Sunny Day Fund™

PRESENTS

WORKFORCE FINANCIAL WELL-BEING 2022

How Businesses Can Compete with Financial Benefits

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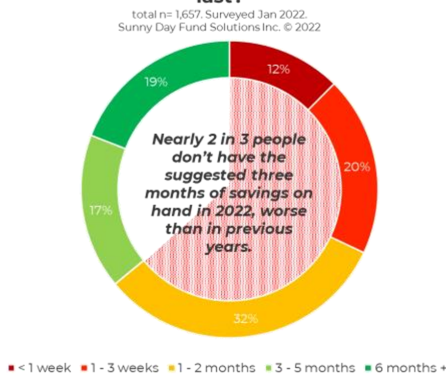
Executive Summary

The ongoing pandemic and 2022's rising inflation continue to impact the financial well-being of American workers. US companies are also impacted, as threats of a recession and a tight labor market make it harder to attract and retain the right workforce.

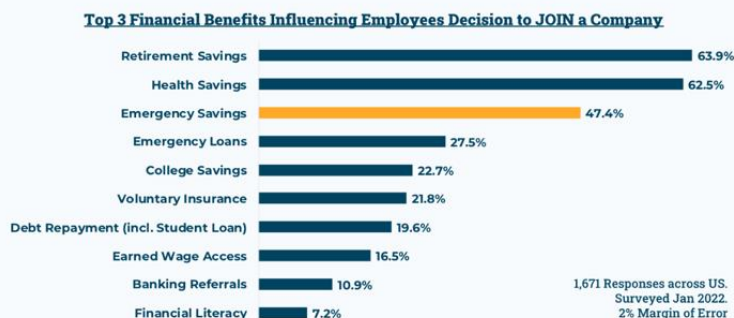
In this environment, workers are looking to their employers to support their financial well-being. Employers need to find meaningful solutions to meet that need if they want to remain competitive in the search for the right talent.

In this original data report, we present findings on the state of workforce financial well-being and tangible insights that enable employers to leverage financial benefits to their advantage. For example, **nearly 50% of people we spoke to in this survey said they'd be more likely to join, or stay with, a company offering emergency savings as a benefit**.

However, benefits packages are perceived to favor higher income workers, rather than those on the frontline. There's an opportunity for business leaders to gain a competitive advantage in the tough labor market by focusing on emergency savings to achieve financial well-being and equity.



- 64% of American workers have less than 3 months' cash and liquid savings available to them. 12% have less than 1 week in liquid savings
- The problem is acute for those earning less than $40k, 15% of whom would be unable to pay an unexpected $400 expense at all, even through payday loans
- 401(k) plans are increasingly being leveraged to cover even minor unexpected expense.
    - 17% of people would dip into retirement plans to cover a $400 expense, up from 4% in 2020
    - In fact, 22% said they had tapped their retirement savings in 2021
- People are looking to employers to support financial stability in ways beyond salary. Emergency Savings is a **top-three** financial benefit for anyone earning less than $110,000 a year, up there with retirement and health savings. Emergency savings as a benefit is more than twice as desired as other financial benefits including earned wage access and more than seven times as desired as a financial literacy app



Survey Methodology

How we collected the data

We knew it was going to be important to get as representative a cross-section of the US workforce as possible. To do so, we used an Amazon Mechanical-Turk-based Workforce panel statistically representative of US workforce demographics by income, gender, then race.

We asked 50 questions that spanned the topics of financial well-being, self-reported assets and debt, and preferences for employee benefits. We received 1671 responses to our survey questions from people across the US, and respondents were compensated in kind for their time. In generating some of the graphs for this data report we removed a few outliers – after checking for statistical significance – that impacted data visualization.

The margin of error for this study as a whole, and in most cases for filtered insights, is estimated to be ±2%.

How we're measuring financial well-being

We use the Consumer Financial Protection Bureau's surveys, to track changes in individuals' financial well-being over time.

The scale consists of 10 questions and a normalized scoring method, giving a resulting number between 0 and 100. A higher score indicates a higher level of measured financial well-being, but there is not a specific cut-off for a "good" or "bad" financial well-being score. See the graphic below for a summary of what a score in the respective ranges may mean. What's relevant for our report is the relative difference in scores based on demographics or self-reported behavior.

Using this score, we were able to assess the current state of financial well-being, and changes between our 2022 survey and previous years. Here's what we discovered:

Score ranges

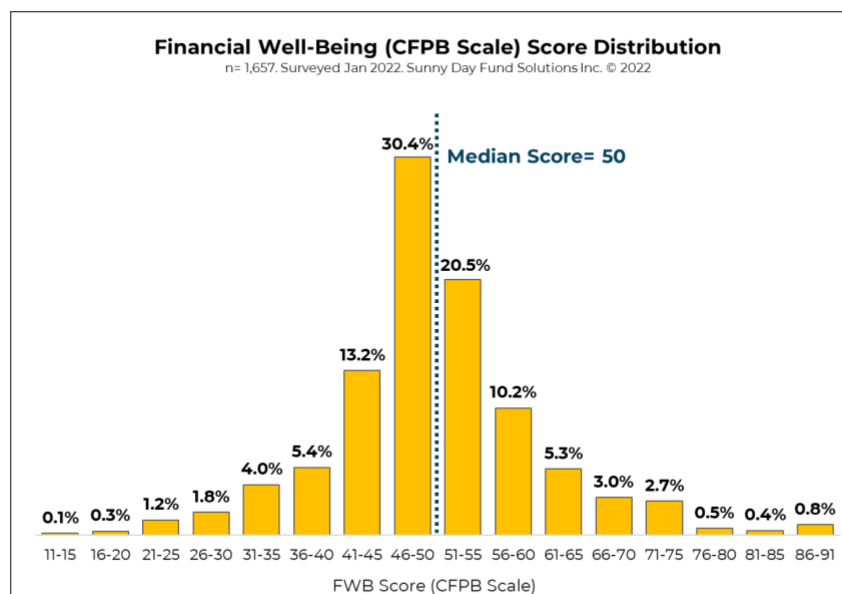
VERY LOW 0-29	LOW 30-37	MEDIUM LOW 38-49	MEDIUM HIGH 50-57	HIGH 58-67	VERY HIGH 68-100
People in these ranges tend to experience the following:					
• Just 5% are certain they could come up with $2,000 for an emergency. • Most (82%) sometimes or often experience food insecurity or food hardship. • Almost all (96%) find it somewhat or very difficult to make ends meet.	• Few (23%) habitually save and only some (38%) have more than $250 in liquid savings • Just 12% always stay on budget • Nearly half (45%) have experience with debt collectors.	• Most (60%) have minimal savings of $250 or more, but only 30% have $2,000 or more • Almost all (80%) find it somewhat or very difficult to make ends meet. • Some (32%) have had a credit application rejected or are concerned about credit rejection.	• More than half (55%) have automated deposits into a savings or retirement account. • A minority (32%) always pay off credit cards in full. • Few (16%) sometimes or often experience food insecurity or hardship.	• The vast majority (81%) are certain they could come up with $2,000 for an emergency. • Just 35% always stay on budget. • Very few (6%) have experienced a credit rejection or are concerned about credit rejection.	• Most have high levels of savings; 80% have $10,000 or more in liquid savings. • The majority (69%) make automated deposits into a savings or retirement account. • Most (81%) have health insurance.

