Better financial wellness for your business and employees

Higher inflation and a possible recession loom large in the minds of employers and employees alike. Inflation has been the No. 1 concern for both groups since March 2022, according to the Principal Financial Well-Being Index℠.[1]

Employers and employees also agree that the top two factors in worsening employee mental health are inflation/rising cost of living and concern over their personal financial situation.[2]

This isn't healthy for your team or business.

Financially stressed employees are six times more likely to have troubled relationships with coworkers and are three times less likely to stay with their current employer.[3] In other words, financial stress can hurt both workplace culture and employee retention.

One reassuring, informed view: Seema Shah, chief global strategist for Principal Asset Management, expects any U.S. recession, if and when it arrives in the next year, to be mild. The labor market has remained strong but tends to be a lagging indicator. A short and shallow recession could ripple through the economy within as little as six months. But the long trend for businesses and investors, given sustained higher inflation and interest rates, could be more complicated.

> *"The next decade may be an environment of harder decisions, lower returns, and higher volatility."*
>
> **SEEMA SHAH**
> Chief global strategist,
> Principal Asset Management

"The next decade may be an environment of harder decisions, lower returns, and higher volatility," Shah says.

It's normal to feel nervous about major events out of your control, from war in Europe to regional bank failures in the U.S. The best way to handle these feelings may be to focus on what you can control: managing your business and taking care of employees to improve the financial wellness of your entire organization.

This guide is intended to help businesses prepare smarter and swifter for any potential volatility, including recession. The building blocks are within reach to establish a solid financial foundation—from a proactive business plan to a benefits and retirement program that's right for your team.

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[1] Principal Financial Well-Being Index survey of 500 leaders and 200 full-time employees at businesses with 2-10,000 employees, February 2023. Businesses must offer health insurance and/or retirement benefits.

[2] Principal survey of small and midsize businesses (fewer than 500 employees), including 250 businesses and 250 employees, April 25-May 7, 2023.

[3] "Inside the wallets of working Americans" survey of 3,000 employees, Salary Finance, 2022.

In this guide

Expertise informing this guide

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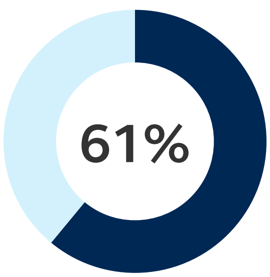
What businesses can focus on

At a basic level, business owners should be concerned about two things: revenue and costs, says Anne Villamil, professor and Henry B. Tippie research fellow at the University of Iowa Tippie College of Business. Meanwhile, stay aware of all the anxiety still rippling through the labor force after the pandemic disruptions.

"Access to capital is important," she says, "particularly in the wake of a banking crisis."

Three domestic bank failures in the first half of 2023 only complicated the economic outlook. Many businesses already have been inspired to better prepare for uncertainty, according to Principal research:



Sixty-one percent of small and midsize businesses say they have enough capital on hand to withstand a recession.[1]

More than half of small and midsize businesses—56%— *already are making changes to prepare for a potential recession.*[1]

> *"Access to capital is important, particularly in the wake of a banking crisis."*

ANNE VILLAMIL
Professor and Henry B. Tippie research fellow,
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Top 5 business issues

The five most important business issues, according to businesses themselves, show how a defensive posture has taken hold in 2023.[1]

1. **Retaining key employees (95%)**
2. **Maintaining cash flow (95%)**
3. **Keeping existing customers (95%)**

(THREE-WAY TIE)

4. **Retaining all employees (94%)**
5. **Staying in business (93%)**

[1] Survey of 458 Principal client businesses, each with fewer than 500 employees, April 25-May 7, 2023.

6 steps to better prepare for uncertainty

Develop a strong relationship with your banker if you haven't already. Here are other steps to help your business brace for the unknown:

1 Build up cash reserves.

As shown by our research, many businesses already are focused on increased liquidity.

