



Rise with the Raise

The Promise of Straightforward
Employer Benefits for Building
Lower-Wage Employee Financial
Security

Acknowledgments

Commonwealth would like to thank Alicia Lynch, for providing statistical analysis for this research, and Commonwealth staff members Melissa Gopnik, Amaris Kinne, Caite Eilenberg, Elizabeth Wiesner, and Jeremy Smith for conducting this research and authoring this report. We're also grateful for the generous support for this research from the W.K. Kellogg Foundation.

About Commonwealth

Commonwealth strengthens the financial opportunity and security of financially vulnerable people by discovering ideas, piloting solutions, and driving innovations to scale. We collaborate with employers, fintechs, consumers, the financial services industry, policy makers, and mission-driven organizations to build solutions that strengthen financial security and opportunity. Our work has enabled 750,000 Americans to save over \$2 billion.

To learn more, visit us at www.buildcommonwealth.org.



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Executive Summary

Fostering financial security among employees is an increasingly high priority for employers. Employees who are more financially secure have been shown to be less stressed and more productive--characteristics that serve a business value to employers. Further, financial security leads to lower healthcare costs, better customer service, and stronger attendance.

To cultivate financial security, employers should not only focus on the paycheck. While significant, income alone does not guarantee an employee's financial security. Employers who consider the various aspects of their employees' financial lives and offer supports to complement those will have the greatest impact.

We surveyed a nationally representative sample of employees making less than \$60,000. Our goal was to examine employees' financial security and to better position employers to provide the right tools and opportunities for employees to save.

Increased wage moments, in particular, provide a unique opportunity for employers to provide low-cost, high-value, and easy-to-implement interventions. Employees believe that savings tools provided by their employers would lead them to be happier, more productive employees. And the research bears this out: individuals with more in savings were less likely to have financial worries than those with little savings. Simply utilizing tools such as savings accounts and split direct deposit correlates with increased savings.

Through high-value, surprisingly straightforward interventions, employers can play a large part in increasing the financial security of their lower-wage employees -- a result that benefits not only the individual, but also provides significant business value. As a result, employers will share the rewards of their employees' increased financial security.



Introduction

In February of 2019, Commonwealth surveyed 1,309 lower-wage employees across the country to understand: their financial behaviors and concerns; the factors that might influence how they use money received as part of a raise; and the opportunity and impact they perceive regarding financial tools offered by their employers. The survey was unique in its approach to wage sub-groups. We surveyed employees who made less than \$60,000 (i.e., household income of less than \$60,000 annually and individual wages amounting to less than \$55,500 annually). We then further analyzed the results in three wage sub-groups that were created based on estimates of living wages for each of the nine census regions.

A living wage is an estimate of the actual wage required to meet an individual's basic needs (e.g., food, health, housing, and transportation). The three wage sub-groups were:

1. Individuals who made less than the living wage in their region (under \$10.70 to \$13.32);
2. Individuals who made between 100-149% of the living wage in their region (under \$16.06 to \$19.98);
3. Individuals who made between 150-200% of the living wage in their region (under \$21.42 to \$26.66).

Throughout the report, individuals within these categories are sometimes referred to by the sub-groups high, middle, and low.

The results of that research, which suggest that employees are struggling but well positioned to receive support from their employers, are summarized below.



Financial Reality for Lower-Wage Employees

Lower-wage employees face various financial stressors, including difficulty managing both saving and paying off debt. They also feel like they cannot afford to save and, unsurprisingly, few are saving.

- 🔍 Sixty-five percent of employees surveyed indicated that they were either struggling or just getting by.

Financial Stress Among Lower Wage Employees



65% of lower wage employees surveyed indicated that they were struggling or just getting by

Employees with more than \$400 in savings had fewer financial concerns than those with less than \$400 in savings

Findings Related to Saving

The difficulty employees face in saving seems to be related to their ability to do so on a regular basis and identifying money “left over” after meeting other needs.

- 🔍 Forty-five percent of respondents said they did not save regularly. Nearly 77 percent of respondents indicated that they did not save more money because they felt that they could not afford to do so.
- 🔍 While 55 percent of employees indicated they saved some amount each month, only 24 percent put aside a fixed amount; the other 31 percent saved whatever was left at the end of the month.
- 🔍 Among employees who did save, 43 percent indicated that the balance of their savings account was less than \$400. This is not surprising given what we know about the volatility of lower wage employees’ income; one can imagine that “what is left at the end of the month” is often nothing.

