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EXECUTIVE SUMMARY

Employers have a vested interest in promoting the financial health of their employees, who can become less productive when burdened by money worries. To help address these stresses, increasing numbers of employers are implementing financial wellness programs that provide education and tools to help employees adopt financial behaviors to best manage day-to-day finances, achieve important financial goals, and protect against key financial risks. In a recent survey, 81% of employees agreed that financial wellness programs would, in fact, reduce their financial stress.¹

In 2014, The Prudential Insurance Company of America (Prudential), with supporting research and analysis provided by EY,² created Protection Score™, a patent-pending tool to help employers evaluate a key aspect of the financial wellness of their employee populations. Protection Score provides employers with measures of how well protected their employee populations are against key financial risks they face: loss of income due to premature death; loss of income due to illness or injury; out-of-pocket medical and non-medical expenses related to unexpected health events; and outliving assets in retirement.

With these measures, employers have the ability to identify employees’ financial vulnerabilities, and target educational efforts and employee benefit solutions to meet specific employee needs. Moreover, the data analytics capabilities underlying the Protection Score tool provide some of what is needed to implement robust financial wellness strategies.

“NEW IN 2017”

Building on the 2014 baseline Financial Wellness survey, Prudential’s updated 2017 survey found that most U.S. workers continue to be unprepared to fully meet their financial needs in the face of key risks. Since 2014, employees’ preparedness to meet the following risks has fared as follows:

- Loss of income from premature death risk slipped.
- Outliving assets in retirement risk declined.
- Loss of income due to illness or injury risk remained consistent.
- Out-of-pocket expenses related to unexpected health events risk improved.

This paper reports financial protection scores for the U.S. workforce, explores demographic differences in the scores, identifies financial behaviors associated with the scores, and provides insights for employers seeking to implement or improve financial wellness programs.
WHY FINANCIAL WELLNESS MATTERS

The benefits of employees improving their financial wellness are far-reaching—a “Wellness Effect” extends not only to the individuals, but to their families, their employers, and their communities. Four out of five finance executives agree that their company will benefit from having a workforce that is financially secure (82%), and that employers should assist employees in achieving financial wellness during working years (78%). It is not surprising that 59% of employers are very likely, and another 33% are moderately likely, to focus on the financial wellbeing of workers in ways that extend beyond retirement decisions.

Employers increasingly recognize The Wellness Effect™ in the workplace—financial wellness drives value through increased productivity, optimized investments in employee benefits, and improved workforce management. Improving employees’ financial wellness helps employers by reducing stress and distractions in the workplace, thereby contributing to increased worker productivity and loyalty. Nearly one in three (30%) employees report that issues with personal finances have been a distraction at work, and 46% of those distracted by their finances at work say that they spend three hours or more at work each week thinking about or dealing with issues related to their personal finances.

82% of finance executives agree that their company will benefit from having a workforce that is financially secure.


Human resources professionals go even further: seven out of 10 indicate that personal financial challenges have an impact—in some cases a large impact—on their employees’ performance. In addition, financial worries may cause stress, which may have a negative impact on health and productivity. For example, people who are stressed are twice as likely to have a heart attack, and 44% more likely to suffer migraines.

Moreover, helping employees save adequately for retirement and convert savings into guaranteed income may allow greater flexibility to retire on their own terms. Otherwise, employees may delay their retirements. Employees who are unable to retire when they wish may experience higher stress levels, a lack of engagement, and lower productivity. Their delayed retirements may also result in turnover of younger employees due to lack of upward mobility. In addition, delayed retirements typically mean higher costs for employers—new research estimates that a one-year delay in retirement may result in incremental workforce costs of 1% – 1.5% annually. By improving employees’ retirement readiness, employers stand to benefit from lower workforce costs and improved workforce management.
Employers are also well-positioned to help address employees’ financial pressures by providing access to protection solutions, typically in the form of group insurance, in an efficient, affordable way. Employers also can provide educational resources, educational seminars, tools, and communications programs that drive employees to maximize their employer benefits offerings. This in turn may have a positive impact on employee satisfaction with benefits: 71% of employees say that even the offer of voluntary benefits increases the value of their company’s overall benefits program.  