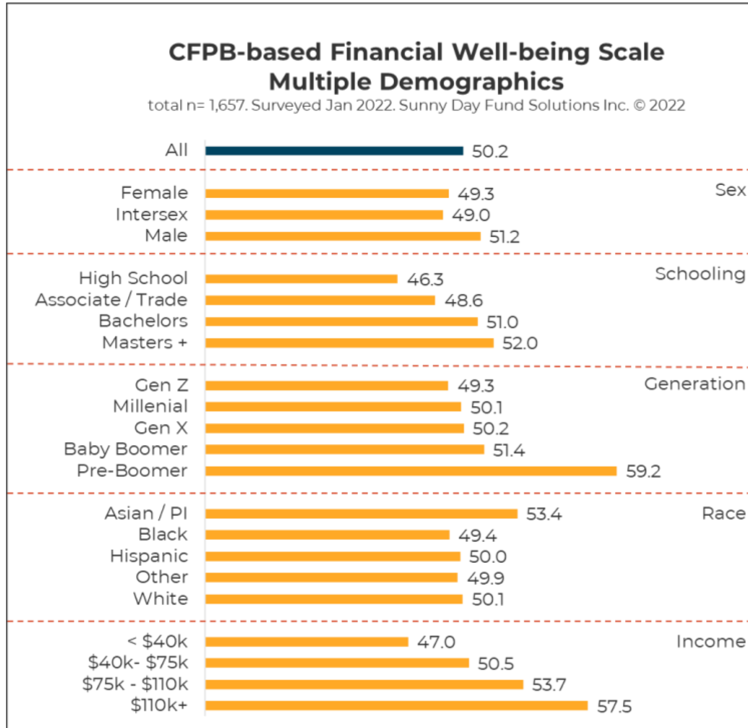
Source: Consumer Financial Protection Bureau

The State of Workforce Financial Well-Being in 2022

50% of our survey respondents reported average financial well-being of between 46-55 out of 100. The median score across all demographics was 50.2%, up 0.2% from our last survey in 2021. This median score aligns with the CFPB's own findings, indicating that our own smaller sample is representative of different types of people.

When we dig into the data, we see that financial well-being is unequal across demographics.



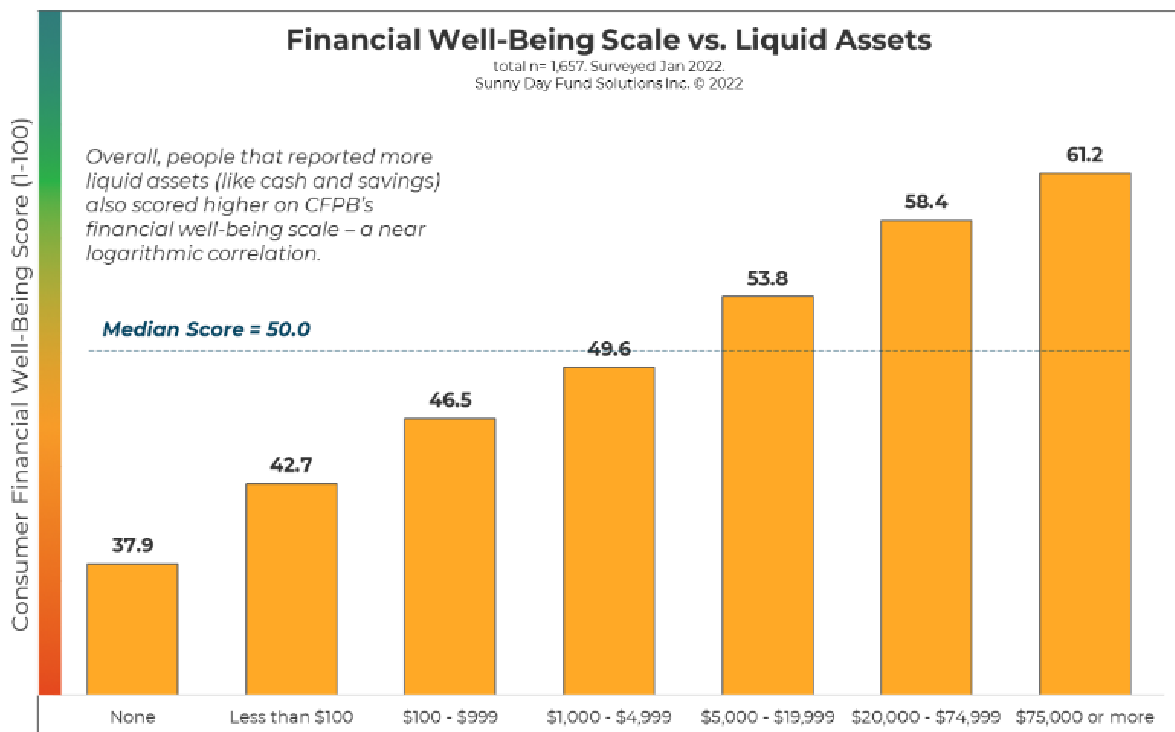


Unsurprisingly, the biggest contributing factor to financial well-being is income. But even at higher income scales, we saw people reporting low financial well-being. We'll dig into that in later sections of the report.

- Male respondents had 2% higher financial well-being than female and intersex respondents
- Financial well-being jumps a reliable 1-2% points for every increase in education level
- Financial well-being hovers around 50% for all generations from Gen Z to Baby Boomer. Pre-boomers are the outliers, scoring a full 10% higher financial well-being than Gen Zers.
- Black respondents report the lowest financial well-being
- Asian and Pacific Islander respondents have highest financial well-being, but our sample from this group was small, while significant, and we seemed to catch higher income respondents. We kept them included, but CFPB's normalization data suggests that adjusting for income would lower the financial well-being by 1 point.

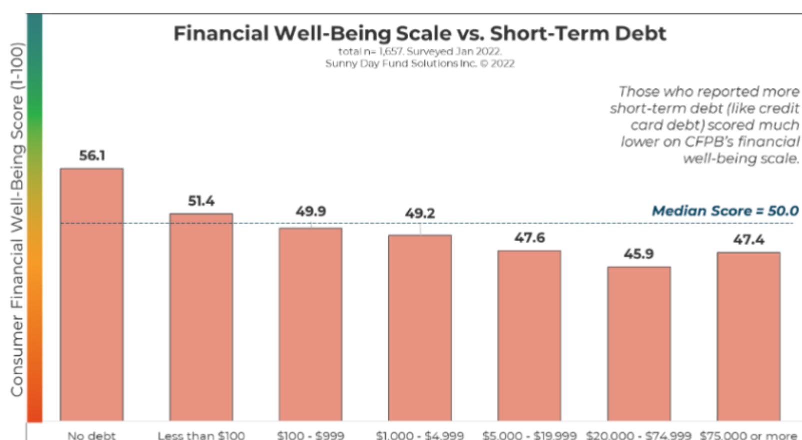
What Factors Increase Financial Well-being?

People with more liquid assets (like cash and savings) scored higher on CFPB's financial well-being scale – a near logarithmic correlation.



