

Re-Imagining the Workplace as a Hub for Financial Wellness

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



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Executive Summary

Financial concerns are Americans' number one source of stress. For employees, financial worries affect their focus and productivity on the job, leading to profitability losses for companies. Employers have woken up to this reality in recent years, and more and more companies are investing in HR benefits that aim to improve employees' financial wellness. Most financial wellness programs consist of specific services or products that employees can use, but a less costly approach is to fundamentally re-think the role of employees' everyday interactions with HR processes as touchpoints to “nudge” employees toward greater financial health. Much innovation has occurred in HR processes, inspired by behavioral science, to help employees to save for retirement—e.g. 401(k) auto-enrollment. But redesigning HR processes for financial health has not been fully explored in support of employees' other financial needs, such as smoothing volatile cash-flow, building short-term savings, and paying down debt.

The workplace is a central part of households' financial lives and a natural space in which to build financial health. Beyond its role as a primary source of wages and benefits, the workplace also plays a role in training workers, exposing them to new ideas, and setting social norms. At work, one might benchmark her decisions against those of others and turn to co-workers or HR for help in times of need. HR managers, in particular, are at the forefront of designing and directing processes in which workers make many choices that have broad implications for their financial health. These processes cover the gamut of payroll and HR benefits such as tax withholdings, paycheck preferences, retirement benefit enrollment and decision-making, rights to privacy, mental and physical health benefits and much more.

As a result, employers, benefits brokers, Professional Employment Organizations (PEOs)¹ payroll system providers, and HR consultants are all, whether they know it or not, powerful architects of employees' financial choices.

Neighborhood Trust's vision is to catalyze innovation at the workplace to help build a financially resilient and secure workforce. Simple changes and tweaks at key stages of the HR process can make a meaningful difference in the financial decisions that employees make. This creates an opportunity for employers to play a more impactful role in worker financial health by defaulting their employees into financial behaviors that help them improve their cash flow, reduce debt and build a foundation for long-term success. To bring this vision to scale and impact the lives of workers across the United States, *designing the workplace for employee financial wellness* will need to become a mainstream goal across employers. And, only when employers, service providers and all stakeholders in the job quality movement invest in this vision will we see system-level change.

¹ Professional Employer Organizations (PEOs) provide human resource services to their business clients, enabling clients to cost-effectively outsource the management of human resources, employee benefits, payroll and workers' compensation so employers can reduce their regulatory liability, risk, and time spent on redundant tasks.

INTRODUCTION:

The business case for improving employee financial health

The United States' labor force has undergone profound structural changes over recent decades that have resulted in wage stagnation and led to increased income inequality. For those at the bottom of the economic ladder, including as unskilled workers, job stability is tenuous. Access to workplace benefits, which once represented a cornerstone of the labor contract, is on the decline, adding to economic insecurity and exacerbating the damage that job loss or a reduction in hours can wreak on worker financial security. Unskilled workers are not alone in their vulnerability. Today's younger skilled workers have not seen an increase in their wages compared to their parents' generation. Additionally, all workers face a growing trend whereby the very nature of work is shifting. New business models are no longer constrained by geography, they enable freelance or "gig" work, and can easily contract out job functions along the supply chain. Many employers have adopted technologies such as just-in-time scheduling, whose efficiency often leads to cuts in workers hours and uncertain paycheck amounts. These changes have been gradually chipping away at the income, assets and protections of the labor force, exacerbating inequalities and the risks that cyclical downturns or unexpected shocks pose to households.¹

Financial concerns are Americans' Number 1 source of stress.

2 in every 3 Americans live paycheck to paycheck.

More than half of U.S. workers are financially unhealthy.

As a result, more than half of today's U.S. workforce is financially unhealthy. Financial struggles disproportionately affect lower-income employees, but middle and upper income workers are not immune.² The American Payroll Association estimates that two in every three Americans live paycheck to paycheck. Only half of low-income Americans have \$400 accessible for an emergency. This doesn't just affect low-income employees: older and higher-income workers also tend to have low liquid savings. As a result, 12 million Americans resort to expensive payday loans each year, more often than not to cover ordinary budget shortfalls,³ and as many as one in every four people with a 401(k) or other defined contribution retirement plan will use all or some of these savings for non-retirement needs, in most cases to address basic money management challenges⁴. When workers are financially unhealthy, they are also psychologically strained and potentially less productive. The Society for Human Resource Management reports that almost two out of five workers experienced *more* financial strain after the Great Recession ended than when it began and the American Psychological Association finds that financial concerns are Americans' Number 1 ranked source of stress.⁵

