

EXECUTIVE SUMMARY

Re-Imagining the Workplace as a Hub for Financial Wellness

**A New Vision to Leverage HR Processes to Improve
Employees' Financial Health**



*This white paper from Neighborhood Trust outlines the business case for investing in employee financial wellness through low-cost, high-impact tweaks to HR processes, and provides a roadmap to the types of financial health outcomes companies can help employees to achieve. Read the **full white paper here.***

Background

The business case for investing in employee financial health is well-documented. When workers are financially unhealthy, they are also psychologically strained and less productive at work. The Society for Human Resource Management reports that almost two out of five workers experienced more financial strain after the Great Recession ended, and the American Psychological Association finds financial concerns are Americans' number one ranked source of stress.¹

For employers, there is a toll on productivity when workers are financially stressed. According to a study by PwC, financially stressed employees are three times more likely to spend 20+ hours per month dealing with financial matters while at work and twice as likely to miss work due to personal financial issues. For companies and their shareholders, PwC estimates that this translates into a total loss of \$3.3 million per year for an employer with 10,000 workers.²

The percentage of employers planning to invest in a financial wellness program has doubled since 2014.³ To meet this demand, a growing number of non-profit and for-profit organizations are offering financial wellness solutions to employers. These solutions include (1) Financial wellness services, such as one-on-one financial counseling; (2) Financial products and tools, such as banking services and apps; and (3) Financial education providers, such as seminars and online learning tools.

Our Vision

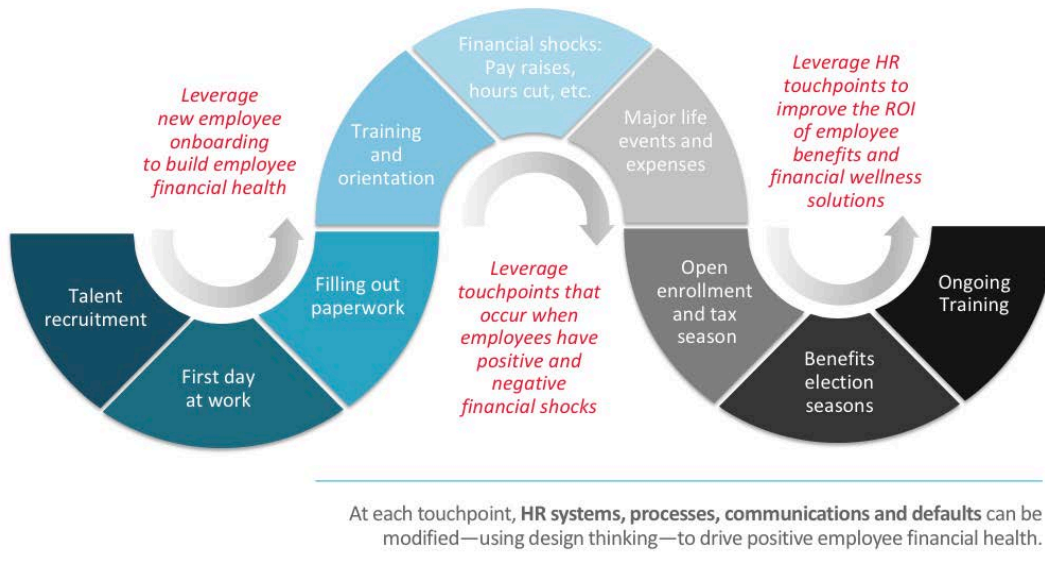
Most financial wellness programs haven't achieved widespread impact because they aren't embedded into everyday HR processes. We believe this is a process constraint rather than a product or service constraint, where HR processes to drive employee financial health have not scaled to the degree we believe possible. Yet everyday HR touchpoints—including new employee onboarding, payroll, tax withholdings, pay raises and more—hold the key to scaling financial health for millions of workers.

Our vision is to catalyze a fundamental re-think of the role HR processes play in employees' financial lives, with particular consideration for the financial needs of low- and moderate-income workers. "Design Thinking"—an approach by Dr. Richard Thaler, author¹ and winner of the 2017 Nobel Prize in Economics—can be used to re-engineer employees' touchpoints with HR to drive better financial outcomes. Thaler's research led to the 2006 Pensions Reform Act, which authorized auto-enrollment and auto-escalation of employees' retirement contribution amounts over time. As a result, millions of Americans are now automatically saving for retirement.

¹ Co-author of the book *Nudge: Improving Decisions about Health, Wealth and Happiness*

BOX 2

A New Solution Type: Embedding Financial Wellness Design into HR Operations



Our Experimental Roadmap

Employers and their HR service providers can look at the numerous touchpoints where they affect employee’s financial lives and adopt a design thinking to introduce targeted process tweaks to help achieve certain financial outcomes for employees. We have identified four broad categories of financial issues where low- and moderate-income employees need the most support:

1. Connect employees to foundational banking services

Of all the tools for improving cash flow, direct deposit is the most foundational and is recommended as a priority focus for any HR redesign initiative. For example, Neighborhood Trust worked with **Goodwill of New York/New Jersey** to help employees make the significant shift from alternative financial services (such as check cashing services and payday loans) to using mainstream bank accounts and direct deposit of their paychecks. Simple changes to onboarding processes and payroll forms led to a 40% increase in the number of Goodwill employees enrolled in direct deposit. For employees that do not have bank accounts, employers can provide targeted referral to a dedicated financial counselor, who can address each employee’s unique barriers to banking, is a proven way to help employees begin to use banking services effectively.

