

Financial Wellness Census™



Financial Fragility

How the Shutdown Affected the Household Finances of Federal Workers



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KEY FINDINGS

Nearly half the survey respondents fell behind on their bills during the shutdown. More than a quarter missed a mortgage or rent payment.

Nearly a quarter cut back or eliminated spending on health or medical expenses for themselves or family members.

More than eight in 10 said their overall stress levels spiked, with 50% reporting that they became “much more stressed” as a result of the shutdown.

ABOUT THIS STUDY

Furloughed or Unpaid Federal Workers, Contractors, and Spouses Poll.

This poll was conducted from January 29 to 31, 2019, among a national sample of 352 furloughed or unpaid federal workers or contractors and spouses. The interviews were conducted online and the data were weighted to approximate a target sample of furloughed or unpaid federal workers or contractors and spouses based on age, race/ethnicity, gender, educational attainment, and region. Results from the full survey have a margin of error of plus or minus 5 percentage points.

General Population Poll

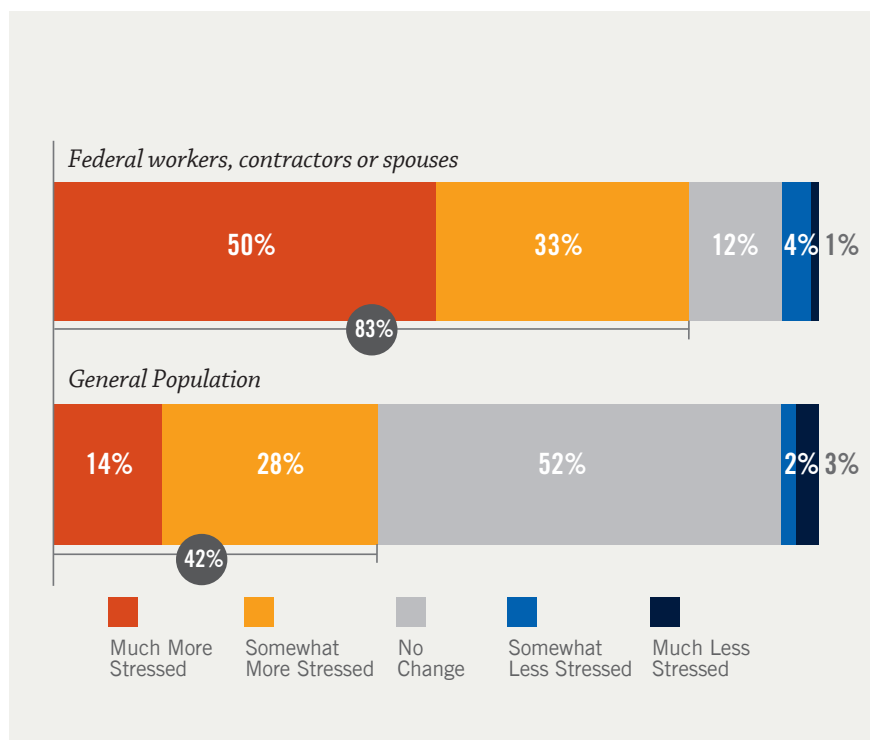
This poll was conducted from January 29 to 31, 2019, among a national sample of 1,959 adults. The interviews were conducted online and the data were weighted to approximate a target sample of adults based on age, race/ethnicity, gender, educational attainment, and region. Results from the full survey have a margin of error of plus or minus 2 percentage points.

Researchers have warned for years that many Americans lack sufficient savings to cover even a relatively brief disruption of their income. But few events have provided a clearer real-world test of that assessment than the government shutdown that began on December 22, 2018, and ended 35 days later on January 25, 2019. During the impasse, approximately 800,000 federal workers went without paychecks, including about half who nonetheless continued to report for duty.

To learn more about the shutdown’s impact on the financial health of federal workers and their households, and to assist employers and policymakers as they consider ways to help Americans solve the financial challenges of our changing world, Prudential Financial surveyed more than 350 federal employees and contractors who went unpaid during the shutdown, as well as spouses of such workers. The survey was conducted from January 29 through January 31. Its findings in many ways supplement the results of Prudential’s 2018 Financial Wellness Census, which polled more than 3,000 Americans on how they are managing their day-to-day finances, saving for long-term goals like retirement and protecting themselves against common financial risks. The Census found the country almost equally split between those who are financially healthy and those who are struggling to meet current living expenses and save for long-term goals.

