Emergency Savings: Now Is The Time To Help Workers With Financial Struggles

People who are living close to the edge are far more responsible with their money than you and me. But they still need some help.

People struggle financially because they're playing a game that's impossibly difficult, not because they're irresponsible.

People struggle financially for lots of reasons. Almost always, those reasons lead to not having money in their bank account.

A 2018 study found that **40% of Americans** would have a tough time covering a $400 emergency expense. A 2020 study found that **9 of 10 employees** report the pandemic is causing financial stress, with the number-one stressor being a lack of money in the bank.

Not having money in the bank is bad, because when something happens that people need money for, such as a flat tire or unexpected medical expense, they find themselves in moments of real desperation.

Desperation is bad—for people, and for business. According to a **December 2020 report** from Willis Towers Watson, one-third of surveyed employers reported that short-term financial stress is creating workforce challenges, up from 26% three years ago.

You can help.

Help your employees build emergency savings now, so desperate moments stop happening

We have this idea in our country that if people are spending all their money and failing to save, they must be making irresponsible choices, like buying expensive sneakers or luxury cars or lifetime supplies of avocado toast and fancy coffee. Basically, we tell people who are struggling that it's all their fault.

Yeah, that ain't it.

People who are living close to the edge are far more responsible with their money than you and me. They have to be. Research from nonprofits like the Financial Health Network, Aspen Institute, Financial Health Diaries, and many others shows that people spend all of their money because:

- **They literally don't know how much money is coming in.** According to the Bureau of Labor Statistics, hourly workers represent nearly 60% of the U.S. workforce. That means their income can fluctuate significantly from check to check. Imagine trying to make a budget for the next two weeks when you don't know how much money to budget for!

- **Even if people know how much money they have, they don’t know how much of it they can spend.** Traditional budgeting tools don’t work, because they’re too much work. So people do the best they can, making educated guesses about what they can spend. Mistakes are expensive and the margin for error is razor-thin. Good luck avoiding outrageous overdraft fees and late charges!
- **They just don’t have enough.** In the past 40 years, education costs have gone up by 400%. Health care has risen 600%, childcare is up by 300%, and housing has doubled,and that’s after adjusting for inflation. There’s just too much bread nowadays, and not nearly enough butter. As a result, people go into debt to pay for essentials. That debt is expensive and compounds. It’s like carrying money in a leaky bucket with a hole that keeps getting bigger. All the money that could be going into savings is draining out of the bucket instead.
- **As the hole in their bucket gets bigger, making ends meet gets harder and harder**, so people turn to short-term debt or revolving credit cards to get by. This debt is expensive and traps people in a cycle of dependency, which only makes the hole grow faster.

People struggle because they're playing a game that's impossibly difficult, not because they're irresponsible.

Savings alone is not a solution

Now that you understand why it's hard for people to build emergency savings, it should make sense why giving people savings accounts isn't enough.

How to evaluate emergency savings vendors

Here's one thing you need to know which may not be obvious: You're going to be dealing with vendors in the financial services and education markets. These markets are… well, let's just say it's prudent to assume most products in this market do not actually work. You'll need to investigate vendors along three lines:

1. **Engagement:** People need to actually use the thing for it to work.
2. **Outcomes:** These tools don't always work. You need evidence that people are successfully moving money into savings.
3. **Motivations:** These vendors are businesses. Check if they profit when they help people build emergency savings. If the answer is no, is the vendor really going to care how successful your employees are at saving?

We're off to the races!

If you focus on helping your people build emergency savings, and choose vendors to help based on this evaluation framework, you’re going to be miles ahead of other employers who embark upon a more loosely defined financial wellness project.

By **Jon Schlossberg**