Savings Among Lower Wage Employees



55% of lower wage employees save something each month



43% of lower wage employees have a savings account with less than \$400 in it



24% of lower wage employees put aside a fixed amount each month

- 🔍 Employees with more than \$400 in savings had fewer financial concerns than those with less than \$400 in savings and worried the least among all employees, regardless of wage, about everyday expenses.



Findings Related to Debt

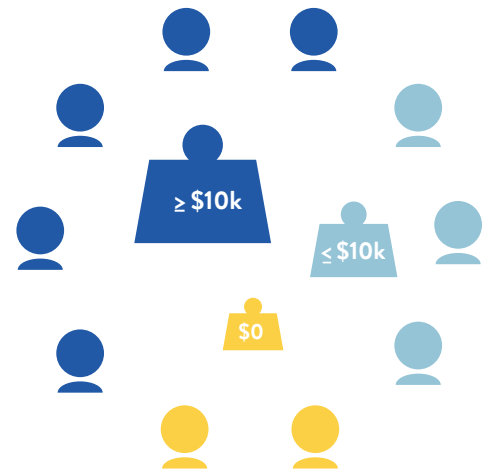
This difficulty in accumulating savings may be attributed, in part, to the high emphasis employees placed on paying off debt.

- 🔍 Eighty percent of respondents carried debt, and 67 percent of employees indicated that paying off debt was their most important financial priority. More than 50 percent reported that they had at least \$10,000 in debt outside of a mortgage.
- 🔍 The most common source of that debt, by far, was from credit cards: nearly 55 percent of all respondents indicated that they had credit card debt.
- 🔍 Those in the middle and high sub-groups were more likely to carry credit card debt than individuals in the lowest wage sub-group. Individuals in the highest wage sub-group were also the most likely to have debt from a mortgage.
- 🔍 Those in the low and middle wage sub-groups were more likely to be behind on their utility bills than those in the highest wage sub-group.
- 🔍 Those with credit card debt were not as worried about their ability to pay off their debt as those with debt from utility bills, or payday and personal loans.

Taken together, these findings may be an indication that, as one's income increases, one's access to consumer credit and a mortgage also increases, along with the ability to cover basic expenses, like utilities. At the same time, those with the lowest wages are struggling with expenses that meet their basic needs.

It's important for employers to be aware of the financial challenges their employees face – specifically saving and paying off debt. The stress that comes with those challenges does not get left at the door of the workplace.

Debt Load Among Lower Wage Employees



50% of lower wage employees have > \$10,000 in debt

30% of lower wage employees have <\$10,000 in debt

20% of lower wage employees have \$0 in debt



The Impact of Financial Insecurity in the Workplace and the Employer Role

Financial insecurity is pervasive, intense, and distracting. The findings above are supported by secondary research, as well as other research conducted by Commonwealth. These worries lead to operational and financial challenges for companies, such as an increase in absenteeism and turnover, as employees take time from work to address the challenges that arise from their financial worries.

In addition, employee performance diminishes as employees are less able to focus on their tasks and have lower engagement and higher rates of accidents. Human Resources departments expend significant amounts of time and money to address these challenges after the fact. Employers could instead proactively support financial security. Employees recognize this and also believe that if their employers offered the right financial benefits and tools, their work would improve.

- Seventy-four percent of employees indicated that financial benefits -- such as tools for saving, like direct deposit into savings, or paying off debt, like automatic bill-pay -- offered by their employer at the time of a raise would lead to less stress and 78 percent thought they would feel more confident about their finances.
- The employees surveyed believe there would be a direct connection between their improved feelings and their ability to get their work done, as well as their likelihood of staying with the company. The large majority of employees agreed that employer-offered financial benefits at the time of a raise would encourage them to work harder at their jobs (62%), be more productive (62%), and be more likely to stay with a company (76%).

Given the financial struggle that many lower-wage employees experience, and the connection between that and their performance at work, it is important for the well-being of both the employee and the employer to address financial insecurity head-on.

