

## FINANCIAL WELLNESS SETBACK

### Why we are falling behind, and what we should do about it.

By: Scott Woepke

The COVID-19 pandemic has proven to people how financially vulnerable they are. Too many are facing real hardships as a result of the economic crisis, and their financial and personal survival have been put at greater risk.

Unemployment rose higher in the first three months of COVID-19 than it did in the two years of the Great Recession (2008-2009). The economic downturn swelled the ranks of unemployed Americans to more than 20 million by May 2020. Back in 2008-2009, we witnessed similar job losses, but they went across the income spectrum. This economic collapse has triggered the most unequal recession in modern U.S. history, delivering a mild setback for those at or near the top and a depression-like blow for those closer to the bottom. Recovery is slow for many key demographic groups, including mothers of school-age children, Black men and women, Hispanic men, Asian Americans, younger Americans (ages 25-34), and people without college degrees. No other recession has pummeled society's most vulnerable like this one.

We have a real challenge helping people in the bottom and middle income ranges. These are people who are falling behind and falling apart. There are too many "chutes" and "traps" that make it difficult for them to get ahead. For many, they are one medical bill or job furlough away from experiencing a significant economic freefall.

This crisis has exposed many fault lines in our country. This situation prompts several questions:

Now that we know that so many people are not financially well, why hasn't there been a more concerted effort to address it? What should be done? What lessons should we learn and apply in a post-COVID-19 world?

## EVEN BEFORE THE PANDEMIC WE WERE NOT MAKING MEANINGFUL PROGRESS TO IMPROVE FINANCIAL WELLNESS

For years, many people have not taken advice on the importance of saving for a rainy day and not taking on too much debt. Financial wellness services and programs have been lacking, and that has exacerbated the challenge for many people. With the economic uncertainty many Americans face today, we're dealing with the uncomfortable reality that millions of households could see their life goals in jeopardy. Many were ill-prepared for the economic fallout of 2020.

**We can point to many economic factors that have contributed to this financial burden – wage stagnation, rising expenses, educational debt, and others.** But, there are other contributing factors. The way we have treated personal finance has been too narrowly focused. For too long we have treated financial security as something exclusive and not inclusive and essential for our overall wellbeing.

While financial knowledge is important, it is not enough. Financial wellness is achieved when people can apply financial knowledge to manage their economic lives effectively. That requires the ability to

make good financial decisions, spend money within one's means, and plan adequately for emergencies and the future. If financial knowledge, confidence, and good practices are missing, financial wellness is at risk. If we want to tackle financial wellness, there needs to be a holistic approach to personal finance. This requires a shift in mindset.

**Personal finance should not be looked at as a specialty topic, exclusive to those who have studied it or have worked in the world of finance.** It needs to be more universal and viewed as integral to people's wellbeing. This is not just a business topic, it is a topic that supports the ability to live a healthy and happy life.

The Financial Services industry has specialists like financial advisors who are trained and certified to help people achieve their financial goals. But financial wellness is still a personal responsibility. People need to become more self sufficient and empowered through greater knowledge and confidence.

Our research indicates that many people remain uncomfortable talking about their financial situation and challenges. This remains a hurdle that needs to be overcome. This tends to be truer with women than men. **In fact, many married couples would prefer to discuss sex or death more than their finances.** Discussing personal finances should become more common and be viewed as part of an overall wellbeing strategy.

If we let this continue, we will face an alarmingly divided society and suffer all of the associated consequences. Financial Services institutions should not be bystanders but rather should step in and make a difference.

## AN AGENDA FOR ACTION

First, we should not overlook all the meaningful steps Financial Services companies have taken this year with the distribution of stimulus checks and debit cards, forbearance on loans, and relief with student debt to support people in need. More companies are rolling out new products, services and programs to help people in financial need. Fintech companies have also been active in the market, addressing different aspects of the challenge. But, more needs to be done, and it should take a more holistic approach as opposed to narrow propositions.

