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Individual Savings Are Down. What Does That Mean for Employers?

Last year the American personal savings rate ended in the negative zone and was the lowest since the Great Depression. The negative one percent rate indicates that the average American is spending more money than he or she has left after taxes. Martin Crutsinger, "Individuals saving at lowest rate since Depression," *AP* as reported in *Tulsa World* (Feb. 1, 2007).

2005 also saw a negative saving rate of minus 0.4 percent, but the only other recorded negative rates occurred during the depression era, in 1932 and 1933.

Rather than saving in the present, many people are using past savings or borrowing money to finance their current spending. Although the economy was relatively strong last year, low interest rates made it attractive to borrow money.

Surveys suggest that savings and spending habits are not likely to change in the near future. More than 1/3 of the 2000 people surveyed by the Pew Research Center said that they sometimes or often spend more than they can afford. Among people between the ages of 18 and 49, 49 percent said they tend to overspend.

Commentary and Checklist

Employers are impacted when employees and prospective employees save less or spend too much.

When employees save less, they have less money to live on after a termination. These employees are more then likely to file unemployment, workers' compensation, discrimination, or wrongful termination claims. All these actions cost employers.

On the other hand, when employees have less savings, they are more likely to sign severance agreements. Severance agreements provide income to an employee in exchange for an employee's agreement not to sue the employer. Severance agreements are the best means for limiting workplace litigation after a termination.

Employees who have fewer saved funds may find a severance agreement more palatable than the uncertainty of filing a claim.

Less in savings also means that employees are less likely to retire at 65. Such employees will need to work longer to maintain their standard of living. The good news for employers is that it increases the talent pool of experienced workers. The bad news is that it may increase charges of age discrimination and disability discrimination.

In the end, less savings mean employees are more likely to be severely impacted should they experience sudden financial difficulty. These difficulties often flow onto their employers. That is why sponsoring and promoting 401(k) and other employee savings programs are important. Encouraging your employees to save has several benefits to employers including:

- ✓ Less employee litigation after a termination or layoff;
- ✓ Reduction in fraudulent claims for workers' compensation and unemployment;
- ✓ Lower turnover rates because employees are less likely to seek higher paying positions to pay debt;
- ✓ Fewer garnishments. Garnishments add to employer administrative costs;
- ✓ Decrease in property theft due to financial pressures; and
- ✓ Lower likelihood of embezzlement.

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