When workers are financially unhealthy, everyone pays the price. Employee financial instability takes a toll on employers, shareholders and customers alike. For employers, there is a toll on productivity when workers are financially stressed. According to a study by PwC, financially stressed employees are

Employee financial instability takes a toll on employers, shareholders and customers alike.

nearly five times more likely to be distracted by finances at work, three times more likely to spend 20+ hours per month dealing with financial matters while at work, twice as likely to miss work due to personal financial issues, and more inclined to cite health issues caused by financial stress than workers who are not financially stressed. 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. For companies with a large share of low-wage employees and Millennials, who tend to have higher levels of financial stress, this cost is even higher.⁶ For customers, a disengaged workforce struggling to make ends meet with low income and irregular pay can translate into poorer customer service.⁷

By investing in employee financial health, companies can also reap direct cost savings. One study computed that administrative costs are \$2,000 lower for an employee in good financial health than one in bad financial health, because the firm avoids costs such as dealing with wage garnishment, facilitating loans from 401(k) accounts, handling paper paychecks, and other processes.⁸ Given the high costs of worker financial instability, and the direct cost savings associated with improving employee financial health, it is no wonder that more and more companies are recognizing the benefits of investing in their employees' financial health.

THE CONTEXT:

Trends in employee financial wellness solutions

Over the past three years, the percentage of employers planning to invest in a financial wellness program that extends beyond retirement decisions has doubled, according to a 2017 survey by Aon Hewitt⁹. While employee financial health has been on employers' radars for several years, a 2017 Aon Hewitt survey found that 60 percent of companies feel the importance of employee financial health has increased at their organization in the last 24 months. Employers are now applying to financial health programs many of the principles behind providing physical and mental health programs: they understand that investing in their employees' financial health is not only the right thing to do—it's good business.

To meet this demand, a growing number of non-profit and for-profit organizations are offering financial wellness solutions to employers. These solutions can generally be grouped into one of three categories:

- **Financial wellness services**
- **Financial products and tools**
- **Financial education providers**

Box 1 below provides examples of services that fall into each of these categories. Innovators have moved far beyond retirement planning sessions, which companies have come to expect from 401(k) providers and other investment managers. While some financial wellness services and products are off-the-shelf solutions, other providers offer customization to the unique needs of a particular workforce niche. Most financial wellness providers now take a holistic view of

The percentage of employers planning to invest in financial wellness programs has doubled since 2014.

financial health, addressing employees' needs for credit repair, debt management, short-term savings, cash flow management and budgeting. Some providers offer one-on-one debt counseling services, as well as broader financial counseling or coaching to help employees set financial goals and make action plans. These one-on-one services provide customized support to each employee's unique needs, and can be offered either in person or remotely, via phone or virtual tools. To reduce the burden of HR departments, many financial wellness providers also offer either face-to-face or remote support to HR managers in marketing their programs to employees.

A new host of commercial providers are cropping up as well. Financial technology (Fintech) providers are promising to reduce the cost of traditional financial service delivery, and thus reach potentially lower-income employees who may not be attractive to traditional banks. Many Fintech services accordingly help employees manage income dips and spikes, build up rainy-day savings, borrow responsibly, and more. Some benefits brokers and consulting firms have recently begun working with employers to help them choose from the array of financial wellness solutions on the market and build a package that suits the needs of their workforce. Indeed, some observers¹⁰ are asking whether employers will evolve into the next generation of distributors of financial products, to provide access to bank accounts, prepaid cards, innovative credit products, and more via the workplace.

BOX 1

Existing Financial Wellness Solution Types

- **Financial Wellness Services**
 - Financial counseling (comprehensive one-on-one counseling and coaching for employees; either in-person, phone-based or virtual)
 - Debt Management Plan (DMP) services, including credit counseling with DMPs
 - Credit repair services
 - Tax prep services, including free VITA tax prep assistance programs
- **Financial Products and Tools**
 - Traditional financial products such as savings, checking, prepaid cards, credit builder cards or loans, and retirement plans
 - Credit check products (e.g. Credit Karma)
 - Cash flow management tools (e.g. Even, DoubleNet Pay, WageGoal)
 - New FinTech products (e.g. FlexWage, ActiveHours, Even)
- **Financial Education Providers**
 - Traditional classroom-style financial literacy and financial empowerment programs
 - Financial literacy webinars
 - Digital self-serve / e-learning platforms

However, despite this growing landscape of financial wellness providers, benefits brokers and consultants, and the growing role employers are playing in distributing financial services, many financial wellness programs have yet to achieve widespread usage and impact.

