The Debt Repayment Impact on Financial Wellness

by Melanie Rembrandt | Jan 25, 2017 | blog |

How ready are your employees for retirement?

As we all know, holiday bills can significantly decrease financial wellness, and the latest stats are in. According to Magnify Money, Americans increased their debt by an average of $1,003.00, up 1.7% since last year. And:

- "Less than one-quarter of those surveyed said they can pay off their debt within one month; and
- Nearly half (46%) predict they'll need four months or more to pay off their holiday debt, or will only make the minimum monthly payments."

And most important, this December data shows that, "65.2% of consumers who took on debt did so unexpectedly this year, and didn't budget for the extra expenses."

Debt Repayment and Retirement Readiness

Debt repayment has a huge impact on retirement savings. As we mentioned in our last blog, employees who are not prepared with an emergency savings are twice as likely to "breach their retirement savings." And if they can take a "hardship loan" from a 401(k) plan, they will see lasting, negative consequences…

"Unlike plan loans, hardship withdrawals cannot be repaid," states data from Fidelity Investments. "After you take a hardship withdrawal, you are generally prohibited from making contributions to your plan for six months, must pay income tax on the amount you withdraw, and may be subject to a 10% penalty if you are under age 59½, for taking an early distribution, and you might be subject to a state penalty as well."

While employees may have every intention of saving for retirement via their defined contribution plans, unexpected circumstances and emergencies happen. Plus, they are bombarded with daily advertising, the latest technologies and "must have" products and services. All of this makes it very easy to spend money that is not available. After all, 69% of Americans have less than $1,000.00 in savings per a recent study by Gobankingrates.com.

So how can you help employees improve their financial wellness now and be ready for retirement too?

Without a separate, dedicated account for emergencies, it can be very difficult to save the liquid funds necessary for medical bills, car and home repairs, and other, unexpected "life" events. And simply having an account is not enough. For an emergency savings account to work, it needs to be automatic and as "do-it-for me" as possible for employees.

Specifically, a recent article in MarketWatch entitled, "Why it's so hard for most people to save money — even the wealthy," reports on this. "The same idea that makes spending so easy can make saving easy, too," states Rachel Podnos, an attorney and financial planner, in the article. "The more one can automate the process and make it painless, the better," she says.

In addition, the article states, "If possible, Podnos recommends clients automatically have savings taken from their paychecks, to go into retirement savings and additional savings accounts. "'You don't have to think about it,' she said."

Automatic Emergency Savings is the Key to Retirement Readiness

With the latest technology, now you can use an easy application to make automatic, emergency savings a reality. You implement and adopt it. And your employees simply designate how much they want taken out of each paycheck to go towards a savings goal. The system does the rest.

The stats show that consumers continue to spend and increase debt… whether they have the money to pay their bills or not. Well, instead of having your employees look at their retirement savings as a form of debt repayment, now you can help them save the funds they need for life's emergencies.

They'll experience better financial wellness now and in the future. And you'll be able to improve productivity and provide a valuable benefit your employees will truly appreciate.

How you can help your employees automatically save for emergencies and be ready for retirement too?

Discover more about DoubleNet Pay here.