Employer Benefits



74% of employees said employer benefits offered at the time of a raise would reduce stress



78% of employees said employer benefits offered at the time of a raise would make them feel more confident about their finances



The Right Benefits for Employees

The combination of a savings account and split direct deposit is crucial to maximize employees' opportunity to save. Without a savings account, the option to save in one is not possible. Without access to split direct deposit, the barriers to saving are high.

- Seventy-four percent of the employees we surveyed had savings accounts. However, the numbers are much lower for those in the lower wage sub-group - only 57 percent of employees in that group reported having a savings account. Improving access to savings accounts is a necessary first step to improve the likelihood of saving among lower wage employees.

The presence of a savings account makes it possible for employees to save when the opportunity arises, including at the time of a raise.

- Employees with savings accounts were more likely to use the money from a raise to accumulate short-term savings than employees who did not have savings accounts, regardless of their wage rate.

Beyond just having a savings account, having money in that account at the time of a raise was also correlated with a higher likelihood of saving that raise. Employees with at least \$400 in a savings account were more likely to allocate their raises to short- and long-term savings and less likely to allocate their raise to everyday expenses than those with less than \$400 in savings.

The importance of having a savings account to improve one's ability and likelihood to save is clear, but of equal importance is eliminating barriers to saving. One such barrier is the need to make manual transfers from one's primary account (e.g., checking or debit account) into savings. This is a multi-step process that may be defeated by inertia: it's easier to let the money stay in one's "spend" account than to move it over to a savings account.

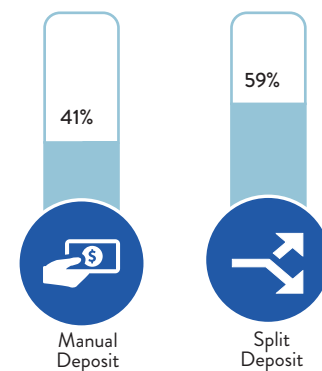
The opportunity to have a portion of one's paycheck directly deposited into savings takes the onus off of the employee and guarantees that some money is set aside as savings, yet many people are not using split direct deposit. The relationship between use of split direct deposit and savings is positive for accumulated savings, financial concerns, as well as allocation of funds when the opportunity arises.

- Among those who were saving, 70 percent of the employees we surveyed made periodic manual transfers into savings; only a third took advantage of an employer-offered opportunity to split direct deposit.
- Among employees using split direct deposit, 62 percent reported having more than \$400 in their savings account and they were significantly more likely (59% probability versus 41%) to have \$400 or more in a savings account than individuals who made manual deposits to savings.
- Those employees with savings accounts who also used split deposit were more likely to allocate money from a raise to long-term savings than individuals who made manual deposits into savings.

Beyond traditional benefits, employees need access to savings accounts and the opportunity to split directly into those accounts. Employers who facilitate those benefits, in particular, will be contributing to their employees' ability to accumulate savings and reducing financial concerns.

Only 57% of employees in the lowest wage group had a savings account

Likelihood of having more than \$400 in savings among employees based on form of saving deposit



Financial Tools and Raises as Inputs to Employee Financial Security

In addition to foundational benefits such as access to a savings account and the opportunity to split direct deposits, employers can support their employees through the provision of the specific financial tools that would address their unique needs. They can also move the needle for employees' financial security through increased wages.

- 🔍 Sixty-three percent of employees expressed interest in the opportunity to use split direct deposit between checking and savings, and 63 percent also expressed interest in low-interest debt repayment, representing the greatest demand among all the tools suggested.

Given the high priority that many employees place on debt reduction, it is no surprise that many are interested in their employers offering tools such as automatic bill pay (52%), low-interest debt repayment (63%), low-interest loans (57%), and student loan repayment (45%). There was also significant interest in savings related benefits, led by access to split direct deposit between checking and savings (63%) and split deposit into a Health Savings Account (48%). Although employees expressed interest in employer-offered financial tools, interestingly, only about 37 percent indicated they would trust financial advice or offers coming from their employers.

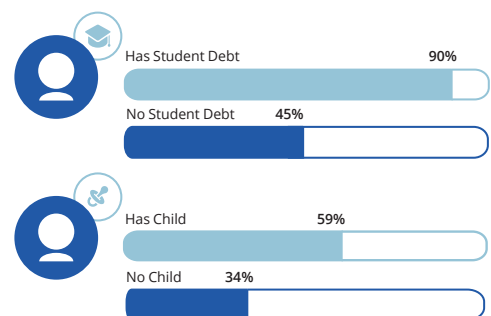
When we compared employees' interest in different financial tools to their circumstances, even greater demand emerged.