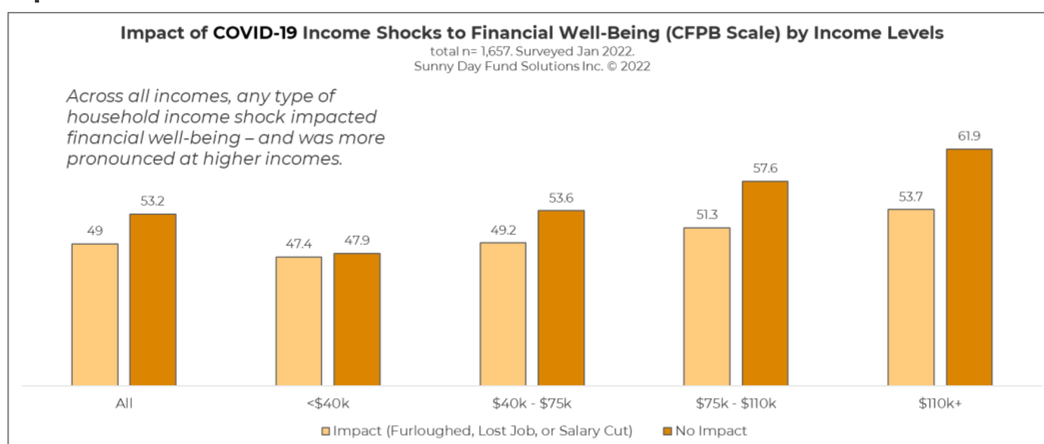
Short term debt (such as credit card debt) has an inverse relationship to financial well-being: the higher levels of short-term debt an individual reports, the lower their financial well-being:

Our takeaway here is that liquid assets like cash and savings, and lower dependence on short-term debt solutions like credit cards, contribute to feeling more financially stable. As organizations think about the easiest and best ways to drive financial well-being, they should thus focus on increasing liquid savings and reducing short-term debt.



The Ongoing Impact of COVID-19

For those impacted negatively by COVID-19, the impact on financial well-being increased alongside salary: higher earners reported a bigger drop in financial well-being if directly impacted by COVID-19.



We attribute this to higher earners having a higher cost of living, therefore feeling the pinch of lost income more keenly.

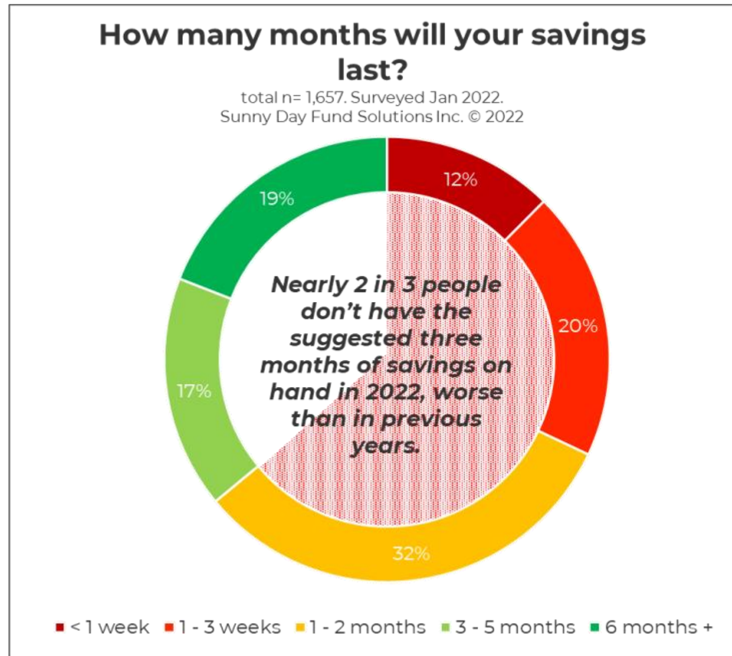
Black respondents reported the lowest COVID-19 related impact on financial well-being. That could be because this demographic tends to earn less to begin with, so the perceived impact was lower; or it could be because this group were more likely to receive government funding during the COVID-19 pandemic.

Liquid Assets like Savings Increase Financial Well-Being, but 64% of People Have Less Than 3 Months Savings Available

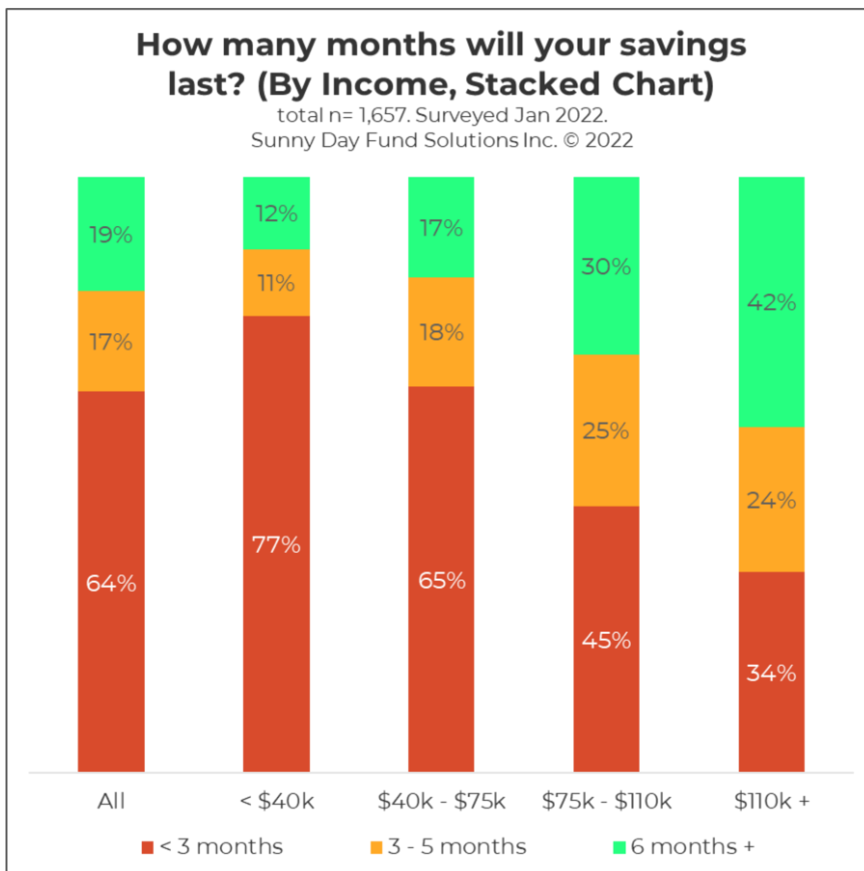
The biggest predictors of financial well-being are the amount of liquid savings someone has and, by logical extension, their income. Problem is, almost two-thirds of our respondents reported having less than 3 months savings available to them, and only one in five have six months of savings on hand, which is what most financial planners suggest.

This is significantly worse than the numbers we saw in previous years, in which ~50% of respondents didn't have the recommended three months of liquid savings to call on. We attribute this worsening to the fact that people dug into savings to alleviate the volatility of 2020 and 2021. When you pair that with creeping inflation seen first in higher housing costs, people have seen their savings chipped away at while their ability to replenish savings accounts has dwindled.

