commonwealth

Financial Security in the Workplace

Making It Work for Financially Vulnerable Workers

Executive Summary

In America's human resources community, the moment of "financial wellness" has arrived. In growing numbers, employers are concluding that benefits to support workers' financial wellbeing should go well beyond retirement benefits. More and more firms believe that personal finance challenges impact employee welfare and productivity.

> *"Employers should consider strengthening a worker's foundational capacity to meet everyday expenses and cope with unexpected events."*

The data speaks clearly to the accelerating interest in financial wellness. In an employer survey conducted by Aon Hewitt last year, more than nine in ten employers were very likely or likely to focus on financial wellness "in ways that extend beyond retirement."[1] Google Trends data suggest that interest in financial wellness online has approximately tripled over the last five years.[2] Last year, the Society for Human Resource Management—the country's largest HR organization—ran a piece asking, "Is 2017 the Year of Employee Financial Wellness Programs?"[3] Looking back, the answer to that question seems relatively clear.

This trend reflects an important recognition that workers' financial wellbeing is a real business concern. But the reach of the financial wellness conversation has been narrow. The same business issues prompting financial wellness programs—workers' productivity in the workplace and their financial wellbeing outside it—also suggest an employer imperative to support worker financial *security*. That is, employers should consider strengthening a worker's foundational capacity to meet everyday expenses and cope with unexpected events —the basic security which precedes and makes possible financial wellness. In fact, the financial challenges faced by lower-wage workers are especially intense, as research has found that financial anxiety increases as income declines.

For businesses exploring financial wellness, financial security strategies are consequently a natural first step. And as financial security is distinct from financial wellness, so too should be the tools to promote it. Employers should embrace strategies tailored to tackling the key twin drivers of insecurity: inadequate liquid savings, and uncertain, often erratic income and expenses. While raising wages is an important and powerful mechanism for building security, an approach that tempers these specific dynamics of insecurity can also drive real gains.

Here is the good news: interventions tackling these challenges can be inexpensive and easy. In fact, financial security programs don't necessarily require offering a new benefit at all, and can be as simple as a tweak to existing infrastructure. An effective financial security push can begin with nothing more than a savings account deposit slip.

This paper presents the case for introducing financial security into compensation and benefits policies and practices. In Part I, we show how the economic issues facing financially vulnerable people are widespread and accentuate business challenges. Part II suggests several straightforward, proven, and inexpensive steps employers might take to strengthen the financial security of their workforces. Part III tracks demonstrated successes of financial security strategies aimed at vulnerable workers. Part IV concludes by observing that, given current labor market conditions, financial security interventions can represent a competitive advantage as firms try to attract the lower-wage workers who will add the most value toward their brands, customers, and bottom lines.

I. Financial Security: A Business Challenge

For the tens of millions of financially vulnerable workers, the effects of economic strain on performance are pronounced. As research has shown, scarcity erodes cognitive resources, degrading concentration and performance. Accordingly, financial vulnerability inhibits work. It decreases worker productivity, drives absenteeism, hampers customer service, and increases turnover. Although there is more work to be done to fully understand the relationship between financial insecurity and work performance, it is a relationship pointed to by robust research.

(i) The Scale of Financial Insecurity

First, however, is a threshold question: is financial insecurity pervasive enough in the workforce to have broad impact on employers? Here, the numbers are striking. A quarter of all workers—35 million people—make $11.60 or less an hour, or about $24,140 or less annually. The median retail sales worker makes $10.37 per hour; the median food service employee makes $10.01; the median home health aide makes $10.87. Together, more than 13 million people work in these representative occupations for median wages or less.[4] Financial insecurity is widespread, and it is the rare enterprise that it does not touch.

"Nine in ten minimum wage workers identify their financial situation as 'struggling' or 'just getting by.'"

(ii) The Cognitive Tax of Financial Insecurity

Recent research has made plain that financial stress drives employee stress,[5] and that financial anxiety increases as income decreases.[6] But the subjective pressures of financial insecurity are especially intense for lower-wage workers. In our research, we have found that roughly nine in ten minimum wage workers identify their financial situation as "struggling" or "just getting by."[7] Among workers making $14 an hour or less, about two-thirds worry frequently or sometimes about not having enough money for retirement or health care expenses. About half worry frequently or sometimes about affording healthy food for their families.[8]

A worker anxious about putting good food on the table is not likely to be at their best in the workplace. But a vein of psychology and behavioral economics research helps us spell out specifically how economic stress hampers cognitive performance, and therefore work.[9] This research begins with the finding that cognitive resources are limited. For an individual, urgent stresses like financial insecurity can become such a dominant focus that they deplete those resources and crowd out other important demands on attention.[10]