- 🔍 While 45 percent of all employees expressed interest in student loan repayment tools, 90 percent of employees with student loans were interested in them.
- 🔍 While only 36 percent of all employees expressed interest in employer-offered Children's Savings Accounts, 59 percent of employees with children were interested in these accounts.

In addition to tools that are relevant to their circumstances, employers can also support employees' ability to save by raising wages.

- 🔍 The highest earning employees surveyed also had the highest likelihood of having \$400 or more in a savings account - the probability of this being the case was 59 percent for those in the highest wage sub-group, compared to 36 percent and 30 percent probability among those in the middle and low wage sub-groups, respectively.

Interest in Financial Tools based on Qualifying Characteristics



Given that use of split deposit is also correlated with greater accumulated savings, we further analyzed the data to see if higher wages or split deposit were more effective at improving the likelihood of savings.

- 🔍 The employees most likely to achieve savings of \$400 or more are in the highest wage sub-group (making between \$16.07 and \$22.26 per hour) and use split deposit. Eighty-one percent achieve savings of \$400 or more if they use split deposit vs 66% for those who don't.
- 🔍 The probability of having \$400 or more in savings increased by 2 percent for every additional dollar earned up to the wage of \$20 per hour. Beyond that wage level, the probability of having \$400 or more in savings grew more than 50 percent and increased steadily. Part of the explanation for this might be related to the fact that employees who received a raise of at least \$1.01 per hour were more likely to put money towards short- and long-term savings than individuals who received a raise of less than \$1.

By both tailoring benefits offerings to include financial tools that employees desire and need, and raising wages, employers can contribute to their employees' financial security. Through a simple data collection effort, employers can gain a better understanding of the needs of their employees. A workforce with lots of members of young families, for example, might be particularly interested in a benefit that allows them to save directly for their children's education. Regardless of the specific tool, offering tools that match the financial reality of one's employees will not only help the employees, it will also help the employer.

The probability of having \$400 or more in savings increased by 2 percent for every additional dollar earned up to the wage of \$20 per hour.



Conclusion

Commonwealth's focus has been finding low-cost, high-value, easy-to-implement interventions that can enable employees to build savings and be less anxious about their finances while allowing employers to share in the rewards of that positive development. This research demonstrates that the right combination of benefits will improve the financial security of employees and make them better employees. Increased wage moments, in particular, provide a unique opportunity for employers to provide low-cost, high-value, and easy-to-implement interventions.

The results of this nationally representative research are also consistent with other work done by Commonwealth, including pilots in partnership with firms of various sizes. Since 2017, Commonwealth has surveyed and spoken with lower-wage employees from various industries, including financial services and health and human services. Across all of these projects, we have heard from employees that they worry about debt, that they try to save, and that they are interested in their employers offering tools that will build their financial security.



Appendix: Methodology

An online survey was designed in Qualtrics that asked participants about current employment, savings and debt, financial concerns, behaviors at the time of wage increases, and interest in employer-offered financial tools that assist with savings and debt relief. Qualtrics also conducted the sample recruitment based on the pre-specified criteria described below.

Sampling Procedure

Within the population of low-wage employees, an individual's ability to meet basic needs varies not only in relation to his/her actual wage but also in relation to regional differences in cost-of-living. As such, in order to ensure that the dataset was representative of the range of wages and regional experiences among low wage employees, participants were selected using a stratified sampling procedure that ensured adequate representation of low-wage employees across 1) three wage sub-groups and 2) nine census regions.

The three wage sub-groups were created based on estimates of living wages for each of the nine census regions. A living wage is an estimate of the actual wage required to meet an individual's basic needs (e.g., food, health, housing, and transportation). The three wage sub-groups were 1) individuals who made less than the living wage in their region, 2) individuals who made between 100-149% of the living wage in their region and 3) individuals who made between 150-200% of the living wage in their region. Data related to living wages were derived from the Living Wage Calculator Project, which provides estimates of living wages in United States based on available data regarding the unique costs associated with meeting basic needs in each geographic area.