2. Help employees manage dips and spikes in income and expenses

Income volatility is a major cause of financial instability and stress among Americans, in some ways even more so than just having low (but stable) income.⁴ Financial uncertainty forces households (even middle-income households) into vicious cycles of sub-optimal

financial choices like using savings for everyday necessities, borrowing from retirement funds or incurring high-interest debt.

By nudging employees toward improved cash-flow management, employers can considerably improve employees' financial health—and generate positive returns on investment by reducing employee stress, increasing productivity and reducing absenteeism. A range of financial technology (Fintech) apps can help workers to predict and manage their income dips and spikes by giving employees access to their accrued wages before payday, thus helping workers avoid using expensive payday loans and incurring needless debt. In 2016, Neighborhood Trust created **WageGoal**, an app that works in tandem with FlexWage's access to accrued wages, provides employees with an assessment of their cash flow situation and signals whether they have the green, yellow or red light to access accrued wages.

3. Help employees build and protect their savings

If financial matters are the #1 cause of employee stress, not having enough savings is the #1 reason why. By nudging employees to live by the age-old maxim to “pay yourself first” and *automating* savings to build up a rainy-day fund, employers can considerably improve workers' financial health. For starters, payroll enrollment processes can default employees to provide two bank accounts (checking and savings) and set up split direct deposit.

Employees also need workplace support to build both short- and long-term savings, so they don't raid retirement accounts to make up for short-term budget shortfalls. In recent years, we've been inspired by the push to re-invent the workplace-based thrift savings plan model, in the form of **short-term “sidecar” savings accounts** bundled with 401(k) and other employer-based retirement plans.

Employers can also leverage taxes, including tax withholdings, credits and the filing experience to increase the likelihood of employee savings. Choosing withholdings is a particularly important employee onboarding step and, as most HR managers are aware, a choice few employees are well-prepared to make. In St. Louis, the Friendly Temple set up computers during work hours, and the St. Louis Community Credit Union, Kingdom House and Bridge Bread brought in on-site tax preparers during work hours, to help employees file their taxes and make sure they took advantage of the Earned Income Tax Credit if they qualified.

4. Help employees pay down debt

Debt is a major financial worry that distracts employees on the job. Financially stressed employees are more likely to consistently carry credit card balances,⁵ and more and more Americans are also financially burdened with payday loans, medical, student loan and utility debt. Employers have a unique opportunity to help workers get a hold of debt, make a plan to pay it down, and avoid going into further debt.

For example, employers can embed credit checks into existing HR processes.

Cooperative Home Care Associates (CHCA), a home-health-aide company, tweaked its existing HR benefits onboarding presentations to include a brief opportunity for employees to confidentially check their credit report. If an employee had a question about their credit report, CHCA would refer them to a Neighborhood Trust Trusted Advisor who helped tackle

debt issues. As a result, the number of CHCA employees seeking loans dropped dramatically, from 164 requests for payroll loans in 2012 to only eight in the first half of 2016.

Bringing the Vision to Scale

System-level players—such as PEOs and payroll service providers—should make financial wellness design part of their DNA. Beyond individual employers, these service providers are well-positioned to scale our vision by incorporating financial wellness design—inspired by insights from behavioral science and undergirded by lessons on the financial lives of low-income workers—into the platforms, processes, communications, and defaults they deploy at client companies. Finally, there is room for financial services providers to step up to the plate, making their tools more easily accessible, relevant and practical for workers to use in the context of their workplace. This will enable the workplace to become a hub for financial wellness, driving shared value for workers, firms, shareholders and customers alike.

Ready to start your financial wellness design journey?

Neighborhood Trust has launched our *HR Design Toolkit: A Roadmap for Designing HR Interventions to Improve Employee Financial Health*. The toolkit is a simple and replicable suite of tools. It enables employers, PEOs, payroll and other HR service providers to diagnose and design the modifications needed to default employees into financially healthy practices—a high ROI approach to driving financial health.

About Neighborhood Trust Financial Partners

Neighborhood Trust is a leading provider of financial counseling services. For more than 20 years, we have empowered low-income individuals to take control of their finances and achieve financial health. Neighborhood Trust embeds our services in partner organizations where our services are trusted, relevant and actionable, including employers, financial institutions, community-based nonprofits, and unions. Annually we serve nearly 9,000 low- and moderate-income workers and job seekers across the country. For more information, visit www.neighborhoodtrust.org.

Endnotes

¹ Hannon, Geraldine et al. “Employee Financial Wellness Programs: A Review of the Literature and Directions for Future Research,” Center for Social Development, Washington University, CSD Working Papers No. 17-23, 2017.

² PwC, “Employee Financial Wellness Survey: 2017 results,” April 2017. <https://www.pwc.com/us/en/private-company-services/publications/financial-well-being-retirement-survey.html> and PwC, “Special report: Financial stress and the bottom line: Why employee financial wellness matters to your organization,” September 2017. <https://www.pwc.com/us/en/private-company-services/publications/assets/pwc-financial-stress-and-bottom-line.pdf>

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- ³ Aon Hewitt, “2017 Hot Topics in Retirement and Financial Wellbeing,” January 2017.
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- ⁴ The Aspen Institute, “Income Volatility: A Primer,” May 2016.
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- ⁵ PwC, April 2017.