Likewise, employers can help address employees’ worries about generating enough income in retirement by offering retirement plans at work with features that encourage savings (e.g., automatic enrollment and automatic escalation) and guaranteed lifetime income. With fewer future retirees receiving retirement income from traditional defined benefit (DB) pension plans, the role of defined contribution (DC) plans is becoming increasingly important.

Seven in 10 human resources professionals indicate that personal financial challenges have an impact on their employees’ performance.  

HELPING TO PROTECT AGAINST KEY FINANCIAL RISKS

There are several aspects of financial wellness, including the ability to manage day-to-day finances, achieve important financial goals, and protect against key financial risks. This paper seeks to help employers understand how to measure and improve how well their employees are protected against financial risks that are difficult to predict and may have significant financial consequences:

- Loss of income due to premature death
- Loss of income due to illness or injury
- Out-of-pocket medical and non-medical expenses
- Outliving assets in retirement

Many employees underestimate three immediate risks — premature death, loss of income due to illness or injury, and out-of-pocket expenses — which could cripple their own or their families’ financial well-being tomorrow, next week, or next month. In fact, 43% of surveyed employees never or rarely plan for large irregular expenses.  

To make matters worse, the financial aspects of loss of income due to illness or injury and out-of-pocket expenses may have long-term consequences by increasing the risk of outliving assets in retirement, as individuals may withdraw their retirement funds to cover these more immediate expenses. Nearly one-third (31%) of surveyed employees said they would consider taking a retirement plan loan or withdrawal to cover monthly expenses if their emergency fund ran out — 24% said that they have less than $1,000 in liquid assets for an emergency.  

As illustrated in Exhibit 1, several trends are challenging employees’ financial wellness in each of these areas. They include the shifting of responsibility for retirement income and medical costs to employees, rising medical costs, low savings rates, and increasing longevity.
### Exhibit 1: Trends Driving Key Financial Risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Current Situation</th>
<th>Trends</th>
</tr>
</thead>
</table>
| **Premature Death:** The risk that family members may not be able to maintain their standard of living in the event of an employee’s premature death. | Four in 10 households without any life insurance would have immediate trouble paying living expenses if they were to lose their primary wage earner.                                                                                                               | Longer lifespans mean more years to provide for dependents, such as a surviving spouse or partner.  
The average life expectancy for a 65-year-old female has increased to 87.8 years in 2016, up from 82.6 in 2000.  
College tuition has increased at a rate more than four times higher than inflation since 1978. |
| **Loss of Income Due to Illness or Injury:** The risk that an employee could no longer work and earn wages due to an illness or injury. | It is estimated that one in four 20-year-olds in the workforce today will suffer a disability before retirement age. | Many employees live paycheck to paycheck; 63% say it would be very or somewhat difficult to meet their current financial obligations if their next paycheck were delayed for a week. |
| **Out-of-Pocket Medical and Non-Medical Expenses:** The risk of onerous expenses borne by an employee in the event of an illness or injury. | There were 40 million injury-related emergency room visits in 2014, or one for every eight Americans.  
One in three women and one in two men in the U.S. will develop cancer during their lifetime. | Health expenditures are expected to continue to outpace inflation between 2016 and 2025, increasing at an annual rate of 5.6% versus 2.0% for inflation.  
55% of households report they do not have enough liquid savings to replace one month of their income.  
30% of medical plan participants have out-of-pocket maximums for single coverage of $5,000 or more. |
| **Outliving Assets:** The risk that employees will outlive their savings in retirement and/or not be able to maintain their desired standard of living in retirement. | The National Retirement Risk Index indicates that 50% of working-age households are at risk of being unable to maintain their standard of living in retirement. | Individuals are assuming more responsibility for longevity and investment risk. Today, 73% of workers with access to a retirement plan at work only have DC plans (like 401(k)s), while 88% had DB pension plans in 1983. |
MEASURING PROTECTION AGAINST KEY FINANCIAL RISKS: PRUTECTION SCORE

For employers, understanding employees’ exposure to financial risks is an important step toward closing those gaps and improving financial wellness. To that end, Prudential, with supporting research and analysis provided by EY, has developed Prutection Score, a tool to help employers gauge how financially prepared employees are should a risk event occur, by looking at the resources available to them — personal funds and insurance coverage — relative to the resources needed. This tool is intended to produce results for total employee populations or employee segments, to give employers a sense of their employees’ collective financial preparedness.

