Promoting Workplace Benefits in a K-Shaped Economy.

More than a year into the COVID-19 pandemic, there are signs of recovery in the U.S. Millions of vaccines have been administered, businesses and offices are reopening, and life is starting to look more like it did pre-pandemic.

All this is cause for optimism. Simultaneously, however, there?s abundant evidence that the pandemic has taken a financial toll on Americans, and it hit some harder than others. As the economy begins to bounce back, we are experiencing what is called a K-shaped recovery. When plotting the impact of an economic downturn and its subsequent recovery, a K shape is formed on a graph, showing some industries and demographics recovering quickly. In contrast, others stagnate and may sink further. More financially secure individuals are likely to be on the upward-facing arm of the K, falling into the demographic that recovers quickly and continues to grow, while others, on the downward sloping leg of the K, struggle to make ends meet.

Your diverse workforce likely includes both. But, unfortunately, some put retirement in jeopardy, stopping or reducing savings to meet more immediate financial needs.

The Pandemic Recovery Is Uneven

Why the term ?K-shaped recovery?? Not everyone is experiencing recovery at the same pace. Individuals who prepared for a financial emergency?those with savings or an emergency fund, for instance?fared better than those living paycheck to paycheck. Some Americans were transformed into ?super savers? within weeks of the COVID-19 outbreak. 52% of households dramatically reduced spending.[1] High earners were the most likely to cut back. As a result, America?s savings rate soared from just under 10%, where it stagnated for the last two decades, to a record 33.7% in April 2020.[2]

For those who were not as prepared, the situation looked noticeably different. Nearly a third of Americans (30%) report that their financial situation is worse now than it was before the pandemic.[3] Among them, half said that job loss was a significant reason why. In addition, a majority are worse off when it comes to saving for retirement (73%) and emergencies (72%). In addition, 23% tapped into their retirement savings prematurely or stopped saving altogether during the COVID-19 pandemic, putting their future security in peril.[4]

Workers Felt the Impact Differently

The pandemic also impacted workers of different stripes. For example, many full-time W-2 employees who kept their jobs?mainly white-collar workers?could transition to working from home when their offices closed. As a result, they may have felt little, if any, impact on their household finances.

On the other hand, contract workers suffered significant financial setbacks in terms of income, emergency savings, retirement savings, and benefits. 53% of contractors earned half or less of their pre-pandemic income vs. 14% of traditional workers.[1] As a result, contract workers may need more help than conventional employees to improve their financial well-being during the pandemic recovery.

The impact of the financial fallout ran across income brackets. Both highly-compensated employees (HCEs)?those making $130,000 or more per year, or those with at least a 5% stake in a business?and non-highly compensated employees experienced retirement savings challenges due to layoffs, business disruptions, and delayed or deferred plan contributions. For example, as companies cut costs to survive, highly compensated employees might have missed out on employer contributions, such as top-heavy minimum contributions. For their part, non-highly compensated employees might have stopped retirement plan contributions due to job loss, wage cuts, or the need to divert funds elsewhere for near-term needs.

Take a Solutions-Oriented Approach

No matter their current financial status, working Americans have a common goal: getting back on track with their retirement savings. To maximize the impact, employers must first understand the disparate nature of a K-shaped recovery. Employees at the top of the K, who tend to be more financially stable, are likely more ready, able, and willing to increase their savings or start saving again. Conversely, those at the bottom of the K, who may have had extended periods of unemployment and financial hardship, likely need more help to get back on their feet so they can save for the future. Employers must consider both points of view when evaluating benefits programs.

Employees who are more financially secure may value insights on:

- *Increasing net worth*
- *Purchasing or renovating a home*
- *Improving their retirement savings*
- *Diversifying their portfolios*
- *Capitalizing on market opportunities*
- *Tapping their home equity*

Those still experiencing or emerging from financial insecurity may require guidance and support around:

- *Budgeting*
- *Job loss*
- *Rebuilding, starting, or delaying retirement savings*
- *Creating an emergency fund*
- *Paying down debt*
- *Managing healthcare costs*

In a world irrevocably altered by the COVID-19 pandemic, employers must embrace innovation in the benefits they provide to support employee financial well-being. These benefits should extend beyond their retirement savings plan to include education and mentorship through financial wellness programs. Offering access to personalized financial guidance, along with practical and actionable tips to build savings and wealth, can go a long way to provide support where it?s needed most.

Disclaimer & Footnotes

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[1] Royal, James. ?Survey: Majority of Americans have cut their spending because of coronavirus concerns.? Bankrate. March 31, 2020.

[2] U.S. Bureau of Economic Analysis. Personal Saving Rate [PSAVERT], retrieved from FRED, Federal Reserve Bank of St. Louis.

[3] Brown, Kathi S. ?How Financial Experiences During the Pandemic Shape Future Outlook.? AARP Research. Updated May 2021.

[4] Brown, Kathi S. ?How Financial Experiences During the Pandemic Shape Future Outlook.? AARP Research. Updated May 2021.

[5] Prudential. Flexible Workers: Impact of the Pandemic. Nov. 20, 2020.