One study, by Anandi Mani, Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao, explored this phenomenon by comparing the effects of financial concerns on the cognitive performance of Americans with less resources relative to their better-off peers. For worse-off Americans, the study found, priming economic stress produces adverse effects on fluid intelligence scores roughly equivalent to the impairment from going a night without sleep. They similarly performed worse on a test of executive control, the faculty that allows us to "direct attention, initiate an action, inhibit an intuitive response, or resist an impulse." For those with less, merely considering hypothetical economic stress scenarios, in a lab setting, can be enough to dramatically mar cognitive performance. As Mullainathan and Shafir emphasize, "these differences are not between poor people and rich people." Instead, "the same person has fewer IQ points when she is preoccupied by scarcity than when she is not."[11]

"Financial anxiety burdened drivers' cognitive resources so much that it produced a marked increase in their risk of preventable accidents."

Recent research has demonstrated the concrete consequences of those impacts in business settings. Jirs Meuris and Carrie Leana asked more than a thousand short-haul truck drivers at a large transportation firm about their financial resources. They then tracked drivers' accident histories over the following eight months. Comparing driving records and financial resources, the study concluded that financial anxiety burdened drivers' cognitive resources so much that it produced a marked increase in their risk of preventable accidents.[12] Among the driver population, an increase in financial worry of one standard deviation was connected to a 0.4% increase in the likelihood of preventable accidents. In another study, Meuris analyzed the effect of minimum wage increases on the work of low-wage nursing assistants. He examined the incidence of several care deficiencies tracked in government data—such as pressure ulcers or forgotten catheters—at skilled nursing facilities in states with minimum wage increases compared to states without minimum wage increases. Meuris concluded that wage hikes decreased the incidence of several deficiencies, as low-wage nursing staff impacted by increased pay were less undercut by financial stress, and so able to better perform.[13]

Most workers are not truck drivers or nursing assistants. The dangers from the cognitive tax of financial insecurity do not always extend to physical safety and serious equipment damage. But the mechanism this line of research has illuminated—that pressing financial challenges can deplete attention and undercut performance—poses risks wherever the financially insecure are employed. Indeed, both workers and employers themselves recognize this link: in a Society for Human Resource Management panel of HR professionals, seventy percent indicated that financial challenges had a large impact or some impact on employee performance.[14] In a survey of workers, about a third of financially stressed employees say their finances are a detriment to their productivity.[15] Both figures would likely be even more dramatic if limited to a lower-wage segment of the workforce.

(iii) The Impact of Financial Insecurity in the Workplace

There are several specific areas where financial insecurity is likely to undercut employee performance and increase costs. The first is distraction itself. As research into the cognitive effects of scarcity emphasizes, financial insecurity can undercut people's ability to focus, which in turn could suggest a difficulty focusing at work.[16] In money terms, the cost of the time consumed by financial worries at work can be steep for employers. A model developed by PwC estimates the cost of three weekly hours spent wrestling with financial distractions during work hours at almost $900 per distracted full-time worker per year, assuming a $14 hourly wage.[17]

> *"Financial anxiety also drives another risk, worker absenteeism."*

But that risk, of course, assumes employees show up to work at all. Research has shown that financial anxiety also drives another risk, worker absenteeism. Research has found a positive relationship between both employees' stress levels generally and financial stress specifically and the frequency of their nonattendance at the workplace.[18] These challenges are likely to be especially acute among financially vulnerable populations, and the costs for firms are again substantial. Human resources staff report that replacement workers covering unexpected absences are less productive, and that the costs of unplanned absences represent a substantial portion of all payroll expenditures.[19]

Third, when conducting their work, financially vulnerable workers are unlikely to be at their best—dynamic, active representatives of a brand, delivering as much value as possible to their firm. Engagement declines. Service is likely to suffer in front of customers and clients.[20] Metrics such as sales, safety incidents, and shrinkage may worsen.[21] The cumulative impact of these effects is likely to be significant on a firm's bottom line.

Finally, financially insecure workers are more likely to leave their positions, either because the complications of financial vulnerability make holding a position difficult, or to seek out higher wages and greater opportunities elsewhere. Turnover in low-wage industries is notoriously high.[22] Studies finding that minimum wage hikes increase retention among lower-wage workers suggest high turnover rates could be, in part, a consequence of financial insecurity.[23]

Turnover expenses can spiral quickly. The costs of recruiting and onboarding new staff adds up, and departures can undercut productivity as departing employees take their experience with them.[24] The total price of turnover—even for lower-wage employees—can therefore be serious. Research has pegged the expense of replacing a worker making $8 an hour at anywhere from $3,500 to $25,000.[25]

One need only accept the intuitive proposition that financial insecurity is directionally negative in the workplace to believe that firms have an interest in doing something about it. As we'll see in the next section, interventions to promote financial security can be inexpensive, easy, and simple. Employers can advance their business even by incrementally mitigating financial insecurity for their workers.