When it comes to savings runway, the biggest differentiator is income. Liquid savings runway rises along with income, unsurprisingly:



What *is* surprising is that even in our high-income bracket (those earning more than $110,000 a year), a full 34% had less than 3 months in liquid savings available to them. This tallies with previous findings by the likes of PYMNTS, who found that 36% of people earning over $250,000 now live pay-check to pay-check. Higher-income individuals are not immune to the savings crisis.



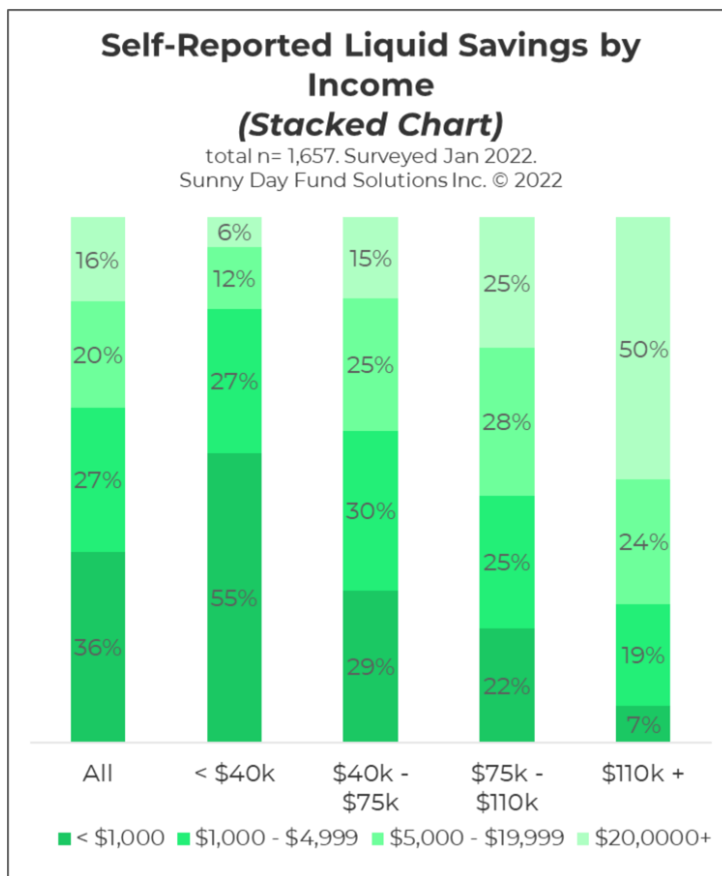
Anyone earning under $75,000 was less likely than average to have less than 3 months' savings available. For folks in the low-income bracket of $40,000 or under, over three-quarters (77%) of them don't have the recommended 3 months of savings to call on. Most US workers earn under $75,000, meaning that most people probably don't have enough liquid savings to rely on.

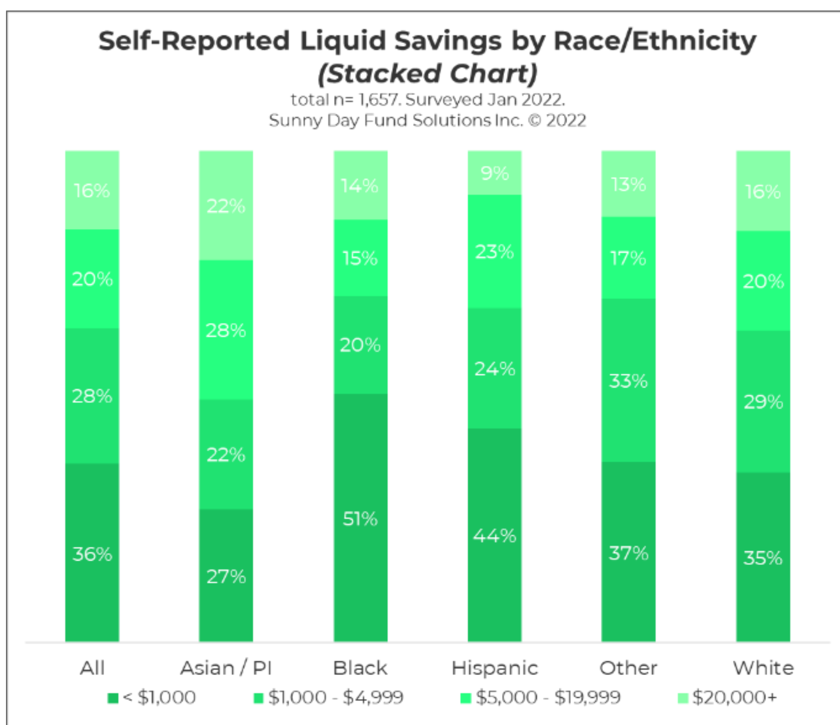
We also broke this down not just by runway, but also by actual dollar amounts. This gives us a different perspective than that of a self-reported savings runway, which is subject to change based on the respondent's spending habits. Figuring out the dollar amount someone has in savings gives us a more objective perspective on their financial vulnerability.

When we break down the data by dollar amount, we see that 36% of respondents have less than $1,000 in immediately accessible assets such as cash, checking, or savings.

For lower income workers, 55% have less than $1,000 in cash and savings. Even those in the lower middle income bracket struggle to accrue balances in their checking and savings, with 29% falling short of the $1,000 mark.

Interestingly, an income of $75,000-$110,000 annually doesn't guarantee liquid savings. While 78% of this group do have $1,000 or more saved, 22% do not.





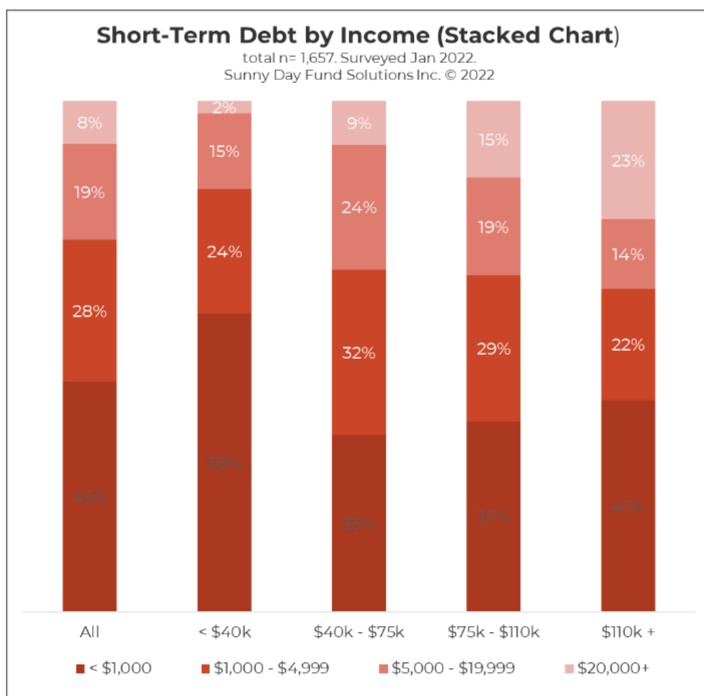
When we inferred this data back to the self-reported savings runway, the numbers roughly held up as well.

51% of Black Families Have Less than $1,000 in Liquid Savings

Liquid assets vary by race and ethnicity, with Black and Hispanic individuals reporting fewer liquid assets than their white counterparts.

That's particularly notable for Black survey respondents: 51% of this group report having access to less than $1,000 in liquid savings. For Hispanics, that's 44%, and 35% for white individuals.