Stockpiling cash in the boom years may help you avoid chancing your personal finances by taking out a second home mortgage for your business, or a similar risky move.

The old rule of thumb for cash reserves was a six-month cushion. But recent years have shown that crises can last far longer. Everything businesses have endured since the pandemic is an argument for doubling down.

"The worst-case scenario?" says Nate Schelhaas, head of business owner segment for Principal. "You have a year's worth of cash reserves and don't need it."

But even that may not be enough. "Because you don't know what the future holds, securing contingent funding is extremely important," he says.

- **Emergency cash:** If you must tap into other emergency cash, "evaluate all the sources of cash at your disposal and in which order it makes sense to use them," Schelhaas says.
- **Life insurance:** One commonly forgotten source is the cash value of a permanent life insurance policy. While the main purpose of life insurance is to provide a death benefit, the cash value in some policies can be used during your lifetime.
- **Line of credit:** Ami Kassar, CEO of business loan advisory Multifunding, says that the best time to get a line of credit is before you need it. That's even more true in the wake of a handful of regional bank failures; make sure you have full confidence in your lender before you get into a situation where you'll rely on their support. A few basic rules, according to Kassar:
    - Threshold: Establish a cash-flow threshold for when you'll draw on credit.
    - Financials: Organize your current financials to apply for credit, including three years of tax returns.
    - Amount: Know how much credit you'll need—typically 10% of topline sales or 85% of accounts receivable and 50% of inventory.

2 Cut expenses and pay down debt.

Commercial construction company Baker Group has enjoyed robust growth in recent years, says CFO Mark Zimmerman. But even growing companies can practice what he calls "blocking and tackling" to hedge bets in case of greater volatility or recession. Some ideas:

- "Tap the brakes," Zimmerman says, on new growth initiatives and focus on stability.
- Give yourself more flexibility in infrastructure costs—for instance, lease fleet vehicles instead of buying them.
- Defer other discretionary capital spending.
- Speed up billing cycles to help increase cash flow.

3 Strengthen existing client relationships

Overcommunicate not only with your internal teams but also with external clients and business partners. Don't leave room for doubt about the future of your business; you don't want your healthy, resilient operation unfairly bogged down by pessimistic macroeconomic news, hurting your team's morale or customers' perceptions.

"This is a time to educate our clients on the health of our business," says Oscar Renteria, CEO of Renteria Vineyard Management, a company that provides agricultural labor to top California wine labels.

4 Explore other revenue sources.

One upside of uncertainty is that it can spur ingenuity.

"There may be some money you're leaving on the table you haven't considered," Schelhaas says. Talk with key employees as well as customers to brainstorm options.

"There can be opportunity in adversity," he says.

For instance, consider alternative ways to distribute your goods or services. Or maybe you can launch an adjacent business line that builds on your existing brand and skills.

Floral studio owner Rachel Hunter in Longmont, Colorado, expanded into clothing and other retail in the early months of the pandemic to keep her small business viable.

"I had this moment of like, OK, what's my plan B?" Hunter says. "I had the store as a potential ticket to cover my costs. So I poured all the time and energy I had spent on weddings and events into the store."

Her calculated risk worked: Hunter diversified and increased her revenue and was able to move into a larger space.

"Don't just lock into the ways you've always done things," Schelhaas says.

> *"The key is to respond, not to react."*
>
> **NATE SCHELHAAS**
> Senior vice president,
> Benefits and Protection, Principal

5 Invest in employees.

Your team is the backbone of your business, Schelhaas says. These are the people you lean on in a crisis, so don't stop supporting them—and asking them which resources they most need. (See the next section in this guide on employee care.)

"Make sure you're investing in employees in a way that means something to them," he says. "Whenever volatility spikes, your employee benefits become only more important to maintain steady retention and help keep your team focused on the work at hand."