II. Building Financial Security

What if employers could meaningfully improve the financial security of workers with relatively minor changes in payroll practices or benefits? What if, in doing so, employers could reduce costs and boost productivity?

> *"Interventions can be straightforward, impactful, and potent without being costly."*

Financial security interventions can be straightforward, impactful, and potent without being costly. Incorporating financial security concerns into a human resources strategy does not require offering a suite of new benefits, though it could. Rather, over and over we have seen financially vulnerable people respond when presented with simple, sensible, well-designed opportunities to build security. When Walmart partnered with Commonwealth and Green Dot Bank to introduce a prize-based incentive program to use the savings pocket on its prepaid card product, customers started saving thirty-five percent more on average, accumulating more than $600 million in savings overall.[26] Since the IRS, spurred by Commonwealth research, began to allow tax refund recipients to split their refunds into multiple accounts to build savings, millions of filers have taken advantage of the straightforward opportunity to save and build their financial security.

Households need enough income to meet their needs, and businesses and the policy community should examine measures to raise incomes for vulnerable workers. But there is opportunity even short of outright wage increases. Equipping workers with the right tools—tools responsive to specific features of financial insecurity that make it challenging for workers—can help workers build financial security, even while holding income constant. Addressing specific, common elements of the experience of financial insecurity can propel real gains.

People want to be financially secure. The challenge is simply to help them get where they already want to go. For a firm seeking to invest in employee financial security, taking on this challenge can start with an initiative as simple as incorporating a split deposit form into onboarding. In what follows, we consider what makes financial insecurity distinct and present tools that can temper those dynamics.

(i) Defining Financial Insecurity

Commonwealth's work focuses on two drivers of financial insecurity: a lack of liquid savings and uncertain income and expenses. First, as the Federal Reserve has found, only fifty-six percent of Americans have the resources to handle a $400 emergency without selling something or borrowing.[27] Without savings to absorb a shock, an unexpected car repair or health care expense can turn serious, pushing consumers to credit cards or payday loans with steep interest rates. Second, financial insecurity reflects challenges managing everyday finances, including debt. For lower-income people, highly volatile incomes make this management exceptionally challenging. In a recent study, the JP Morgan Chase Institute found that about three in four individuals in the bottom earnings quintile experience more than a thirty percent month-to-month change in total income.[28]

Effective financial security interventions should take on these features of financial insecurity, developing liquid savings and strengthening the ability to manage uncertain income and expenses. Educating workers about sound financial choices would seem to be an obvious first step, yet research has shown that standalone financial education is usually not successful.[29] A more effective solution is to equip workers with easy access to tools that address these features of insecurity.

To better understand these dynamics, consider Julia, a single mother in North Carolina whom we engaged with for a year to better understand her finances. She had tried to save, but between fluctuating hours at work, sporadic financial emergencies, and the varying needs of her daughter, her income and expenses were too volatile to allow her to consistently do so. With insufficient savings, Julia turned to credit cards to smooth over financial rough patches, adding further debt to her balance sheet on top of student loans.[30]

For Julia, the problem was not knowhow. Rather, an easy, straightforward savings vehicle, or a lifeline beyond a credit card, would have helped her take charge of her finances. In fact, a savings account did just that: she felt she could make a monthly $25 deposit into a savings account Commonwealth pioneered that offered a chance at prizes for deposits. Her experiences using that account to weather income and expense fluctuations pushed her to increase her contributions. It gave her, she said, "somewhere to start."[31]

(ii) Promoting Savings

Tools to promote savings— "somewhere to start"—should be a cornerstone of financial security efforts. For starters, an employer might encourage workers to sign up for a savings account in the first place, suggesting low-fee savings accounts accessible to employees. In our research, about half of minimum wage workers reported that they were not enrolled in a savings account and identifying viable savings vehicles can often be challenging for lower-income people.[32] Pointing workers in the right direction minimizes search costs, and highlighting savings opportunities for employees can facilitate building savings habits. For example, SJE Rhombus, a manufacturing firm in Minnesota, has a system to allow employees to easily and automatically save their third paycheck during months with three paydays.

"Tools to promote savings— 'somewhere to start'—should be a cornerstone of financial security efforts."