The Prutection Score tool applies data analytics to make assumptions about employees using minimal information from employers, so it does not require employers to obtain additional personal information about their employees. To date, the tool has been used with over 350 employers.

In 2017, Prudential conducted a Financial Wellness Survey of over 4,000 full-time employees who had medical insurance. Drawing on data from that survey as well as various government and industry sources, Prudential developed national benchmark scores for protection against four key financial risks — loss of income from premature death, loss of income due to illness or injury, out-of-pocket expenses, and outliving assets. The higher the score, the better prepared employees may be to meet their financial obligations. A score of 100 means employees are more likely able to meet all financial obligations in the event that specific risk occurs.

Prutection Score =  
\[
\frac{\text{Funds and Coverage Available}^*} {\text{Funds and Coverage Needed}^†}
\]

NATIONAL SCORES...AND WHAT THEY TELL US

The national Prutection Score results indicate that full-time U.S. employees covered by medical insurance are unable to fully cover their exposure to four key financial risks they face during their working careers and in retirement:

- **Premature Death score: 69%**. In the event of loss of income due to premature death, the average employee would be able to cover 69% of ongoing financial needs for a spouse’s or partner’s lifetime and for children until adulthood.

- **Loss of Income Due to Illness/Injury score: 71%**. In the event of loss of income due to illness or injury, the average employee’s household would be able to pay 71% of their monthly expenses using other income sources, such as spousal or partner income and disability insurance benefits.

- **Out-of-Pocket Expenses score: 67%**. Faced with out-of-pocket medical and non-medical expenses due to an illness or injury, the average employee’s household is equipped to cover just 67% of those expenses through liquid savings and insurance coverage.

- **Outliving Assets score: 65%**. The average employee would be able to generate 65% of the income needed to cover ongoing expenses in retirement using Social Security, assets (including retirement savings in DC plans), pensions, annuities, and other income.

* “Funds and coverage available” is based on an estimate of an employee’s financial assets, spousal or partner income, investment income, Social Security benefits, and insurance benefits, drawing from Prudential survey data and external industry and government sources.

† “Funds and coverage needed” is an estimate based on a variety of survey data such as an employee’s age, marital status, number of children, income, essential monthly expenses (e.g., mortgage, child care), discretionary expenses, and college costs. The figure incorporates realistic assumptions about items such as longevity, inflation, and care-giving costs based on a combination of mortality tables and government and industry data.
In any given risk category, about 15% – 30% of employees in the Prudential Financial Wellness Survey score 90 or higher. However, only 0.6% score above 90 for all four risks, and only 0.1% have scores of 100 or more for all four. This points to a significant opportunity to improve the financial protection — and thereby the financial wellness — of American workers.

### 2017 vs. 2014 Results

Since 2014, employees’ ability to meet their financial needs in the event of key financial risks changed as follows:

- **Premature Death** scores decreased two points, from 71 to 69. Levels of employer-sponsored life insurance coverage and voluntary coverage did not keep pace with growth in employees’ earnings. In addition, the level of coverage purchased outside the workplace declined, and was accompanied by a decrease in the number of households that own individual life insurance outside the workplace — 44% in 2017, down from 48% in 2014.

- **Loss of Income Due to Illness/Injury** scores remained the same at 71. While coverage levels for short-term and long-term disability increased, the effect was offset by an increase in the incidence rate and average duration of illness or injury.

- **Out-of-Pocket Expenses** scores improved 11 points, from 56 to 67. Household liquid assets as a percentage of earnings increased, and coverage of critical illness and accident insurance became significantly more widespread. These factors more than offset an average increase of $400 in the out-of-pocket maximums under households’ medical insurance coverage.