Employee investment and education are part of what Zimmerman calls "getting back to basics"—especially after several years when a hot labor market had many companies churning through staff. Baker is an entrepreneurial company with seven business lines. It's time well spent, Zimmerman says, to make sure all employees are well-versed in your business model. Baker's project managers need to know their financials—including the different levels of overhead carried by each line of business.

6 Stay agile.

"You have to be ready to pivot," Schelhaas says. "You don't know what's going to cause a recession, when it's going to come, how long it's going to last, or how bad it's going to be."

Rely on a trusted group of key employees—a sounding board of senior leaders—to help you talk through options. Or turn to external peers and mentors in the business community. You have options to cultivate your own personal "board of directors." Discuss scenarios with this inner circle and outline—in detail—how your business would respond.

"The key is to respond, not to react," Schelhaas says.

Company values and owner self-care matter.

The financial details of maintaining liquidity or client relationships are among the most important work to better prepare your business for volatility. But don't lose sight of the less tangible—yet essential—cultural foundation of what your organization is built on:

1 Your values—the "why" behind your business

"When times get tough, the businesses that I see perform best are the ones who have the greatest sense of purpose and know their mission," says Amy Friedrich, president of Benefits and Protection for Principal. "Your values differentiate you. Employees can feel reassured that you and your business stand for something in a crisis—that their work matters."

2 Your personal health and wellness

Business owners tend to be wired to stay focused and grind away to help their company grow and to take care of their team. But don't burn yourself out in the process—threatening the security of everything you've built and the people who rely on your leadership.

"Make time for self-care," Friedrich says. "Don't only talk about it. Don't ask others to use their time away from work if you're not willing to do it yourself."

Leading by example doesn't only mean hard work, grit, and resilience, she adds.

"When I say lead by example, what I mean is take time away from work," Friedrich says. "Show what your family means to you as a business owner, and make sure that work-life balance is present for them to see how much you value it for everybody on your team."

"When times get tough, the businesses that I see perform best are the ones who have the greatest sense of purpose and know their mission."

AMY FRIEDRICH
President,
Benefits and Protection,
Principal

Extending financial wellness to your team

The financial wellness support you provide to employees is only more critical in the face of rising volatility.

Friedrich sees employee financial wellness and security as helping your team to feel more whole and fulfilled at work. The right benefits, including the ability to save for the future while paying for what their loved ones need today, encourage stability and growth.

"What you're really giving them is the freedom to engage at work and more freedom to not be stressed out about what's happening in their personal lives," Friedrich says. "That financial security helps them feel valued so they're more engaged and can think more clearly and creatively."

If you're already offering benefits, stay the course. Robust benefits also can help retention—improving their lives at work and home while saving you the expense of recruiting and onboarding replacement talent.

Sri Reddy, senior vice president of Retirement and Income Solutions for Principal, says businesses can be more intentional about cultivating a workplace where people feel stable and secure.

"My wholehearted belief is that if you want to focus on getting the best out of your people," he says, "you create an environment where you remove worries, whether it's health and wellness worries or—equally as important—financial worries."

According to business owners, these are the top five benefits to help ensure employee financial security[1]:

1. **Health care**
2. **Retirement**
3. **Paid vacation**
4. **Dental/vision insurance**
5. **Life insurance**

[1] The Principal Financial Well-Being Index℠ (Feb. 2–9, 2023) surveyed 500 business owners, decision makers, and leaders at companies with 2–10,000 employees and 200 full-time employees.

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SRI REDDY

Senior vice president, Retirement and Income Solutions, Principal

FOR YOUR EMPLOYEES

Support your employees' financial confidence.

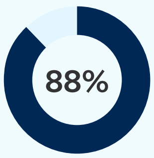
Financial wellness means much more than an employee's paycheck.

"It's about providing education, awareness, guidance, and how employees can make the most of their own financial situation to take control and be in the best possible position," Reddy says.