Equipped with a designated savings tool, workers can also save with each paycheck via a split deposit program. Research indicates that merely partitioning a given income stream into multiple accounts can help workers build and maintain savings, due to mental accounting propensities.[33] That means if employers can channel a given wage into multiple accounts, they can promote savings and financial security with limited administrative costs. And split deposit works: employees using split deposit programs save more than those who do not.[34] For employees using payroll cards rather than checking and savings accounts, payroll card vendors now offer products with designated savings "pockets" or "wallets," or savings subaccounts on the card.[35]

Further, by exploiting the timing of pay raises, savings initiatives need not reduce employees' take-home pay. Directing a fraction of pay increases into savings vehicles can make savings easier and more palatable by sidestepping some of the tradeoffs between present and future typically associated with savings.[36] By saving a portion of a raise, a worker can have more both now and later.

Health expenses are an additional, growing cause of financial insecurity. The average annual deductible grew 125% from 2006 to 2015, causing out-of-pocket health care costs to quickly balloon. A national survey by Commonwealth found that a third of households making less than $55,000 had foregone needed medical treatment in the last year due to cost. With health, productivity, and financial security on the line, both employers and employees stand to gain from health insurance benefits that are designed to mitigate deductible risk. Commonwealth is pursuing promising innovations including: auto-enrollment into health savings products, incentives for workers to save, and personalized data to support workers' decision-making on how much to save.[37]

Research has also pointed to ways employers could leverage retirement plans to promote short-term savings, thereby lowering retirement account "leakage." For instance, an employer can attach small, short-term savings accounts or "sidecars" to retirement plans. Retirement contributions would automatically fund the sidecar up to some amount—perhaps $1000—before contributions transition to long-term retirement savings.[38] Another option would be for employers to offer Roth IRA's as an investment option, since they have fewer restrictions on withdrawals.

(iii) Enhancing Employee Access to Funds

Savings strategies support workers by building up what they have; other strategies support workers by providing access to what they might need in a difficult financial situation. The most straightforward mechanism for providing emergency funds is to give employees the wages they have already earned—but in between paychecks, thereby offering steady access to funds over the course of a pay period and alleviating consumer liquidity crises.[39] Suppose Julia, for instance, had access to this kind of benefit prior to her success with savings. If she needed a copay she couldn't afford for her daughter's doctor visit on Monday, but wouldn't get paid until Friday, she could access those funds immediately, preventing a need to turn to expensive forms of credit. Several new firms have begun to develop employer-channel services enabling exactly this.[40]

Employers can also work with third-party lenders to offer credit products to workers. Employer-sponsored loans at low interest rates can allow workers to manage short-term, unexpected cash needs without turning to expensive products like payday loans or credit cards.[41] These lenders often take advantage of information about borrowers, derived from their employment history, to underwrite loans at relatively low rates, while they—not the employer—bear the loan default risk. Lenders also assist borrowers in developing a payment plan tailored to their income, preventing workers from falling into debt traps in which loans are frequently rolled over, causing costs to spiral.

"Employer-sponsored loans at low interest rates can allow workers to manage short-term, unexpected cash needs."

III. There Is Momentum Behind Worker Financial Security

The value proposition for investing in workers' financial security is clear. The business costs associated with financial insecurity are real and substantial, and tools to promote workers' financial welfare already exist. What's more, these interventions are starting to show success.

Atrium Health, a hospital network operating in the Carolinas profiled in a Commonwealth case study, serves as an example of an employer that has successfully designed health insurance benefits to address the concerns of its lower-wage employees, while keeping costs for offering those benefits low. Employees' monthly health insurance premiums vary by their income. Atrium also provides additional seed money to the health savings accounts of lower-wage workers and actively educates employees about the importance of saving for health expenses. As a result, the firm has seen lower health insurance costs per employee per year than industry peers: a six percent increase in health plan participation by employees earning less than $30,000 and an employee turnover rate between ten and thirteen percent—well below the industry average of nineteen percent.[42]

Through pilot interventions and consumer research with hundreds of workers, Commonwealth has studied how wage hikes can be leveraged to maximize gains to worker financial security. We've found that raises represent a real opening to build financial security for workers through targeted employer strategies, an opportunity attractive to both workers and employers.[43] In one pilot with an employer in California, the employer engaged employees through multiple channels to prompt them to save a portion of their raise. There was a positive impact on payroll card activity, with a boost in savings account activity and an increase in the number of auto-savings set ups and savings account openings during the intervention period.