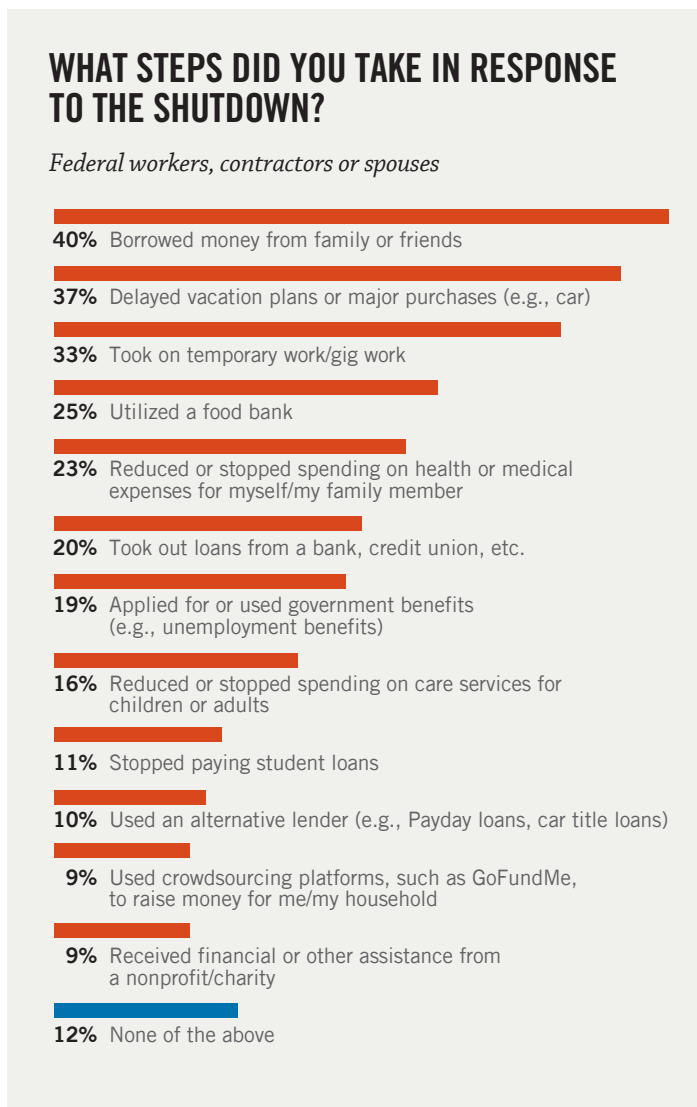
Among the new survey’s most important findings:

Federal workers’ physical and emotional wellness suffered along with their financial wellness. Eighty-three percent of survey respondents reported an uptick in their overall stress levels as a result of the shutdown, including 50% who were “much more stressed.” Twenty-three percent reduced or stopped spending on health and medical expenses for themselves or family members during the shutdown, and 16% reduced or stopped spending on care services they normally provided for children or adults.