Where do you start with employee education in financial wellness? Employees say they want to cover these top subject areas in an employer-sponsored financial wellness program:[1]

1

Saving for retirement



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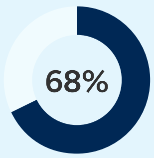
Insurance (life, disability, long-term care, etc.)



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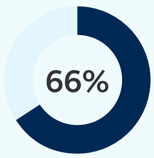
Debt reduction



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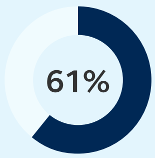
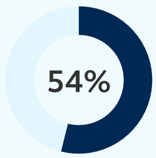
Budgeting



5–6

Credit resources and home ownership (tie)



Employees like to receive financial wellness info through a variety of channels, from email to in-person individual or group sessions.[1] As your business matures its approach, you can adjust options to find the right fit for you and your team.

"There are numerous things employers can think about when they talk to their employees about overall wellness, including financial security," Reddy says. For instance:

- What are the impacts of taxes in the early years of your career, and how do you adjust your personal finances accordingly?
- How should you think of your savings as you approach retirement?
- When will you begin drawing on Social Security, and how does that factor into your steps as you approach and go through retirement.

"It's about engaging the employee the way they want to be engaged, bringing their family and loved ones into the conversation in a way that makes sense, and giving them all the tools and resources to be their best self beyond the paycheck," Reddy says.

[1] Principal survey of small and midsize businesses (fewer than 500 employees), including 250 businesses and 250 employees, April 25-May 7, 2023.

FOR YOUR EMPLOYEES

EAPs help maintain holistic wellness.

Mental health is closely intertwined with financial wellness and—according to research—still deserves more attention from business leaders despite all the prominent workplace stress of recent years.

Compared to 5% of businesses, 35% of employees say that employers should be concerned about mental health due to the impact on productivity and performance—a gap of 30 percentage points.[1]

An employee assistance program (EAP) may be embedded in many broader benefits plans or provided as a standalone resource. Either way, this coverage often is overlooked or undervalued for the support it can provide on a regular basis—not only during emergencies.

"Employees may think an EAP is useful only to cope with the death of a colleague or family member or some other tragedy," says Kara Hoogensen, head of workplace benefits for Prinicipal. "But they're designed for much broader purposes—including help with budgeting."

- EAPs can be flexible: An EAP provides a vast array of confidential services—from stress management coaching to substance use treatment to grief support—typically at no cost to the individual.
- EAPs can be affordable: Services are available by phone or online and often are included with some types of benefit coverages (e.g., disability or life insurance) at little-to-no additional cost.

"Be proactive about describing what an EAP is and what resources are available," Hoogensen says. "And stress the confidentiality of EAPs. It's not just about a crisis, but about the normal work-life stressors we all face, too."

[1] Principal survey of small and midsize businesses (fewer than 500 employees), including 250 businesses and 250 employees, April 25-May 7, 2023.

3 underrated ideas on employee care

Some of the most effective strategies for employee care may be more about a mindset shift than a big spend.   Key employees—those employees whose skills and contributions are crucial to

1 Transparency

In 2022, for the first time in the company's history, Baker Group gave midyear raises for its team to help employee retention and business resilience. That carried an obvious, significant budget impact, Zimmerman says.

But awarding the raises was only part of the work: It was important to accompany the action with an "open, honest conversation with employees," he says.

The $800,000 or so spent on raises meant that plans to expand the crowded company parking lot had to be paused. The management team explained to employees the business thinking behind the move. Such transparency helped the effectiveness of the midyear raises while minimizing complaints about the parking delay.

Hoogensen says it's always important to take action on employee needs. That tangible follow-up to feedback demonstrates to your team that they've been heard.

"Equally important is if you can't take action on something, be transparent and explain why," she says. "People appreciate that."

2 Training

Oscar Renteria learned the value of educating and upskilling employees firsthand: He began in the wine business on the ground floor, toiling in the grape vineyards as a teenager.

