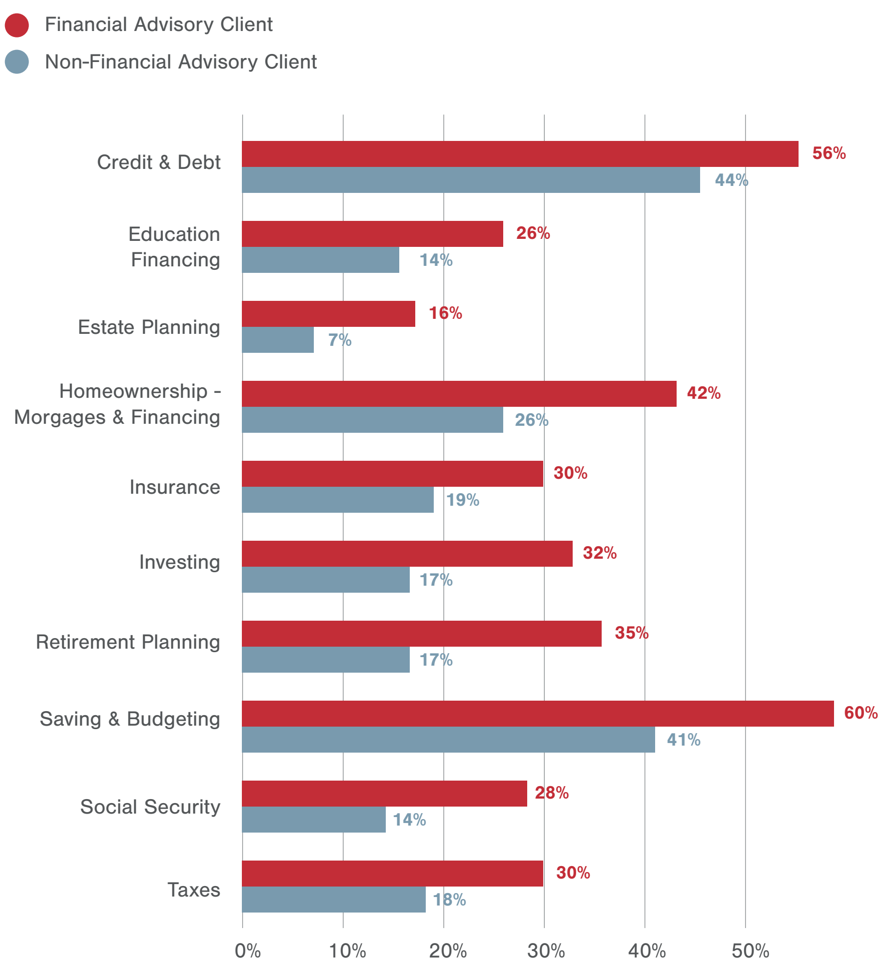
Access to a financial advisor increases overall financial confidence, too

The advice and expertise provided by an advisor helps boost employees' financial literacy at all stages of life. From basics like saving and budgeting to navigating homeownership, financial advisory clients were more confident in their financial knowledge.



High Knowledge & Confidence

Financial Advisory vs. Non- Financial Advisory Clients (August 2020)



However, many employees hesitate to seek financial advice

Accessing a financial advisor and creating a financial plan offers advantages at every stage of life — from understanding mortgages to preparing for economic uncertainty. Yet, our June 2022 data shows that few employees consult a financial advisor for help achieving their goals:

17% **Just 17%** of respondents were financial advisor clients

While the proportion of financial advisory clients remained a minority across all age cohorts, respondents were most likely to consult an advisor as they neared retirement.

And, for those who sought advice, the rewards were significant:

3X

Those with a financial advisor are **three times as likely** to feel knowledgeable about retirement planning **and**

28%

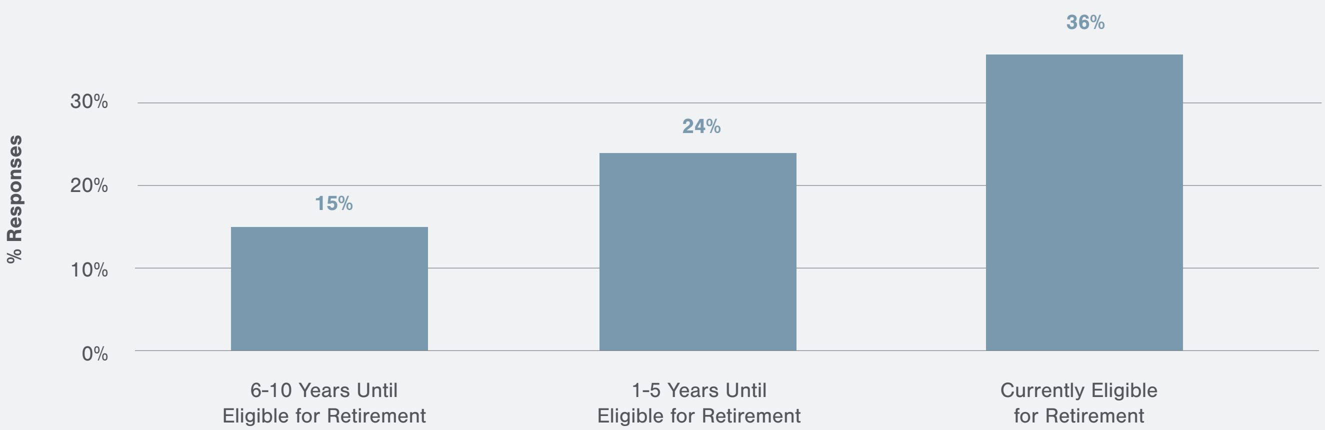
Had accumulated an average of **28% more retirement savings** than those without an advisor