- **Outliving Assets** scores slipped three points, from 68 to 65. Growth in retirement assets did not keep pace with growth in earnings. In addition, pension income per household decreased slightly on average, and the average expected retirement age decreased by one year.

To understand the link between financial behaviors and financial wellness, a financial wellness self-assessment and behavioral component was introduced in the 2017 survey. The survey identified foundational behaviors that have an impact on financial wellness, such as having adequate liquid savings for an emergency, planning for large irregular expenses, and contributing to a retirement plan. Overall, an alarming 57% of employees are very or somewhat stressed about their financial situation. The survey also revealed that:

- 51% of employees have monthly debt over $1,000.
- 65% could not cover six months’ expenses if income were lost.
- 46% are not at all or not very confident that their savings will be sufficient for retirement.
- 41% think their credit score is less than 720, and 26% didn’t check their score in the last 12 months.

Education and tools can empower employees to change their financial behaviors and improve their financial wellness.

Not surprisingly, the common driver of scores during the working years is the level of insurance coverage currently carried by an employee, as shown in Exhibit 2. Because most employees have limited control over their income and how much they can save, insurance coverage is an important and convenient way to achieve a higher level of financial wellness across the first three risks. With respect to the fourth risk, the presence of a workplace retirement plan is a driver of Outliving Assets scores.

### Exhibit 2: National Scores and Key Drivers

<table>
<thead>
<tr>
<th>Risk:</th>
<th>National Score</th>
<th>Key Drivers:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premature Death</td>
<td>69</td>
<td>- Level of insurance coverage</td>
</tr>
<tr>
<td>Loss of Income Due to Illness/Injury</td>
<td>71</td>
<td>- Marital status</td>
</tr>
<tr>
<td>Out-of-Pocket Expenses</td>
<td>67</td>
<td>- Number of dependent children</td>
</tr>
<tr>
<td>Outliving Assets</td>
<td>65</td>
<td>- Age</td>
</tr>
</tbody>
</table>


Beyond insurance and retirement plan coverage, there are multiple other drivers, and they vary in significance from one risk to the next. In some cases, a driver is positive for one risk and negative for another. Being single can mean a higher premature death score, for example, because there is no need to provide for a spouse or partner; on the other hand, it can mean a lower illness/injury score, because there is no spousal or partner income to help cover expenses.

**Premature Death** scores vary significantly by marital status and age, with marriage — especially at a younger age — tending to lower scores. Someone who is married or in a partnership may wish to provide for a spouse or partner for the rest of his or her lifetime, and the younger that individual is, the more years there will be to provide for that spouse or partner and any children they may have.

**Loss of Income Due to Illness/Injury** scores are driven by marital status and employee income. Scores are significantly higher for married employees due to the additional spousal or partner income available to cover expenses and the potential to receive higher Social Security Disability Income benefits for a spouse and/or dependents. Scores also increase steadily with income. Because employees with higher incomes generally have lower expense-to-income ratios, the disability payments they receive, where available, cover a higher percentage of monthly expenses.

**Out-of-Pocket Expenses** scores increase steadily with income because employees with higher incomes usually have higher levels of liquid savings that could be accessed to cover out-of-pocket medical and non-medical expenses. Because household income is generally higher for employees who are older, male, married, or in a partnership, these scores also are driven by age, gender, and marital status.

**Outliving Assets** scores decrease with age, because older employees have fewer years to grow their wealth at a rate above the inflation rate. Scores increase with income, because employees with higher income levels tend to have more assets. Moreover, medical and long-term care needs do not vary by income level, so these expenses represent a lower percentage of income for employees with higher incomes, and therefore have less of an impact on scores.