That's a big part of why he now prioritizes employee development, including partnering with local nonprofits through the Farm Worker Concierge Service to help connect his employees in the field to additional resources (including basic housing and food access). All this helps to build a greater sense of community.

One such nonprofit, the Napa Valley Farmworker Foundation, offers classes tailored to first-time homebuyers and other specific groups of employees. Completing a given course may qualify a Renteria employee for a $200 gift card as an extra incentive. Employees also continue to receive their wages when they take English classes—an example of company policy supporting company values.

3 Voluntary benefits

Balancing employee benefits and your budget doesn't have to be a zero-sum game. Let's say there's a potential benefit your employees want, but it's beyond your current means. Maybe what your employees really need is convenient access to that benefit. Remember that you may have a range of options to pay for it—either the full cost, a portion of the cost, or no added business costs at all.

"Maybe they just want to buy extra life insurance," Schelhaas says. "It doesn't have to be either-or—you offer it and pick up the cost or you don't offer it. It could be as simple as making it accessible at work."

Companies can be more creative about how to personalize and pay for added benefits, Schelhaas says, to meet employee needs.

> *"Equally important is if you can't take action on something, be transparent and explain why. People appreciate that."*
>
> **KARA HOOGENSEN**
> Senior vice president, Benefits and Protection, Principal

FOR YOUR EMPLOYEES

Key employees: Never stop recruiting them

Key employees—those employees whose skills and contributions are crucial to move the business forward—deserve special attention because of the outsized impact they have on your success.

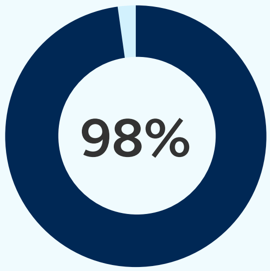
Nearly all small and midsize businesses have at least one key employee: 98% of them say they do. And many businesses now rely on more key employees: 39% have four or more, compared to just 21% in 2008.[1]

If you're not already, give these key employees more autonomy and responsibility to keep them engaged and feeling fulfilled in their work.

If your key employee is part of your succession plan, you also may have a specific financial goal to help them build up about one-fourth to one-third of the value of the business to purchase it.

There are many ways to provide financial incentives to key employees. You can opt for one that fits your business or even combine plans. "Stacking" plans may make sense to help a key employee balance more immediate financial needs while saving to buy the business. Incentives may include:

- Quarterly or annual bonuses
- A nonqualified deferred compensation plan to help with long-term personal savings—or to purchase the business, timed to when the account vests
- Life insurance policies under various structures



Ninety-eight percent of small and midsize businesses say they have key employees.[1]

[1] Principal Business Owner Insights, a January 2023 survey of 1,000 owners of companies with fewer than 500 employees.

Avoid generational stereotypes in favor of 'life stages.'

Thinking more strategically about the life stage of your employees may help you personalize your benefits offering at a time when you're trying to retain workers.

If you have four to five generations of employees, how do you choose benefits, policies, plan provisions, and perks? Or if your employees are heavily concentrated in one generation, what benefits might have the broadest appeal to that group?

"Understand where every employee is at and then be very intentional about making sure the benefits program, or at least parts of the benefits program, meet your employees in those different phases," Hoogensen says.

Focus on common circumstances—regardless of employee age—that benefits can help address in a tangible way.

Some employees may be focused on paying off student loans, while others are saving for a child's future tuition.

Some may be buying their first home, while other employees want to accelerate their retirement savings.

"Make sure you're really intentional about communicating," Hoogensen says. "Explain the benefits you have and why you offer each of them. Share the needs you anticipate those benefits are going to meet. Pledge to continue to listen to employee feedback on an ongoing basis and make adjustments as needed."

> *"Pledge to continue to listen to employee feedback on an ongoing basis and make adjustments as needed."*
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> Senior vice president, Benefits and Protection, Principal

WHAT'S NEXT?

Reach out to a trusted financial professional to work with you on a business plan that will help you continue to succeed in a fluid economy.

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