commonwealth

Raise-Centered Financial Security Strategies

Findings From Rise with the Raise

Across the country, financially vulnerable workers are witnessing increases to their take-home pay as companies boost compensation and jurisdictions raise statutory minimum wages. The Economic Policy Institute estimates that on January 1, 2018 alone, 4.5 million workers experienced wage increases due to minimum wage hikes.

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. Workers view raises as a chance to strengthen their financial situation and believe that employer strategies tying raises to financial security would make them better employees. At the same time, our research has pointed to design features that would best set up a raise-centered financial security approach to be successful.

"Raises represent a real opening to build financial security for workers"

Workers want to capitalize on raises to build financial security. With the right approach, employers can make doing so easy and compelling.

I. Raises as an Opportunity for Financial Security

There's an interest for both workers and employers in raise-centered financial security practices. For workers, raises focus attention on finances, and Commonwealth research indicates they have an interest in receiving support using raises to achieve financial goals. Employers can benefit from improved work performance, as workers suggest that those approaches would make them more successful in the workplace.

For workers, raises can prompt intentional consideration of how their finances can be improved with the additional income. In a survey we conducted of lower-wage workers in New York prompted by the December 31, 2017 minimum wage increase, 70% of workers receiving raises said the raise made them "rethink" their finances.

When we asked workers why raises had that effect, many homed in on raises as an opportunity to save, sharing that the raise "makes me want to save more," "I can now save more money without having to choose which bills to pay or borrowing money," and that "[a]ny extra penny make[s] me save a penny more." That enthusiasm aligns with data we collected regarding workers' use of past wage increases. In a poll of minimum-wage workers we conducted, 33% of workers who received raises used the raise to save for short-term expenses, and 25% used their raise to pay back debt (workers could select more than one response). When workers receive a raise, they want to invest in security. Raises are a good moment to capitalize on this interest.

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Vulnerable workers are also receptive to employer practices around raises that facilitate financial security. In focus groups with financially vulnerable New Yorkers, attendees gave an employer initiative facilitating short-term savings an average rating of 4 out of 5, with 5 meaning "Very Interested." 62% of workers in a national survey we conducted indicated that they would like assistance from an employer to help them use extra money from a raise or bonus to strengthen their finances. If offered, there is strong evidence that they would be used.

There is benefit in raise-centered financial security strategies for employers as well. These initiatives, workers report, are likely to make them more successful at work. In our national poll, 42% of workers indicated that assistance using a raise or bonus to improve financial well-being would increase their job satisfaction, 41% said it would improve their financial stress, 27% indicated such assistance would enhance their productivity, and 16% said it would increase their attendance. When we surveyed lower-wage workers in New York, 91% said employer support strengthening their financial position would make them at least somewhat more likely to stay at their job.

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The moment of a raise provides an opportunity for employers and employees. Strategies that seize on that opening can benefit both workers and their workplace.

II. Design Features for a Raise-Centered Financial Security Strategy

A raise-centered financial security strategy could take many forms depending on the needs of affected employees and the capabilities of an employer. Models we have discussed or piloted have ranged from communications to workers to automatic escalation of savings account contribution rates at the moment of a raise. There is no one-size-fits-all approach. Still, our research and pilots have driven home that several features are essential for a strategy to realize the opportunity a raise presents:

Connect Workers to Savings Products: Commonwealth's survey of minimum wage-workers showed only about half had savings accounts. An effective raise-linked strategy might start by linking workers to appropriate, low-fee or free savings products in the community.

Make Small Big: While raises prompt many workers to reconsider their finances, a pervasive obstacle to raise-centered strategies is the intuition that raises are too small to amount to much: "So minuscule it doesn't make a difference" is how one worker characterized a raise to us in a focus group. The simple but potent solution is to underscore the value of a raise by communicating its total over weeks and months. For a worker logging 30 hours per week 48 weeks a year, for example, a $1 per hour raise sums to $1440 in additional gross pay over 12 months. In a pilot Commonwealth conducted with financial counselors around a minimum wage increase, counselors reported that a calculator tabulating the value of a raise across a week, month, and year was empowering and valuable in conversations with clients for this reason.

Make Raises about People, Not Populations: Raises can also be easy to dismiss when discussed in the context of large groups—say, tens of thousands of workers in a city. Raises are more powerful when discussed in the context of a specific worker's unique experience. When messages were sent to workers in a Commonwealth pilot about an upcoming raise, communications indicating "you'll probably get a raise" saw roughly twice the engagement compared to communications informing workers about a citywide raise.

Tie Raises to the Here-and-Now: Workers told us in focus groups that employer-sponsored savings offerings tied to specific, concrete, everyday expenses were most attractive and compelling. Workers expressed interest in using raises to pay for transportation, utility bills, and education. Strategies to encourage saving raises might benefit from zeroing in on this inclination. For example, strategies tied to raises in summer months might encourage savings for a child's school expenses in the fall, or for heating bills in winter months.

Make Financial Security Universal: Asking workers to opt in to raise-centered financial security strategies can trigger privacy concerns. Since all raise-impacted workers stand to gain, strategies should be universal across workforces.

Simplicity Rules: Raise-centered strategies should be simple and ,ideally, automatic, minimizing the activation energy required for workers to build security. A raise-centered approach might require only that a worker not decline to participate. For example, at onboarding, a worker could be told that a percentage of future raises will be automatically pushed into savings vehicles, unless she opts out. Emphasizing simplicity also makes raise-centered strategies easier for employers. Strategies should leverage existing processes, practices, and infrastructure. Slight changes in payroll processes can have outsized effects on the financial security realized with wage increases.

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New income is a powerful tool, and the groundswell of raises happening across the country create an important opportunity to build financial security for vulnerable workers. Workers want to use raises to promote their financial security and employers will benefit from them doing so. With simple strategies, employers can empower financial security gains that can strengthen their workforces and their work.

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