**Remedying the problem should include taking a hard look at the existing "chutes and traps" people encounter in their day-to-day lives and look at some of the systemic issues we have in the industry.** While this is not a complete list, here are a few thoughts Financial Services providers should consider:

1. **Meeting people where they are.** Each person has a different challenge, and they occur at various points in time; some can happen suddenly. For example, these could include:

Income struggles – people living paycheck to paycheck, working multiple jobs, having poor credit, lacking a savings cushion. For these people we need solutions that recognize lifecycle moments and intervention when someone needs help managing their debt, repairing their credit, or gaining access to affordable credit.

Spending challenges – people not managing cash flow effectively or not having a budget, too much debt from credit cards or auto loans, carrying a large student loan

burden. Automated tools that help set budgets and track savings have proven to be effective in helping here.

Working mothers – for women, simultaneously managing a career and a family creates unique challenges. It is important to understand the day-to-day realities of women and make managing their financial lives easy and convenient. This could include new and improved mobile applications and a better understanding of life events that provide relevant advice and services when they are needed.

2. **Provide resilience and opportunity to customers.** Resilience helps people prepare prior to a crisis, respond to a crisis, recover following a crisis. Important opportunities that need to be created are access to products and services such as:
  - a. Basic transaction accounts – allows people to buy and sell conveniently both offline and online.
  - b. Affordable credit – enables people to gain access to higher education, transportation, and housing.
  - c. Savings - allows people to self-finance larger purchases so they have more options in how they manage their money.
  - d. Insurance – creates freedom for people to pursue longer-term opportunities without having to tie up resources to serve as protection.
3. **Create a more inclusive financial wellness strategy.** We've become more aware of the psychology of money and relationships between financial, physical, and mental health, but it has not really led to the types of improvements that are needed.

It is important to help people develop a framework and strategy to balance their income and expenses, build and maintain savings, access and manage loans, plan ahead and increase their use of a wider range of financial tools. The diversity of people and their goals cannot be addressed in a single framework or set of solutions – it must be flexible to support a wide range of people in various financial positions.

It is important to note, people don't pursue financial health for its own sake, but as a means to achieve life goals.

4. **Establish financial education programs.** The need for financial education is not new. For decades, government, non-profit organizations, and Financial Services providers have been trying to address what they see as a serious gap.

Financial Services companies are uniquely positioned to provide financial education, as they can bridge theoretical concepts with practical services and supplement them with necessary financial products. This could include access to low-cost financial products that are valuable for "unbanked" or "underbanked" clients and other services that support savings, investing, and easier access to credit.

Beyond increasing financial acumen, the goal of financial education should be to produce a positive change in financial behavior. There are “teachable moments” where someone is starting a savings program, planning for retirement, or buying a home when Financial Services companies can intervene and provide the education, tools, and products to help people achieve their goals.

## THE REWARDS OF FINANCIAL WELLNESS

The goal of building financial systems is to provide inclusion and wellness and to enhance the financial security of individuals and families. But the benefits could have a much broader impact, expanding prosperity, creating greater economic productivity, and even supporting security with the financial system.

By having a wider and deeper engagement with Financial Services companies, people have the opportunity to increase their wealth and experience greater financial security. This is the case for people and families at all stages of their financial lives. A more inclusive Financial Services environment also can foster greater economic productivity by enabling people to pursue economic gain. Greater access to high-quality credit products provides tools to help people buy homes, pursue higher education, and start businesses – all of which have positive repercussions for communities and the economy. Finally, pulling more people into the mainstream and moving economic activity from informal to formal markets can move transactions into the supervised Financial Services marketplace, reducing opportunities for criminal activities.

When Financial Services are well designed and delivered, Financial Services companies see increased sales and positive branding and other more difficult to measure benefits within their communities. At a time when competition can be fierce, targeted programs can assist people with “life event” timing when relevant advice and services are needed. **The opportunity now before us is to continue to reshape Financial Services and make financial wellness a fundamental principle for the future of Financial Services providers.**

Longstanding customer relationships can be established when customers are able to achieve their goals and improve their lives. If done properly, Financial Services companies have a lot to gain, and more Americans will have a real shot at financial wellness and achieving their life goals.

### About the Author:

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