Region	Living Wage	Group 1 Lower Bound	Group 1 Upper Bound	Group 2 Lower Bound	Group 2 Upper Bound	Group 3 Lower Bound	Group 3 Upper Bound
West South Central	\$10.71	\$0.00	\$10.70	\$10.71	\$16.06	\$16.07	\$21.42
East South Central	\$10.73	\$0.00	\$10.72	\$10.73	\$16.09	\$16.10	\$21.47
West North Central	\$10.88	\$0.00	\$10.87	\$10.88	\$16.31	\$16.32	\$21.76
East North Central	\$11.11	\$0.00	\$11.10	\$11.11	\$16.66	\$16.67	\$22.23
Mountain	\$11.13	\$0.00	\$11.12	\$11.13	\$16.69	\$16.70	\$22.26
New England	\$12.38	\$0.00	\$12.37	\$12.38	\$18.57	\$18.58	\$24.77
South Atlantic	\$12.77	\$0.00	\$12.76	\$12.77	\$19.14	\$19.15	\$25.54
Middle Atlantic	\$13.08	\$0.00	\$13.07	\$13.08	\$19.62	\$19.63	\$26.17
Pacific	\$13.33	\$0.00	\$13.32	\$13.33	\$19.98	\$19.99	\$26.66

Power Analyses

Prior to collecting data, power analyses were conducted to determine the sample size required to detect small, medium, and large effects using G*Power 3.1. The power analyses estimated the sample size required to identify effects of .10 (small), .30 (medium) and .50 (large) within a linear multiple regression framework with three control variables and a three-category variable representing each participant's wage sub-group. The full model R² was estimated at .35 and the unique effect of wage sub-group was estimated at .10, .30, and .50. Results suggested sampling approximately N=425 individuals per wage sub-group would allow 90% power for the detection of small effects (.10).

Sample Description

A total of 1,309 participants provided valid survey data. The majority of participants were female (69.57%) and White (76.62%) and either single or divorced (61.05%) with no children (66.77%). Participants ranged in age from 18-65+ and were dispersed relatively evenly across the nine census regions and the three wage sub-groups. All participants reported working for traditional employers and the large majority had a single full time (65.70%) or part time (19.10%) job. The large majority (84.27%) worked at least 21 hours/week. Table 1 provides additional details regarding sample characteristics.

¹ Massachusetts Institute of Technology (2018). Retrieved from <http://livingwage.mit.edu/>

² Faul, F., Erdfelder, E., Buchner, A., & Lang, A.-G. (2009). Statistical power analyses using G*Power 3.1: Tests for correlation and regression analyses. *Behavior Research Methods*, 41, 1149-1160.



Table 1. Summary of Sample Characteristics

	N	%
Gender		
Male	391	30.43
Female	894	69.57
Age		
18-24	120	9.17
25-34	390	29.82
35-44	257	19.65
45-54	220	16.82
55-64	230	17.58
65 or older	91	6.96
Marital Status		
Married	468	35.97
Divorced or Separated	229	17.6
Widowed	40	3.07
Single (never married)	564	43.35
Race/Ethnicity		
African American	128	9.78
Caucasian	1,003	76.62
Hispanic/Latino	127	9.7
Asian American	70	5.35
American Indian	23	1.76
Race Other	14	1.07
Wage Group		
Lowest wage group	420	32.09
Middle wage group	444	33.92
Highest wage group	445	34
Census Region		
East North Central	207	15.81
East South Central	83	6.34
New England	60	4.58
Middle Atlantic	179	13.67
Pacific	217	16.58
South	256	19.56
West	108	8.25
West North Central	80	6.11
West South Central	229	9.09
Employment Type		
One full-time job	860	65.7
A full-time job and a part time job	122	9.32
Multiple part-time jobs	55	4.2
A full-time job and multiple part-time jobs	14	1.07
One part-time job	250	19.1
Other	8	0.61
Number of hours work per week		
Fewer than 10 hours per week	38	2.9
10-20 hours per week	155	11.84
21-40 hours per week	775	59.21
More than 40 hours per week	328	25.06
It varies	13	0.99



Measures

Gender was measured using a single item that asked participants to report whether they were female, male, non-binary, or preferred not to answer. For analytical purposes, gender was dichotomized into a two-category variable representing whether the individual was female (1) or male (0). All other responses were coded to equal missing.

