How to Help Employees Mitigate COVID-19's Impact on Their Financial Security

When you begin to address the impact of COVID-19, you can't start with anything, but the loss of human lives across the globe. This virus has claimed hundreds of thousands of lives from nations around the world. And it doesn't seem like COVID-19 is ready to stop anytime soon.

After the death toll, the most significant effect of COVID-19 has been its impact on the global economy. The virus has slowed economies around the world, which has affected individual workers as much as it has entire nations.

In the United States, gross domestic product (GDP) fell 4.8 percent in the first quarter alone, due at least in large part, to the COVID-19 pandemic. It was the lowest quarterly plunge in the U.S. since the 8.4 percent drop in Q4 or 2008. And these numbers don't even touch the record amount of unemployment our country has experienced.

Clearly, the coronavirus is having a significant impact on the financial security of individuals and families across both the U.S. and the globe. So, as an employer, how can you help your staff mitigate these extreme circumstances while dealing with them yourself? Luckily, there are several actions any business can take to promote financial security among your employees.

Keep reading to learn how your organization can help employees handle the adverse impacts of COVID-19 on their financial security. In this article, we'll detail nine distinct methods your firm can use to improve your employees protect their financial security. Plus, we'll tell you why ensuring this financial security is imperative to both your employees and your company overall.

Why is Financial Security Essential?

Helping your employees achieve financial security is vital for any employer. That's because an individual's finances affect almost every aspect of their life. According to Financial Fitness Group, more than 80 percent of employees have been affected by financial stress.

This financial stress alone costs U.S. businesses close to $300 billion a year in unscheduled absenteeism, reduced employee productivity, and higher employee turnover. And your employees were feeling this financial stress even before the COVID-19 pandemic. Prior to this global recession, a sizeable number of employees were living paycheck-to-paycheck.

According to a study from the University of Chicago, many Americans were only one paycheck away from not being able to cover necessities without dipping into savings. And, per Varo Money, 45 percent of people surveyed had no emergency savings. Now, due to COVID-19, most people's financial standing is even more untenable than before.

New research from Prudential found many employees are now concerned about having enough money, due to various impacts of COVID-19. Per this study, 54 percent of employees said they're not prepared financially to handle missing several weeks of work due to COVID-19 or a related quarantine. Similarly, 52 percent of respondents said they're not well prepared financially for an unexpected accident or health crisis that would require them or a house member to be hospitalized for several weeks.

How to Help Employees Boost Their Financial Security

Here are nine distinct yet equally effective measures almost any employer can take to ensure your staff's financial security.

1. Maintain Flexibility

The first step employers can take to improve employee financial security is to encourage employees to maintain as much financial flexibility as they can. What does this financial flexibility look like, practically? Well, for example, if you have a set contribution amount, consider changing your contribution to make it more feasible for your current situation. Or, if you're nearing retirement age and want a less volatile investment, consider moving some of your money into lower-risk investment vehicles, like bonds.

2. Keep Some Extra Cash

Another way method to sure up employees' financial security is to make sure they keep some extra cash on hand. Having a decent cash reserve is always a nice financial security blanket but is especially vital during an economic downturn. This cash reserve is especially important if you're near retirement age.

Those nearing retirement need enough extra cash on hand to, potentially, cover up to a year of bills if you need to rid out an economic downturn. But having additional cash reserves is essential for those of all ages, during times of crisis. Employees, even those nowhere near retirement, should strive to save close to six months' worth of living expenses.

This emergency fund is something employees of any age should strive to build. Such a fund can protect your staff and their families from unexpected life changes or surprise bills. And guarding against such surprise charges is especially imperative during a time of economic turmoil.

3. Check Your Retirement Account's Setup

The next step your employees should take to protect their financial security is to check on the setup of their retirement account(s). Note, there's no need for retirement plan participants to go into a full panic and withdrawal all your money. Still, participants should examine their current investment mix to ensure if it's still appropriate for your specific situation.

Participants need to determine if their investment mix is age-appropriate and right for their point in life. For example, if you're nearing retirement age, it may be wise to ensure you're invested in a lower-risk assortment of equities and bonds. In addition to the investment mix, participants need to examine their contribution rate.

As mentioned above, now is as good a time as any to check on your contribution rate. Depending on your unique situation, it may be wise for you to either increase or decrease your current contribution rate. If you're struggling financially, due to COVID-19, it may be imperative for you to reduce your retirement account contribution rate.

During these unprecedented times, such a decrease may be one of your and your family's only options to save money. Still, even if you do decrease your contributions, try to keep contributing, at least a small amount, to your retirement account.