Rhino Foods is an ice cream ingredient manufacturer with one hundred-forty employees. Partnering with a credit union, Rhino offers a loan of up to $1000 to all workers in good standing who have been at the company for sixty days or more. Relatively low-interest loans are available without a credit check—applicants' tenure at the company is proof enough of their ability to pay—and the credit union typically distributes cash on the day of application. Loans are paid back via payroll deductions.[44] For Rhino, the program has been successful. Since beginning the program, Rhino has facilitated hundreds of loans totaling hundreds of thousands of dollars. Business has been strengthened: within three years of implementing the benefit, turnover rates fell from thirty-nine percent to less than fifteen percent.[45] The company reports that productivity, attendance, and loyalty have gone up.[46]

In 2014, the Filene Research Institute organized a broader employer loan pilot incorporating thirteen lenders and dozens of employers across eight states. Employers in the pilot were thrilled with results, reporting declines in early 401(k) withdrawals and excitement among employees. Workers used loans to pay for car repairs and heating oil; one homeless employee leveraged the benefit to move to stable housing. "Extraordinary; [the loan] was a Godsend that helped me make two goals; to get the vehicle repaired and the payday loan paid off," reported one borrower.[47]

Another example of investments in worker financial security strategies comes from the nation's largest private sector employer, Walmart. For several years, the firm has maintained an emergency fund for its associates, the Associates in Critical Need Trust, which makes grants to workers experiencing unforeseen economic hardship.[48] In December 2017, the company announced it would help associates smooth incomes and absorb shocks by providing workers access to budgeting tools and a pay advance program that allows them to receive wages they have earned in between paychecks.[49] One technology platform Walmart rolled out, PayActiv, reports retention rates among its users are thirty percent higher.[50]

Worker financial security strategies have proved their value in real business contexts, where they have been met with enthusiasm from employers and employees alike. The growing energy and results behind these interventions suggest that if a firm is to be serious about financial wellness, it has every reason to place financial security at the center of its efforts.

IV. The Tightening Labor Market Incentivizes Financial Security Investments

While the arguments for financial security strategies are compelling, broader economic trends create a unique window of opportunity to ramp up these programs. An increasingly tight labor market means that firms must underline the value proposition of their employment to potential workers—including financially vulnerable ones.

"Firms must underline the value proposition of their employment to potential workers—even financially vulnerable ones."

A decade after the Great Recession, the labor market really has turned a corner. For high school-educated workers, the unemployment rate has plummeted from eleven percent at the height of the recession to just over four percent. For workers without a high school diploma, unemployment has dropped even more precipitously, from a peak of near sixteen percent in 2010 to about six percent at present.[51] As *The New York Times* noted in a late 2017 headline, "Unemployment Is So 2009: Labor Shortage Gives Workers an Edge."[52] "Too many jobs, not enough workers" threatens growth amid "the country's biggest scramble for workers in decades," *The Washington Post* added shortly after.[53] "Facing Historic Labor Shortage, Companies Snap Up Teenagers," *The Wall Street Journal* announced this spring.[54]

In this competitive market, employers are responding. Over the last four years, wages for high school-educated workers have risen about eight percent; for workers with less than a high school education, they've risen nine percent.[55] In fact, as Bloomberg and Bank of America Merrill Lynch have pointed out, wage growth in the lowest-paying quintile of industries has actually outpaced wage growth across higher-paying industries consistently over the last several years.[56] Firms raising wages for lower-wage employees since January 2015 include JP Morgan Chase, Starbucks, Wells Fargo, Walmart, IKEA, Costco, Target, T.J. Maxx, and McDonald's.[57]

"Lower-wage workers have new leverage in the labor market."

The upshot is that lower-wage workers have new leverage in the labor market. Economical strategies tailored to the needs of financially insecure employees can help improve recruiting and retention in a competitive market. As lower-wage workers are in increasing demand, programs to ease financial insecurity can spotlight a firm's commitment to all its employees.

V. Conclusion

Financial insecurity challenges society, it challenges firms, and it challenges workers. But employers hold powerful levers to abate it. By embracing financial security, businesses can advance employees' financial wellbeing and their own bottom lines. These initiatives can be inexpensive, easy, and effective. With the right strategies, employers can strengthen their business and build an economy that works for everyone.

Notes

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16 While there is as yet no data we are aware of tracking this phenomenon in financially vulnerable populations specifically, in data from PwC, about forty percent of workers spend three or more hours a week at work dealing with or thinking about their finances. Id., p. 18.

17 "Special Report: Financial Stress and the Bottom Line – Why Employee Financial Wellness Matters to Your Organization," PwC, Sept. 2017, https://www.pwc.com/us/en/private-company-services/publications/assets/pwc-financial-stress-and-bottom-line.pdf, p.11. Figure assumes three hours of distracted time at work per week.

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