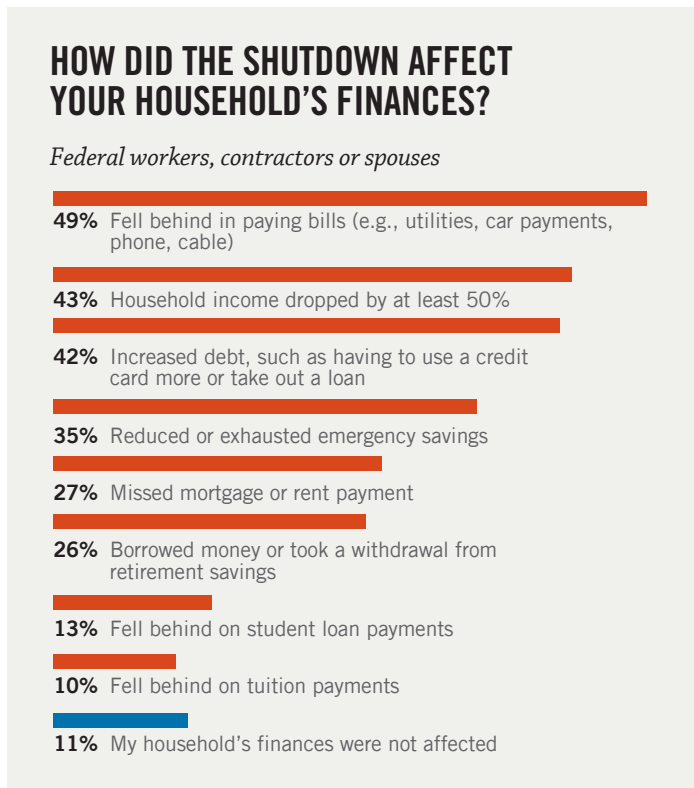


Household finances took a hit. Forty-nine percent of survey respondents fell behind on their bills. Twenty-seven percent missed a mortgage or rent payment, 13% fell behind on student loans, and 10% missed a tuition payment. Falling behind on bill payments could have consequences that extend long past the shutdown. Some federal workers may find that missing these payments has compromised their credit score, for example, which could make it harder to secure financing for a big purchase like a house or car, or simply make the cost of borrowing to do so higher. In turn, that could make it harder to save for long-term goals like retirement or manage other day-to-day expenses.

Retirement savings accounts were compromised. Twenty-six percent of survey respondents said they dipped into their retirement accounts to pay bills or manage other day-to-day expenses during the shutdown, either by borrowing from their account or taking an outright distribution. Again, this could compromise their long-term financial wellness.



Workers turned to family, friends and lenders for money. Forty-two percent of survey respondents took on new debt to help meet financial obligations and day-to-day expenses during the shutdown. Some tapped multiple sources. Forty percent borrowed from family or friends, 20% borrowed from a bank or credit union, and 10% borrowed from an alternative lender. In addition, 25% utilized a food bank during the shutdown, and 9% turned to crowdsourcing platforms to raise money.



Federal workers entered the shutdown more likely to have emergency savings than the general population. Sixty-one percent of survey respondents said they entered the shutdown with \$1,000 or more in emergency savings, compared with just 46% of the general population. Twenty-nine percent of federal workers and spouses said they had emergency savings of less than \$1,000, versus 14% of the general population. Just 11% of federal workers and spouses reported having no emergency savings heading into the shutdown, versus 40% of the general population.¹

Still, in a majority of cases, federal workers burned through most or all of their emergency savings. Sixty-two percent of surveyed federal workers and spouses said they depleted all or most of their emergency savings during the shutdown. Thirty-one percent spent less than half their emergency savings, while 8% said they didn't spend any of their savings. Households with two federal workers were most likely to have emergency savings over \$1,000, with 81% of those households saying they did. Nonetheless, they also were most likely to have used the bulk of their savings.

¹ For comparison purposes, Prudential also conducted a shorter survey of more than 1,900 American adults who don't work for the federal government on their reaction to the government shutdown. All survey results reported in this paper reference federal workers and their spouses except where they are specifically noted to refer to the general population.

The Shutdown's Impact Varied by Gender, Income Level, Ethnicity and Caregiver Status

Numerous studies, including Prudential's 2018 Financial Wellness Census, have documented that American men on average earn more than American women, and also spend less time caring for children. Research also has shown that blacks and Hispanics in the U.S. tend to earn less than whites. These overarching trends factored into the way those various groups were impacted by the government shutdown.

Women suffered more than men from the shutdown. Fifty-four percent of surveyed women said they were "much more stressed" as a result of the shutdown, versus 45% of men. Women also were less likely to have an emergency savings account of \$1,000 or more heading into the shutdown (53%, versus 68% of men), and were more likely to have borrowed from family or friends during the shutdown (46%, versus 33% of men). On the other hand, men were more likely than women to have taken on gig work during the shutdown (40% of men, versus 26% of women).

