

Will 2021 Be the Year of Employee Financial Wellness?

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The prevalence of financial wellness programs has been steadily increasing over the years. However, there are some indications that 2021 may be a transformative year for the finances of many employees, led by an explosion in employer-sponsored financial wellness offerings, such as emergency savings accounts and student loan debt assistance.

While certainly exciting for participants and plan sponsors alike, financial wellness is one of the most heavily marketed initiatives in industry - up there with PEPs and annuities/retirement income solutions. Unfortunately, history has shown us that these initiatives do not always live up to their hype (remember managed accounts?).

Will 2021 be the year of financial wellness? Let's take a look at some of the favorable factors and obstacles on the road to employee financial independence.

WHY EMPLOYEE FINANCIAL INDEPENDENCE IS LIKELY IN 2021:

A Desirable Outcome

Unlike other heavily-marketed initiatives like PEPs and annuities, where the advantages to employees are uncertain, the benefit of financial wellness is clear. For example, asking a group of employees if they want to save for retirement is likely to be met with a variety of answers. However, asking employees if they wish to become financially independent brings uniform acceptance, even though many of the action steps

are the same for both outcomes. Thus, unlike retirement, where it can be difficult to engage employees (to the point where many plan sponsors choose to auto-enroll them instead), the concept of financial wellness/independence is far more likely to drive employee action. From the employer perspective, studies have shown that employees who are not stressed by finances are more productive; thus, employers should be similarly motivated to promote employee financial independence as a business objective.

Employee Focus on Finances

When people have less money, they tend to focus on it more. This has clearly been the case during the pandemic and related recession. Instead of spending stimulus checks, many individuals saved them. While the CARES Act permitted individuals in need to take retirement plan distributions, many did not. These are clear signs that many are considering how to be better financially prepared in case future emergencies strike.

Technology is There

"Smart" automated emergency savings plans and budgeting/net-worth trackers make it easier than ever for employees to engage and remain engaged. While the Empower-Personal Capital acquisition grabbed headlines, all of the major retirement plan recordkeepers have formed alliances with providers of various financial wellness services and/or have made huge investments in financial wellness technology.

WHY IT MAY NOT HAPPEN:

Lack of Auto-Enrollment

A major tool in the retirement plan engagement arsenal, automatic enrollment does not yet exist in the realm of financial wellness. Auto-enrollment has been wildly successful in overcoming employee inertia. If financial wellness programs must work against an employee's tendency to not take action, it could prove to be too big a hill to climb in implementing successful financial independence initiatives.

Privacy Issues

In order for financial wellness initiatives to be effective, the experience must be customized, requiring access to employee financial data. While it is ambiguous whether data is a plan asset under ERISA, employers are protective of their employees' personal financial data, and rightfully so. However, this personal financial data is already used to promote other positive outcomes, like retirement readiness. Thus, hopefully a balance can be struck to preserve employee privacy while also enabling customized financial wellness programs.

Employer Motivation

As many employers struggle to simply remain afloat under the current financial conditions, introducing a financial wellness/independence program to their employees may not be top of mind. And if implementing these programs requires a financial commitment, the likelihood of doing so is even less.

CONCLUSION

The need for employee financial wellness programs is certainly clear, and this year's pandemic has only intensified the demand for these types of offerings. However, despite the benefits, there are some roadblocks that may prevent financial wellness programs from fully achieving their

potential. Will 2021 be the year of employee financial independence or not? The answer is likely somewhere in between.

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