"I am too embarrassed by my current financial situation to reach out for help in financial planning."

-Never married female with HHI between $50k - $74k, age 33 (June 2022)

The proportion of employees who sought financial advice as they neared retirement.

(April 2020, August 2020, June 2022)



Offering financial advisory services as a benefit helps employers

The mental and emotional strain of financial stress can affect employees' personal and professional lives. Nearly one in five employees without a financial advisor (18%) said they spent at least an hour worrying about their finances at work, compared to just 10% of financial advisory clients. This suggests that workplace benefits that facilitate access to a financial advisor may help employees focus on the job.

7 in 10 financial advisory clients say they spend **little or no time worrying about finances at work.**

17%

But just **17% of employees** are financial advisory clients

However, simply offering financial benefits that include access to an advisor may not be enough. **As a result, employers must also take action to encourage employees to access their financial benefits, both to improve workers' financial wellness and enhance their focus at work.**

IMPROVING THE ADOPTION OF WORKPLACE FINANCIAL WELLNESS BENEFITS

Financial wellness benefits, including access to a financial advisor, can play a pivotal role in employees' well-being. It's also increasingly important for talent management, as employees' interest in financial planning workshops and tools has grown 27% in the past five years.[4]

As a baseline, employers should offer access to a financial advisor as part of their workplace benefits packages. But employers hoping to boost productivity will go a step further and create a strategy to help maximize benefits adoption. The following best practices can help:

1. Make wellness a core value of the organization

Poor financial health can have a ripple effect on workers' mental and physical well-being. Treat financial wellness as an essential component of overall health and make employee wellness part of your core mission.

2. Prioritize clear benefits communications

Employees must understand the benefits available to them to make the right choices. Employers should ensure their employees know their benefits include financial wellness solutions, including access to an advisor, and craft communications that highlight the real-world benefits of financial planning — especially during times of economic disruption — in a way that resonates.

3. Reach employees where they are

Deploy benefits communications across employees' preferred communication channels — including email, phone, text, and in-person communication. Consider reaching out at critical moments during employees' lives — from personal milestones like the birth of a child to professional advancements, such as landing a promotion — to highlight how their financial benefits can help.

4. Think beyond retirement planning

Employees who access financial advice tend to do so as they approach retirement, but financial advice is valuable at any stage of life. Consider tailored communications around a range of goals — such as paying off student loans, saving for a home, or financial family planning — to attract workers of all ages.

5. Mind the diversity gap

Financial stress impacts everyone differently, and those from historically marginalized or disadvantaged backgrounds — including women, members of the LGBTQ+ community and BIPOC — are often hardest-hit. Craft communications with a diverse range of experiences in mind to improve benefits utilization across your workforce.

PROVIDE EMPLOYEES THE SUPPORT THEY NEED

This report reveals that households across the country are still grappling with the financial ramifications of COVID-19, and women are among the hardest hit. And, while alarmingly few employees seek out financial advice, those who do fared better during the pandemic and are more confident in their ability to reach their financial goals.

Employers who offer financial advisory services as a benefit — and, crucially, have a strategy in place to encourage employees to access their benefits — can reap the rewards of greater productivity.

Edelman Financial Engines offers personalized financial solutions for employees at every stage of life, supporting workers' everyday financial wellness and helping every employee achieve their financial goals. Contact us to learn more about our workplace financial solutions, and how we can help you foster a less stressed and more productive workforce.

Methodology

Edelman Financial Engines conducted online surveys of America's employees focusing on subjective measures of financial well-being and financial advice at various points throughout the pandemic. The first survey was conducted from April 6 – 10, 2020, across 1,077 employees. The second survey was conducted from August 18 – September 1, 2020, across 1,901 employees. The final survey was conducted from May 27 – June 6, 2022, across 1,079 employees. Qualified survey participants were full- and part-time employees. Aggregate data is reported at 95% confidence with +/-3% margin of error. Fielding was conducted on the Qualtrics Insight Platform. Demographics are available upon request.

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