**Exhibit 3: National Scores by Selected Key Drivers**

<table>
<thead>
<tr>
<th></th>
<th>Premature Death</th>
<th>Loss of Income Due to Illness/Injury</th>
<th>Out-of-Pocket Expenses</th>
<th>Outliving Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marital Status:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married/Partnership</td>
<td>64%</td>
<td>81%</td>
<td>73%</td>
<td>62%</td>
</tr>
<tr>
<td>Single</td>
<td>82%</td>
<td>50%</td>
<td>52%</td>
<td>73%</td>
</tr>
<tr>
<td><strong>Gender:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>70%</td>
<td>73%</td>
<td>72%</td>
<td>68%</td>
</tr>
<tr>
<td>Female</td>
<td>69%</td>
<td>70%</td>
<td>61%</td>
<td>62%</td>
</tr>
<tr>
<td><strong>Age:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 30</td>
<td>64%</td>
<td>64%</td>
<td>62%</td>
<td>78%</td>
</tr>
<tr>
<td>30–39</td>
<td>61%</td>
<td>69%</td>
<td>65%</td>
<td>72%</td>
</tr>
<tr>
<td>40–49</td>
<td>68%</td>
<td>75%</td>
<td>62%</td>
<td>63%</td>
</tr>
<tr>
<td>50–59</td>
<td>73%</td>
<td>73%</td>
<td>68%</td>
<td>60%</td>
</tr>
<tr>
<td>60 +</td>
<td>83%</td>
<td>75%</td>
<td>80%</td>
<td>54%</td>
</tr>
<tr>
<td><strong>Employee Income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; $50k</td>
<td>71%</td>
<td>66%</td>
<td>45%</td>
<td>49%</td>
</tr>
<tr>
<td>$50k–$150k</td>
<td>67%</td>
<td>73%</td>
<td>75%</td>
<td>72%</td>
</tr>
<tr>
<td>$150k +</td>
<td>75%</td>
<td>83%</td>
<td>97%</td>
<td>84%</td>
</tr>
<tr>
<td><strong>Number of Children:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married, 1+ children</td>
<td>65%</td>
<td>81%</td>
<td>74%</td>
<td>62%</td>
</tr>
<tr>
<td>Married, no children</td>
<td>63%</td>
<td>79%</td>
<td>66%</td>
<td>63%</td>
</tr>
<tr>
<td>Single, 1+ children</td>
<td>60%</td>
<td>48%</td>
<td>51%</td>
<td>67%</td>
</tr>
<tr>
<td>Single, no children</td>
<td>91%</td>
<td>50%</td>
<td>53%</td>
<td>75%</td>
</tr>
</tbody>
</table>

PRUTECION SCORE INSIGHTS

Insights gleaned from the national Protection Score results can help employers in their plan design, educational, and marketing efforts.

Behaviors Have an Impact on Financial Wellness

Financial behaviors are key to understanding — and improving — financial wellness levels. An analysis of financial behaviors related to the “protecting key risks” aspect of financial wellness indicates that “good” behaviors generally result in higher scores. For example:

1. 24% of employees have less than $1,000 in liquid assets for an emergency. Those who have less than $1,000 have an average Out-of-Pocket Expenses score of 55 versus 71 for those who have over $1,000.

2. 19% of those who have access to a DC plan do not contribute to their plan. Employees who do not contribute have, on average, an Outliving Assets score of 57 versus 68 for those who contribute.

3. 56% of employees do not have an individual life insurance policy outside of the workplace. Premature Death scores are an average of 65 for those who do not have a life insurance policy outside the workplace versus 74 for those who do.

4. 66% of employees do not have a written will. Premature Death scores are an average of 68 for those who do not have a written will versus 73 for those who do.

Access to Protection Solutions at Work Has Positive Impact

The positive impact of access to insurance in the workplace on financial wellness is most apparent in loss of income due to illness/injury scores. Employees with access to disability coverage at work have an average loss of income due to illness/injury benchmark score of 84, versus 52 for employees who do not. The same is true for critical illness and accident insurance. Employees working for employers that offer these coverages have an average loss of income due to illness/injury benchmark score of 90, versus 48 for employees whose employers do not offer them.

Type of Medical Insurance Plan Has Little Impact

Most employees have low scores for the risk posed by out-of-pocket expenses, regardless of the type of medical plan offered by their employer. This is surprising, given that there has been concern that high deductible health plans (HDHPs) increase the potential burden on employees due to high deductibles and high out-of-pocket maximums. The average score for employees with HDHPs is 68, comparable to scores for employees with point of service plans (66), health maintenance organizations (69), and preferred provider organizations (66).