Short-term debt eats into most people's savings



Short-term debt, such as car loans or credit card loans, is a fact of life for almost all our survey respondents. Our topline data shows that most individuals have at least $1,000 in short-term debt:

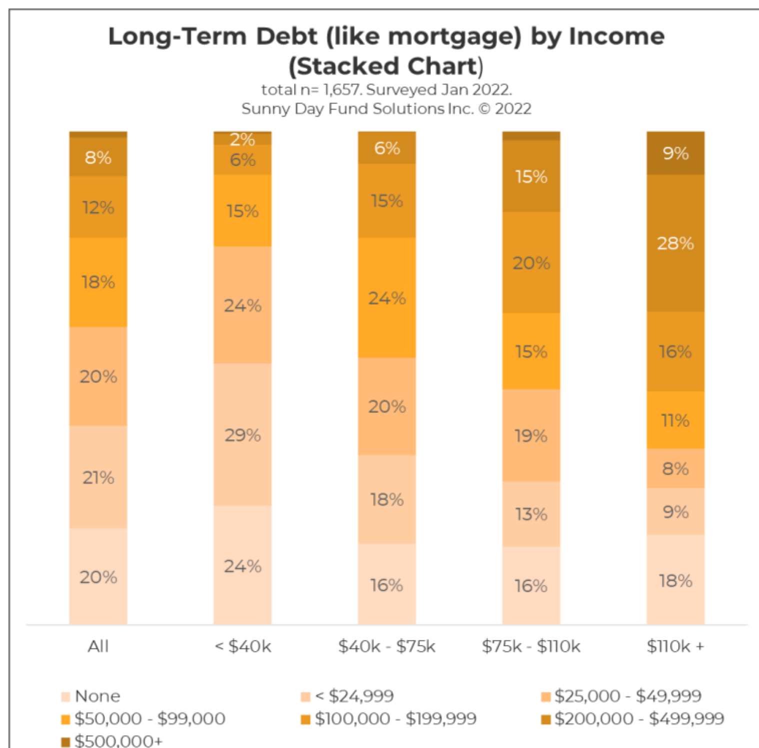
The surprise is that it's the middle-income bracket who carry most of this debt. Most of our lowest income bracket owe less than $1,000 in short-term debt compared to those earning $40,000-$75,000, 65% of whom owe more than $1,000 in short-term debt.

Our hypothesis is that access to credit is limited for individuals making less than $40,000 and, when they do get credit, the amount they can borrow is less than their higher-earning counterparts.

What's striking in the higher earner brackets is the vast quantity of short-term debt many people are holding down. 15% of those with high-middle income, and 23% of those earning more than $110,000, have $20,000 or more owing in short-term debt. So, 1 in 7 people could owe a third of their salary in short-term debt.

Lower Income Individuals Are Locked Out of Long-Term Debt that Builds Wealth

If short-term debt is a way to meet immediate financial needs and manage cash flow, long-term debt is typically seen as a way to build wealth over time. Long-term debt includes things like a mortgage or student debt. Crucially, access to mortgages is still the primary lever most people pull to access the middle-class; and student debt is still perceived as an income multiplier.



Our data suggests that many individuals earning less than $75,000 may find it difficult to access long-term debt.

77% of people earning under $40,000 have less than $50,000 in long-term debt. With the median US home now valued at ~$400,000, this means they're unlikely to have a mortgage. Instead, this long-term debt is probably attributable to things like student loans.

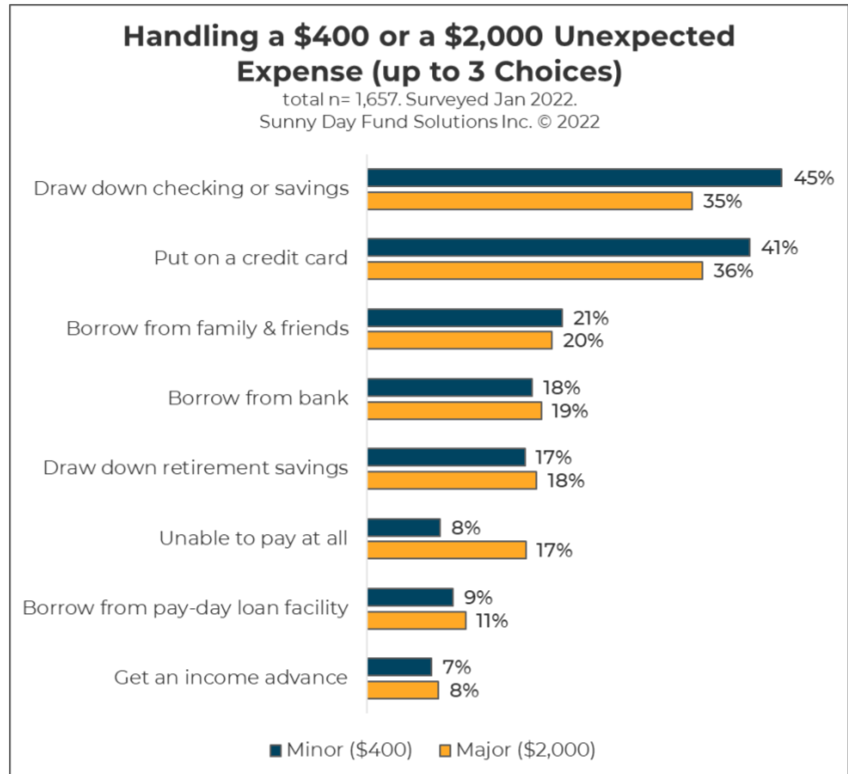
This is problematic because student loans are worthwhile when they increase future earning potential. For these lower-income individuals, the investment may not be paying off.

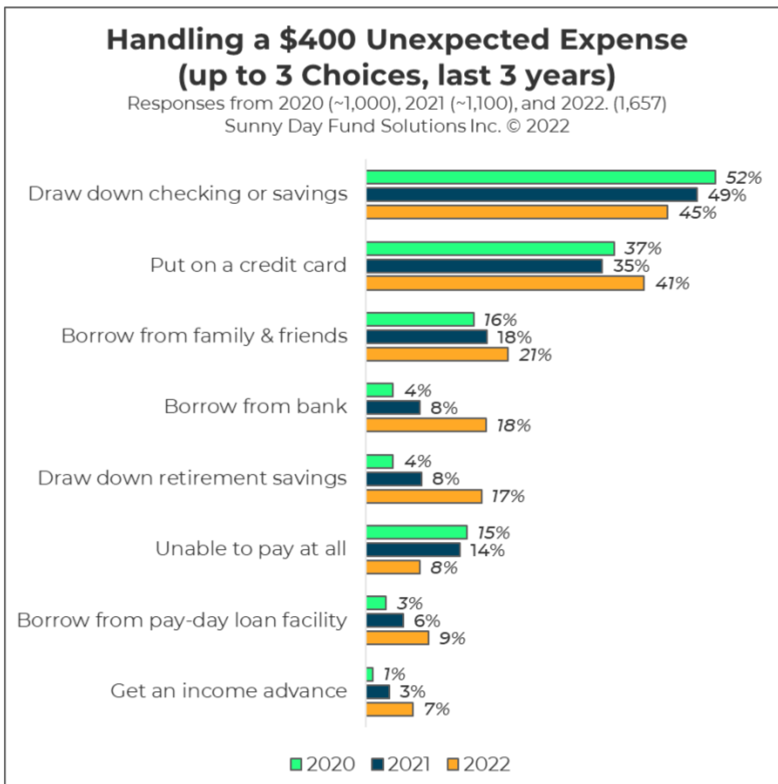
Unexpected Expenses Leave Long-Term Wealth Vulnerable

With almost half of all respondents having less than 3 months of liquid savings available, how are folks paying for unexpected expenses?