Age was measured with a single item that asked participants, "What is your age" and provided seven response options representing ten year age spans.

Marital status was measured with a single item asking participants to report whether they were single, married, divorced, or separated or widowed. For analytical purposes, marital status was dichotomized into a two category variable representing whether the individual was married (1) or not married (0).

Race/Ethnicity was assessed by asking participants to identify the category that best describes their race ethnicity. Response options included: "African American/Black," "American Indian or Alaska Native," "Asian, Pacific Islander, or Native Hawaiian," "Hispanic/Latino," "White," "Other," or "Prefer not to answer."

Number of income-earning adults in the household was measured by asking participants, "Besides you, how many additional adults contribute to your total household income?"

Number of children was measured by asking participants, "How many children under 18 do you have that live with you at least some of the time?"

Savings account status was measured using a single item that asked participants whether they had a savings account at a bank or credit union. Response options included: 1) No – I have never had a savings account, 2) No – but I used to have one, 3) Yes – with less than \$400 in it and 4) Yes – with \$400 or more in it.

Wage sub-groups were created to place participants in one of three wage groups based on 1) their current wage and 2) the living wage within their census region (see Sampling Procedure for further description). The low wage group contains individuals who made less than the living wage. The middle wage group contains individuals who made between 100-149% of the living wage. The high wage group contains individuals who made between 150-200% of the living wage.

Perceived financial situation was measured using a single item that asked, "How would you describe your financial situation." Participants responded using a five-point scale ranging from 1 (Really struggling) to 5 (Very comfortable).

Financial concerns were measured using a five-point scale ranging from 1 (Not at all worried) to 5 (Extremely worried). Participants were asked how worried they were about each of five financial concerns: 1) paying for everyday expenses, 2) managing changes in income or expenses, 3) saving for emergencies, 4) saving for long-term expenses (retirement, education, housing), and 5) paying off debt.

Raise spending was assessed under multiple contexts – spending in the instance of an actual raise, spending in the instance of a hypothetical raise, and spending in the instance

of a performance-based raise. Four spending behaviors were assessed within each context: paying for everyday expenses, paying down debt, contributing to short-term savings, and contributing to long-term savings. Participants used a four-point scale ranging from 1 (None) to 4 (All) to indicate how much of their raise they would allocate to each category.

Interest in employer benefits was measured using a series of questions that asked participants to indicate their interest in employer-offered debt and savings tools. Employees used a scale ranging from 1 (Not interested) to 4 (Definitely interested).

Employer trust was measured with a single question asking participants to report how much they would trust financial advice or offers coming from their employer. Response options ranged from 1 (Not at all) to 4 (Completely).

Professional benefits of employer-offered financial tools were assessed using four questions that asked participants whether employer-offered financial tools may impact their productivity and company loyalty. Participants responded to statements regarding whether they would work harder at their job, be more productive, miss less work, and be more likely to stay with the company using a scale ranging from 1 (Strongly disagree) to 4 (Strongly agree).

Personal benefits of employer-offered financial tools were assessed using two questions that asked participants whether employer-offered financial tools would provide psychological benefits. Participants responded to statements regarding whether they would feel less stressed and feel more confident about finances using a scale ranging from 1 (Strongly disagree) to 4 (Strongly agree).

Analytic Approach

Primary research questions were addressed using linear and logistic regression models, which were modeled in Stata Version 14.2. To reduce the risk of omitted variable bias, all models included the following covariates: wage sub-group, gender, number of income-earning adults in the household, number of children, race/ethnicity, and marital status. On average, participants were missing less than 1% of data on analytical variables. As such, missing data were addressed using listwise deletion, which is preferable to more complex techniques such as multiple imputation or full information maximum likelihood (FIML) when rates of missing data are exceedingly small.

Throughout this report, results of analytical models are described with their associated effect sizes. For logistic regression models, effect sizes are reported in the form of probabilities for ease of interpretation. For linear regression models, effect sizes are reported as standardized Beta coefficients (represented as " β "). The following criteria were applied in the interpretation of Standardized Betas: $\beta=.10$ is a small effect, $\beta=.30$ is a medium effect and $\beta=.50$ or higher are large effects. It should be noted that the models described here tended to account for approximately 10% of the variance in outcomes – suggesting that there are other factors that have not been accounted for.