Access to Retirement Plans at Work Has Positive Impact

Research finds that, on average, 35% of retirement income must come from 401(k) plans in order for households to maintain their pre-retirement standard of living. Given this, it is not surprising that access to DC and DB retirement plans in the workplace is a key driver of financial wellness. Employees with access to DC plans contribute more toward retirement, and those with access to DB pension plans receive a guaranteed benefit. The average Outliving Assets score is highest for employees working for employers that offer both DB and DC plans (71), while the average score is lowest for employees working for employers that offer neither plan (56).

Females Fall Short

Scores are generally lower for females than males. Females have significantly lower levels of income, liquid assets, and retirement assets. They are less likely to have insurance and retirement plans provided at work, and are less likely to enroll in insurance when offered on a voluntary basis. In addition, females have longer average lifespans and need to generate more retirement income to last those additional years, which lowers their Outliving Assets scores. On the other hand, females have slightly higher Premature Death scores, because, on average, married females have fewer years to provide for surviving male spouses or partners.
BEST PRACTICES TO HELP IMPROVE EMPLOYEES’ FINANCIAL WELLNESS

Employers have a real opportunity to improve an important aspect of their employees’ financial wellness through the introduction of programs that educate employees about the financial risks they face and provide the tools they need to manage those risks. Here are some best practices employers may want to consider when creating a financial wellness program:

1. **Adopt a needs-based approach to promoting benefits.**

Many employers try to improve their benefits programs by tracking product penetration levels — the degree to which employees select various benefit offerings — and attempting to boost the uptake of those offerings that have low penetration levels.

Employers may have a greater impact on their employees’ financial wellness by analyzing product penetration levels relative to employee needs rather than focusing on product penetration levels alone. As part of that effort, employers may want to:

- **Leverage employer-based tools to gauge aspects of financial wellness of an employee population.** Partner with a provider that can measure aspects of the financial wellness of your employee population and understand the drivers behind those measures. Compare your employees’ measures to relevant national, regional, or industry benchmark scores.

- **Set financial wellness goals for the employee base.** Identify demographic segments within the employee population where measures are below established benchmarks and goals.

- **Measure on an ongoing basis.** Regular monitoring will help gauge the effectiveness of education and communication programs.

- **Target employee segments that have large coverage gaps with customized communications.** Consider providing employees with targeted case studies and educational videos with profiles relevant to their own situations. Use a variety of communication channels to appeal to a wide range of employee preferences for receiving information, including face to face, seminars, digital, phone, and print.

2. **Educate employees on financial wellness, emphasizing both needs and solutions.**

Define and communicate the importance of attaining a high level of financial wellness. Help employees understand their exposure to key financial risks by providing statistics on the probabilities and financial implications of premature death, disability, a critical illness or accident, and outliving assets. Illustrate how specific solutions — such as increased saving, increased insurance coverage, or healthier lifestyles — can help mitigate financial risks. Provide education on how much income will be needed in retirement to cover expenses and identify potential sources of income (e.g., Social Security, savings, retirement plans, and annuities). More than three-quarters (76%) of surveyed employees say that they want financial education at work.\(^1\)
In addition, employees should understand that having adequate protection during the working years may help them stay on track for a secure retirement. When faced with an illness or injury, employees who do not have adequate protection may withdraw savings from their DC plans. Employers may want to better understand employees’ reasons for DC plan withdrawals so they can help protect employees and prevent future withdrawals.

3. **Leverage existing educational tools and channels.**

Provide tools—such as customizable budgeting tools, student loan management tools, and financial self-assessment tools—that help employees increase their savings. Where possible, integrate tools with existing online enrollment systems, such as needs estimators and retirement income calculators. Take advantage of general financial education seminars and customized enrollment support from benefits providers, who can answer employees’ questions, conduct needs analyses for them, and provide them with personalized coverage recommendations.