To analyze this, we asked respondents how they would cover two categories of unexpected expense – minor like a car repair, $400; and major like a home repair or medical bill, $2,000.

Savings still came out as the predominant method of paying an unexpected expense. That said, over half of individuals couldn't pay an unexpected expense—even one of only $400—from their checking or savings accounts:



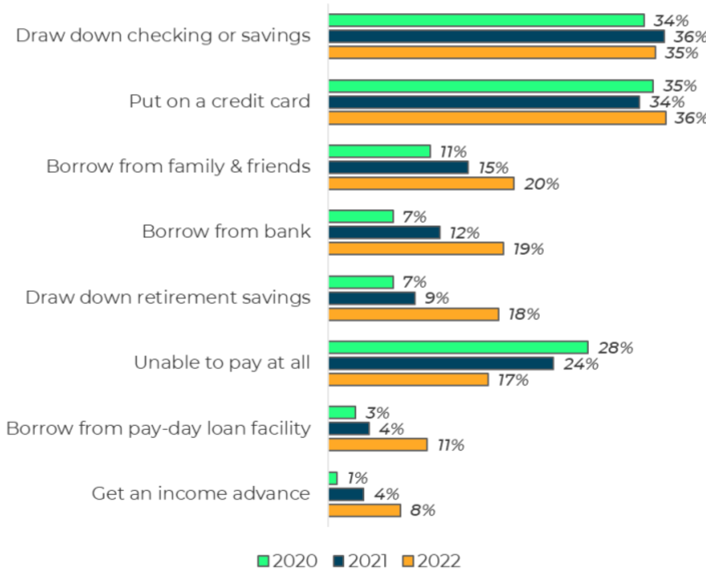


Looking back over the three years since we started collecting this data, we see a trend: individuals are less likely to pay emergency expenses from their savings now than they were in 2020, even for a relatively modest $400 expense.

Only 45% of respondents would now pay a $400 expense from savings, as compared to 52% in 2020. On the flipside, we see greater dependence on loans, with over 4x as many people saying they'd borrow from the bank or retirement savings in 2022 as compared to 2020.

For an unexpected $2,000 expense, we see the same trends over time. People are increasingly turning to debt to cover those expenses:

Overall, liquid assets like cash and savings are the first line of defense in covering unexpected costs. Without liquid assets, respondents have no choice but to resort to financially unhealthy options, such as dipping into 401(k) plans or asking for payday loans.

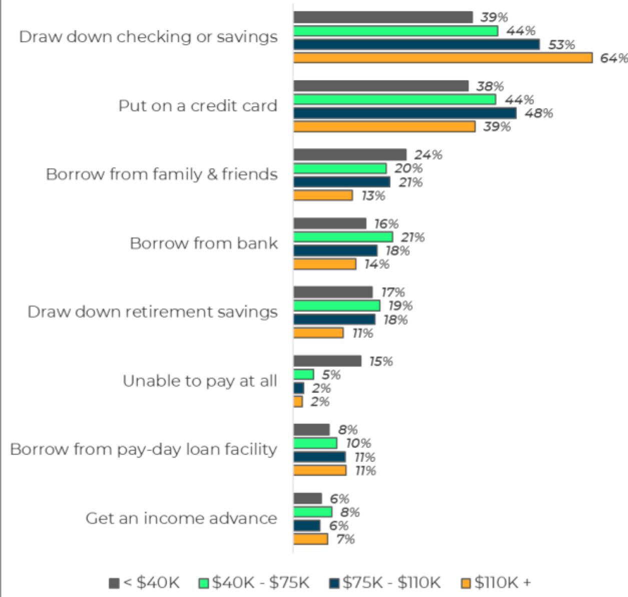


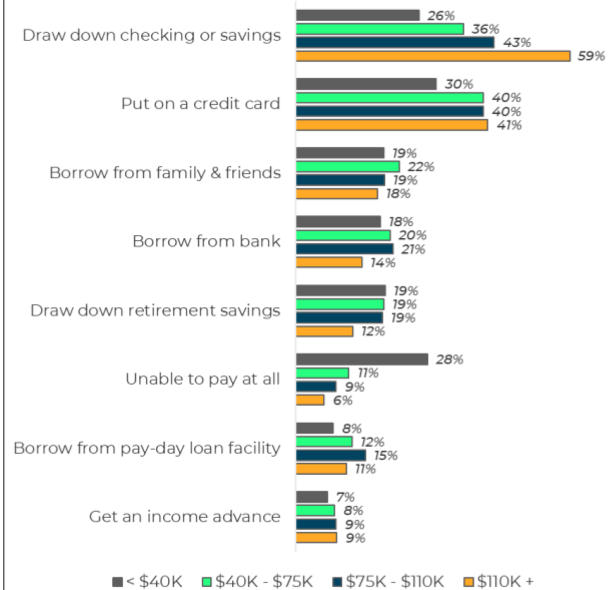
The reliance on debt is troubling in this particular macro-economic environment because:

• The cost of debt is increasing – from credit card interest rates to mortgages, it's becoming costlier to borrow
• Bigger and more unexpected expenses – with inflation, not only are more expenses falling into the "unexpected expense" category like paying for gas, but the amount associated with that expense has also gone up such as rent

As we saw earlier, more debt will lead to a lower sense of financial well-being and thus consumer confidence, creating a vicious cycle for the American economy

Lower-Middle Income Workers Resort to High-Interest Loans & 401(k) Withdrawals
When we dive deeper, unexpected expenses are clearly a bigger issue for lower income groups, likely driven by their lower liquid assets.



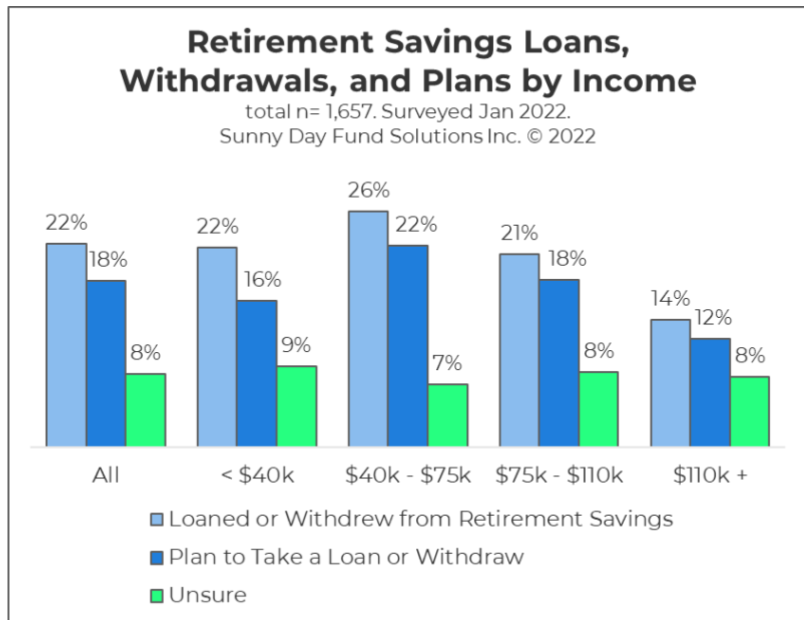


The middle-income workers tend to lean on credit cards, and people in the $40-75k income bracket are most likely to dip into 401(k)s (19%) or take a loan from the bank. Most of these options support long-term wealth or financial well-being. For these people, even an unexpected $400 expense could have long-term negative consequences. When we go up to a much larger $2,000 financial shock, a full 28% of those earning less than $40,000 would be unable to pay at all, by any means.