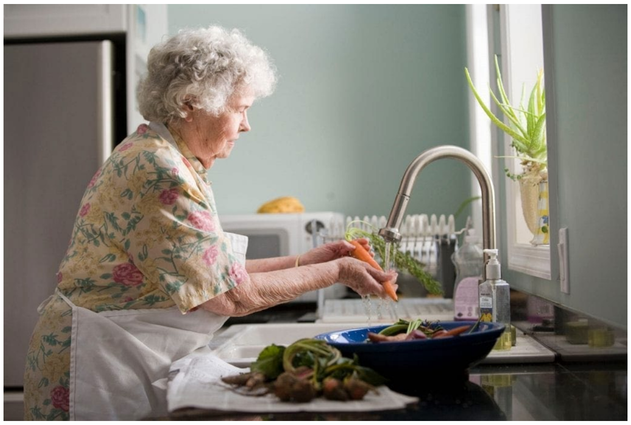
4. Keep Your Eyes on the Horizon

One of the essential steps your company should take to promote employee financial security is to remind them to stay focused on their future. Financial losses, especially early on in retirement, can have a significant adverse impact on your total savings. But these losses can be mitigated through a series of actions anyone can take.

Still, to take these actions, you need to keep a future-centric focus. Yes, the stock market is bad right now, but, eventually, it will turn around. This recession isn't the first stock market dip, nor is it even the first health crisis-related recession. So, don't stress yourself out by regularly checking your retirement accounts balance. Instead, remain focused on building your retirement savings for the future.

5. Think About Your Retirement Date

Part of keeping a future-centered focus includes thinking about when you want to retire. This "time horizon" is key to determining what you should be doing regarding your retirement savings. An employee in their 20s should maintain more aggressive investments than an employee in their 50s or 60s. Just like those working in their 50s and 60s can be more aggressive than those already retired.



So, if you're young, continue investing as normal as possible. The most significant advantage of any savings account is the compounding effect. And the best way to maximize compounding is to invest as early and often as possible. But, if you're retired, or less than five years from retirement, you should be more conservative with your investments.

6. If Possible, Create a Hardship Fund

Another step companies can take to support the financial health of their employees is to create a hardship fund. Note, creating a hardship fund can potentially cost a significant sum of money. So, such a fund may not be feasible for every business, especially during an economic downturn.

Still, if you have the ability and want to create such a fund, there are two primary questions you need to answer. According to SHRM, these questions include:

— **How will the fund be financed**? Employers can donate a lump sum, hold fundraising events, and accept donations from the public and their own employees.

— **What are the criteria for grants**? Factors to consider include, how to determine the grant size and maximum payments, and which employees are eligible and under what circumstances.

Because the COVID-19 pandemic has been declared a national disaster, hardship funds now include tax advantages. Grants provided through a hardship fund are tax-free for employees and deductible for employers as long as they're used for expenses incurred by employees because of the disaster.

7. Keep Your Staff Updated

One of the most vital actions any employer can take to protect your staffs' financial security is to keep them updated on all relevant news and information. Communication is important to the success of any business and is especially essential during times of crisis, such as now.

So, make sure you're keeping employees up to date on relevant retirement-related information. Help your staff get a clear picture of their economic environment and where they currently stand, financially. Then help employees compare their current standing to their financial goals and expectations.

8. Utilize a Financial Wellness Program

Something else employers should do to protect your employees' financial security, is to utilize a financial wellness plan. Your company can use a financial wellness program to help employees improve their financial literacy and overall financial health. A quality financial wellness program educates employees about their finances and helps relieve related financial stress.

Learn more about building a quality financial wellness program.

9. Be Wary of Early Withdrawals

The final step every employer should take is to inform your staff about the potential downsides to taking an early withdrawal from their retirement account. During an economic recession, such as now, it may be necessary for some employees to make an early withdrawal just to survive. Still, employers should educate their staff about the many potential drawbacks of an early retirement withdrawal.

Even if penalties and taxes are waived, an early withdrawal can cause irreversible damage to your retirement account. For example, according to Employee Benefit Adviser, a 30-year-old participant who cashes out a 401(k) savings balance of just $5,000 today would forfeit up to $52,000 in earnings the sum would've accrued for them by age 65. Note, this example assumes an annual 7 percent growth.

The Wrap

Employers should help their staff achieve financial wellness during "normal" times. But the need to support your employees' financial security is especially vital during times of turmoil, such as now. So, use the above nine strategies to strengthen the financial security of your staff. And if you need more help supporting financial security or strengthening any aspect of your company's retirement plan, contact The Olson Group today!