4. **Integrate critical illness, accident, and other insurance into the core benefits lineup.**

Premature death, loss of income due to illness or injury, and out-of-pocket medical and non-medical expenses are insurable risks that can be mitigated through life, disability, critical illness, accident, and other insurance. Employers should consider including these solutions in their core benefits lineup, alongside health insurance and retirement plan benefits. Providing a robust array of benefits can also give employers a competitive advantage in attracting and retaining workers. According to the Society for Human Resource Management, 12% of HR professionals said their organizations altered their benefits program to recruit employees, and 19% of employers made changes to their benefits program to retain employees.³²

5. **Design retirement plans to help employees optimize their retirement income.**

Many DC plans have adopted features, such as automatic enrollment, automatic escalation of contributions, default investment options, and matching contributions, to help employees save and invest for retirement. To prevent leakage, employers may also limit the number of loans that an employee may take from a DC plan at any one time. Planning tools may help employees set and gauge progress against retirement income planning objectives. Further, employers may help their employees create retirement income by incorporating guaranteed lifetime income solutions into 401(k) plans.

Education is key to making plan design effective. For example, one in four employees does not save enough to receive their full employer match in their employer’s retirement plan, leaving $24 billion on the table each year.³³
CONCLUSION

Prudential's measure of a key aspect of financial wellness, Protection Score, indicates that right now, the average full-time U.S. employee with medical insurance coverage would not be able to meet all of the expenses relating to any one of four key risks that threaten financial well-being. On average, during the working years, employees can cover only 69% of financial needs in the event of premature death, 71% of financial needs in the event of loss of income due to illness or injury, and 67% of out-of-pocket medical and non-medical expenses in the event of an accident or critical illness. In retirement, on average, employees will be able to cover only 65% of needed expenses without outliving assets.

These findings suggest that employers have a real opportunity to help improve their employees’ financial wellness through targeted, needs-based programs which educate employees about the financial risks they face and provide the tools they need to help manage them. Offering a broad array of insurance programs can be an important component of that effort. Life, disability, critical illness, accident, and other insurance programs, paired with medical insurance and retirement plans, can address many of the financial risks employees face during their working years and in retirement. In addition, employee education and tools, such as budgeting tools, can empower employees to change their financial behaviors and improve their financial wellness.

Needs-based financial wellness programs can improve on conventional approaches to promoting employee welfare. Until now, most employers have assessed the effectiveness of their various benefits programs, and decided which to promote, by comparing the percentage of workers using them to pre-established product penetration goals. By calculating financial protection scores for their own employee populations, employers can target their efforts to the specific employee groups who need them the most. Needs-driven financial wellness programs promise to benefit employers as well as employees.

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SOURCES/FOOTNOTES

Page 3
2 EY Insurance and Actuarial Advisory Services, 2014.

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10 “Out-of-pocket expenses” refers to medical and non-medical expenses.

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14 Society of Actuaries, RP-2014 Mortality Table and MP-2016 Projection Scale.
16 U.S. Social Security Administration, Basic Facts, June 2016.
18 CDC, National Hospital Ambulatory Medical Care Survey: 2014 Emergency Department Summary Tables.

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27 For the purposes of this paper, medical insurance implies a comprehensive plan such as a point of service plan, health maintenance organization, preferred provider organization, or high deductible health plan.
28 Also called disability income insurance.

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The Protection Score™ is a measure of how prepared a group of employees is for the risks of (1) premature death, (2) loss of income due to an illness or injury, (3) out-of-pocket expenses related to an illness or injury, and (4) outliving assets. For each of these risks, the Protection Score is the ratio of Funds Available to Funds Needed, which is estimated using employee demographic information, Prudential survey data and a variety of credible external industry and government sources. While the first three risks take into account actual coverage amounts employees have to help protect themselves against those risks (e.g., Life, Disability, Critical Illness, and Accident Insurance), the Outliving Assets Risk does not (e.g., no actual employee retirement assets and deferral rates). The Outliving Assets Risk does not evaluate the sufficiency of employer’s or employee’s retirement plans and does not constitute retirement advice. The Protection Score is not intended to advise you or any of your employees what their specific financial needs might be or the exact amount of coverage any one individual might need now or in the future. The resulting scores are to be used for an entire group of employees or large demographics within a group. Results are not to be used at an individual level. Individuals should contact a financial professional regarding their personal situation. Prudential is not responsible for uses made of this information inconsistent with the description provided here.

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