More Than One in Five Leaning on Their Retirement Savings during Emergencies

When we take a closer look at retirement savings, we see a grim image of what's supposed to be one of the wealth drivers in America.

Our data suggests that nearly one in three individuals in total have taken a retirement savings loan or hardship withdrawal, or plan to soon. The problem is worse for low- to middle-income workers, where more are expected to draw down on retirement savings at some point.



Drawing down from 401(k)s doesn't benefit workers or employers long-term. In fact, it creates unnecessary overhead for employers, and may impact their fiduciary duty to employees by enabling a program that's not in the best sustainable interests of their employees. We've written before about how emergency savings as a benefit can protect 401(k)s from withdrawals and loans

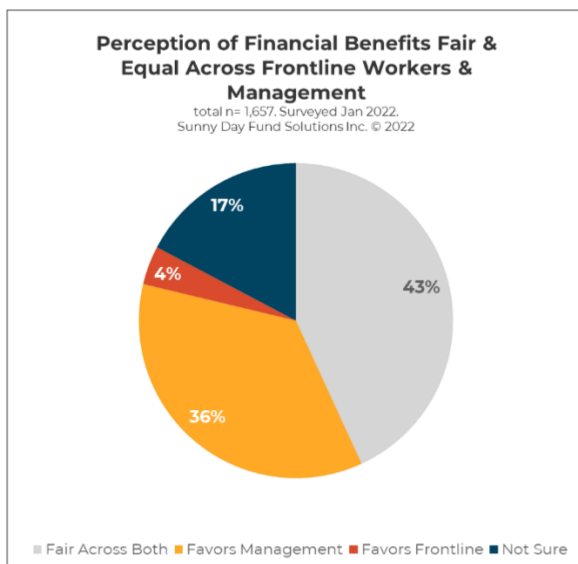
Takeaway:

Those earning under $75,000 are disproportionately likely to suffer long-term repercussions when faced with a minor unexpected expense. Business leaders whose teams are made up of folks in these demographics need to do more to protect those 401(k)s and help their employees build a protective cushion of liquid assets.

Emergency Savings as a Benefit Creates Positive Impact for Both Employees & Employers

So far, we've seen that access to cash and savings – especially emergency savings – has a direct impact on financial well-being.

Additionally, our data uncovered that businesses offering emergency savings as a benefit can gain a competitive edge in hiring, retention, and productivity.



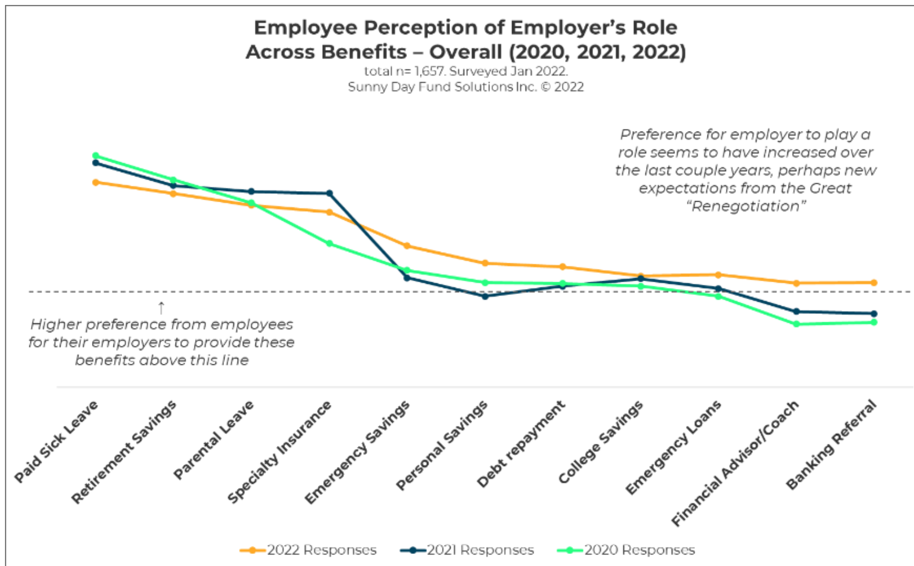
However, many companies are missing out on the business opportunity provided by offering emergency savings-as-a-benefit. Our data shows that there's a disconnect between the type of financial benefits frontline workers want and the financial support employers provide.

Firstly, existing financial benefits are seen as a bad fit for large chunks of the workforce. Nearly one in three of our survey respondents believe financial benefits favor management over frontline employees:

As perceptions of unfairness increase, employers are more likely to see dissatisfaction and unrest across the workforce, which can manifest as turnover or even unionization.

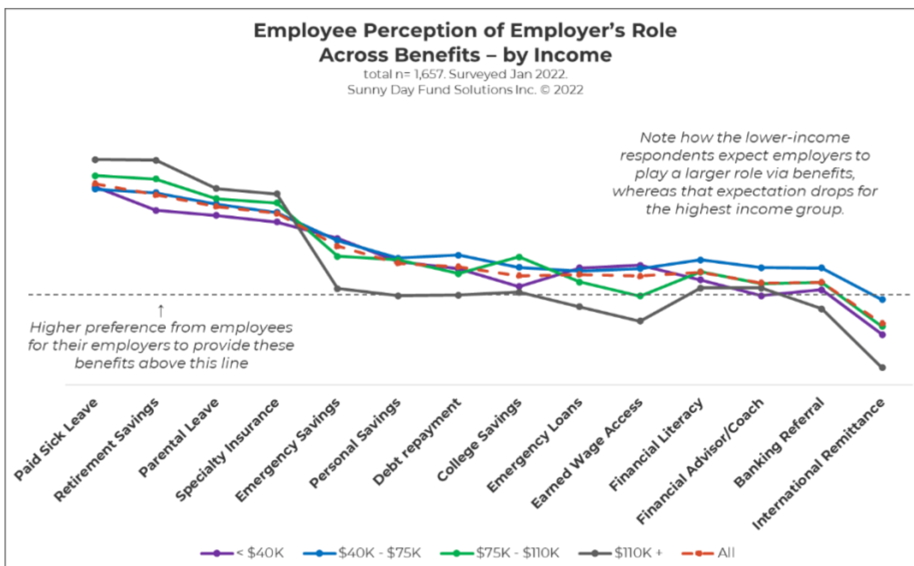
People Increasingly Expect Employers to Support Savings

Over the last three years, our survey has asked workers about their employers' role in providing benefits. The resulting data shows that workers increasingly expect their employers to provide a full gamut of benefits:



Whether these increased expectations come from rising financial instability, or pressures from the tight labor market and 'Great Renegotiation', it's safe to say there's more pressure on employers to provide expansive benefits packages.