Workers at lower income levels went into the shutdown with less resources at their disposal than their higher-paid counterparts. Seventy-eight percent of survey respondents with household incomes of \$100,000 or more had emergency savings of \$1,000 or greater, compared with less than half of households with incomes under \$50,000.

Black and Hispanic workers went into the shutdown with less savings than their white colleagues, on average. Fifty-six percent of Hispanics and 53% of blacks had emergency savings of \$1,000 or more, versus 64% of whites. Thirty-two percent of black respondents used all their emergency savings during the shutdown, versus 25% of whites and 21% of Hispanics. Of those three groups, blacks also were most likely to have borrowed from friends or family (49%, versus 38% each for whites and Hispanics).

Hispanics were more likely than blacks or whites to have taken mitigating actions in response to income disruption, including delaying a vacation or large purchase, performing gig work, taking out loans, or reducing or stopping spending on care for others.

Caregivers suffered disproportionately from the shutdown. Fifty-nine percent of survey respondents who self-identified as caregivers said they were "much more stressed" by the government shutdown, compared with 45% of non-caregivers. (Caregivers were defined as someone regularly providing care and support for a child with special needs, or a sick, elderly or disabled member of their family, including taking them to the doctor or providing financial support.) Also, caregivers were more likely than non-caregivers, by an average of about 10 percentage points in each case, to have seen their household income drop by at least half during the shutdown, to see their debt go up, to miss a mortgage or rent payment, to borrow from their retirement savings, or to fall behind on their student loans. That's despite the fact that caregivers were more likely, by an average of 10 percentage points, to have taken action to mitigate the impact of the shutdown.

Key Takeaways for Individuals

The impact of the government shutdown on federal workers and their families serves as a stark reminder that many Americans are ill-prepared to navigate even a brief disruption in their income. While absolute levels of income play a role in preparation, the survey suggests there are measures individuals could take to better insulate themselves against future income disruptions, whatever their cause.

Some already plan to take action. Fifty-two percent of the federal workers and spouses who were surveyed said they plan to add more money to their existing emergency funds. Ten percent who don't have emergency savings funds plan to start them. (Another 10% said they don't intend to change their emergency savings, while 28% said they would like to have an emergency savings fund but don't think they can afford it at this time.)

Interestingly, the government shutdown may have prompted some individuals outside the federal workforce to rethink their savings strategy, too. Thirty-four percent of the general population said they plan to add to their existing emergency savings funds, and 11% who have no fund said they plan to start one.

Some individuals also are rethinking where they work. Four percent of the survey respondents said the federal worker in their household had already changed jobs and left the federal government, while 34% said that person in their household is actively looking for a job outside the federal government. Another 35% said the federal worker in their household was considering leaving their job but was not actively looking. Only 28% said that the federal worker in their household definitely planned to stay in their current federal job.

Key Takeaways for Employers

This new survey also suggests that many Americans could use outside help preparing for unexpected hardships. Such assistance could include greater access to educational programs and self-help tools, as well as workplace programs that promote, and perhaps even assist, in building emergency savings accounts.

Employers have ample self-interest in providing these types of aid. Numerous studies have found a link between financial health and physical health, which in turn plays an important role in employee productivity. In a recent study² published by the *Journal of Occupational and Organizational Psychology*, for example, a trio of researchers confirmed that financial insecurity can have detrimental effects on workers' health. The study goes on to say that while direct interventions aimed at addressing financial insecurity may be challenging, the return on investment for employers may be meaningful.

This squares with the message we've long delivered at Prudential, where we were an early pioneer in addressing and reducing financial stress among our own employees and are now a provider of financial wellness solutions for other organizations, too. We know firsthand that investing in the financial wellness of workers delivers benefits for employees and employers alike. It can translate into better worker productivity and engagement, greater employee appreciation for employer-sponsored benefits, reduced turnover and better workforce management outcomes when employees are able to retire when they wish.

² Odle-Dusseau, H. N., Matthews, R. A., Wayne, J. H. (2018). Employees' financial insecurity and health: The underlying role of stress and work-family conflict appraisals. *Journal of Occupational and Organizational Psychology* (2018), 91, 546-568.