When we dig into these expectations by income, we find some interesting disparities. For example, let's look at perceptions around employer-provided retirement savings and emergency savings by income:

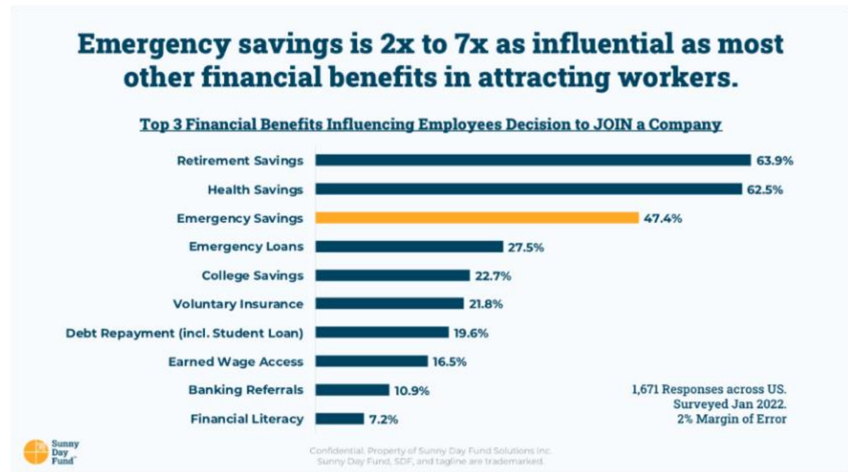


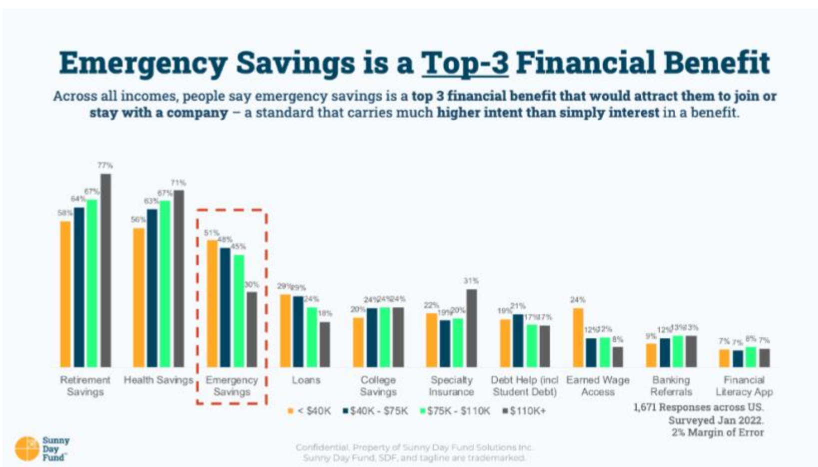
For retirement savings, high-income workers see them as essential, but low-income workers less so. The opposite is true for emergency savings, with higher-income workers showing little interest but lower income folks reporting high desire for emergency savings as an employer-provided benefit.

This could be where that reported unfairness is coming in, with benefits perceived as favoring management and above.

Emergency Savings as a Benefit has the Power to Attract and Retain Employees

While Retirement Savings and Health Savings are still table stakes, we found that for most workers, emergency savings as a benefit is a top-three reason they would join or stay with a company:





We see the highest buy-in for emergency savings as a benefit in the lowest income bracket. But emergency savings are also the third most-desirable benefit for those earning up to $110K. Even the highest paid workers cite emergency savings as a top four reason they'd join a company. And our survey is not alone in this finding: a joint survey between SoFI at Work and Workplace Intelligence also found emergency savings to be a top-requested benefit.

This indicates that adding emergency savings to benefits packages is a no-lose option. Emergency savings as a benefit motivates people to change their behavior: to select some companies over others when job-seeking, and to stay at companies who offer emergency savings as part of their benefits.

Emergency Savings as a Benefit Can Also Increase Productivity & Reduce Costs

PWC's 2022 Employee Financial Wellness survey found that financial stress impacts productivity, resulting in lost work hours:

This lost productivity – driven in part by distractions at work, tardiness and absenteeism, and safety incidents – is one of several ways in which financial stress eats into the bottom-line. Our estimate is that workplace financial stress can end up costing organizations up to $18,000 per employee.

Retention

Would be attracted to another company that cares more about financial well-being

76%

Productivity

Finances have been a distraction at work (3+ hours at work dealing finances)

76%

Mental Health

Severe or major impact on their mental health

49%

PwC's 11th annual Employee Financial Wellness Survey.
Jan/Feb 2022: 3,236 full-time employees

In this context, up-front investment in benefits packages that increase financial well-being becomes an obvious choice for businesses. We estimate that launching an emergency savings in particular can unlock tremendous value for both employers and employees.

The Takeaway for Employers

Companies that want to attract and retain employees across most income brackets need to be incorporating emergency savings as a benefit into their plans. We propose that employers now need to think about emergency savings in the same way as retirement savings and healthcare if they want to remain competitive in the labor market.

Moreover, offering emergency savings as a benefit actively reduces the number of hardship loans and 401(k) withdrawals that a company has to deal with. This not only reduces financial stress across the workforce, but also reduces the overheads associated with administering withdrawals.

The advantages of emergency savings as a benefit go beyond the bottom-line, too. Emergency savings as a benefit can help support racial and gender diversity in the workforce, given the higher desire for emergency savings among Black and Female workers. A benefits package with emergency savings included can be a powerful way to hit DEI objectives while offering workers a meaningful addition to their financial safety net.

Are you an employer? See how much your organization could be losing to financial stress.

The Takeaway for Benefits Brokers

401(k) withdrawals, hardship loans, high turnover, and low productivity are common problems in 2022's business landscape; including emergency savings in benefits packages is a data-backed part of the solution. For benefits brokers focused on bringing innovative solutions to their clients, the data in our report shows that emergency savings as a benefit is a viable solution to the business challenges your clients are facing right now.

One of the most pressing of those challenges is low financial well-being across the workforce, and especially for anyone earning under $75,000—the majority of Americans. It's easy for employers to be dismissive of financial well-being or claim it's not their problem to solve. But as a benefits brokers you can help clients see low financial well-being as a business opportunity. Emergency savings as a benefit is a relatively low-cost way for your clients to position themselves as people-centric employers who listen to their team's needs and invest in resources up-front.

Emergency savings as a benefit will also help them attract workers away from companies that don't offer equally innovative benefits packages, and reduce the likelihood of current employees being tempted to leave for the sake of benefits.

The labor market is tight and the competition to attract and retain workers is high. You as a broker can offer clients new, impactful ways to remain competitive, including emergency savings as a benefit. If you can help empower your clients to rise to the current challenges, your client relationships will be longer lasting and more fruitful. Curious what the dollar impact is to your clients?

Check out our calculator here.

About Sunny Day Fund:

Sunny Day Fund addresses workforce financial well-being through its employer-rewarded emergency savings platform and novel research. Its award-winning program leverages behavioral economics and financial services automation to achieve outcomes for employees, and thus their employers. Learn more at www.sunnydayfund.com.