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. Beyond the new host of financial wellness *services and products*, we believe that everyday HR touchpoints—including new employee onboarding, payroll, tax withholdings, pay raises and much, much more—hold the key to scaling financial health for millions of workers. Researchers at Washington University in St. Louis who have been studying financial wellness programs for several years have concluded that “services *should* be integrated into a company’s established routines and procedures”.¹¹ Yet, given the relatively recent emergence of financial wellness benefits beyond retirement planning, this integration has yet to be fully realized by employers. The next section outlines our vision to fundamentally re-think the role of HR processes, tweaking these processes as a means to “nudge” employees toward greater financial health.

Innovations in HR processes to nudge employees toward greater financial health have not scaled enough.

OUR VISION:

Re-designing HR processes to improve employees’ financial health

Redesigning HR processes and tools, with the explicit goal of nudging employees toward greater financial health, may only require simple tweaks to existing processes. As such, this employer-based approach to worker financial wellness is a low-cost but high-impact solution.

There is a huge opportunity to support HR departments, and the service providers they contract, to make modest design changes to drive employee financial health. Design thinking—a method that applies insights from behavioral science to the design of policies, products and processes and is the approach described in this paper—is an emerging trend in other areas of the Human Resources industry. As Deloitte writes in its 2017 Deloitte Global Human Capital Trends report, “design thinking has gone mainstream.” Rather than deliver HR programs designed around legacy business processes, Deloitte writes, “HR teams now study employee needs across all segments: hourly workers, salaried employees, managers, executives. Instead of traditional career models, HR is offering journey maps and replacing complex processes with local practices based on an integrated platform.”¹² However, this design thinking is thus far focused more on how work itself is performed and how employees are engaged with the firm, and less with payroll, benefits and other touchpoints with HR that affect a worker’s financial life. Design thinking has yet to be fully explored in the workplace financial wellness space as an essential complement to off-the-shelf financial wellness products and solutions. The time is ripe for experimentation.

When HR operations are modified in simple ways, such as in the case of 401(k) benefits, it works. Research by behavioral scientists like Richard Thaler showed, for example, that people are not naturally inclined to prioritize their future retirement over their current spending, but that well-designed “nudges” are powerful tools to help employees save. Thaler, co-author of the famous book *Nudge* about how to help people make good decisions, recently won the 2017 Nobel Prize in Economics. Thaler described the leaders, product designers, process engineers and policymakers who create nudges as “choice architects” because they influence the context in which people make choices. Employers and U.S. policymakers heeded Thaler’s call to change HR process architecture to help employees save for retirement, most notably through 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.

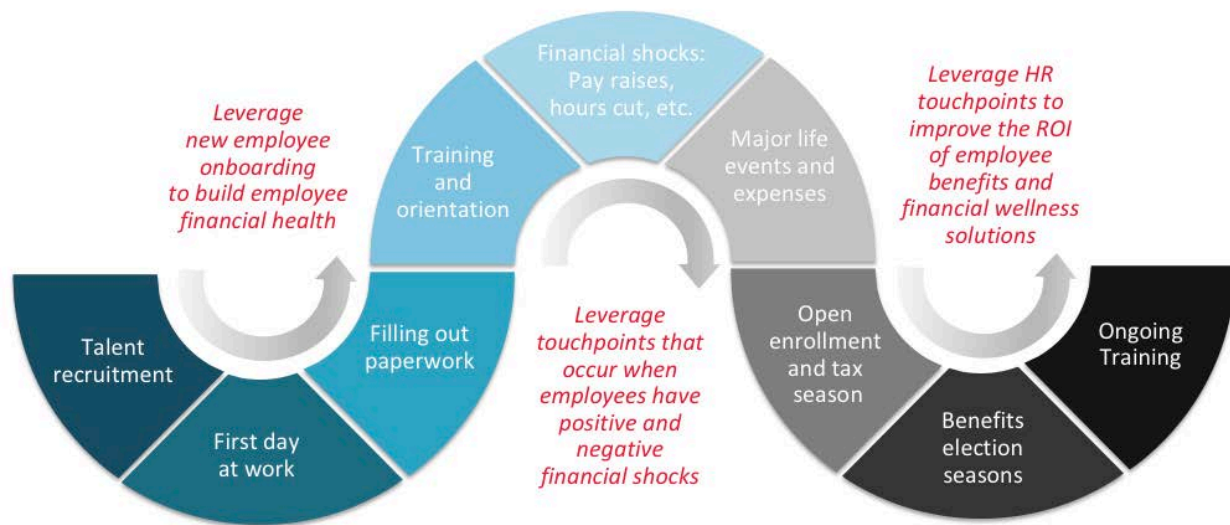
When HR operations are modified in simple ways, it works.

But, there is much more to be done to help employees address a much broader set of financial challenges. Retirement is not the only financial concern facing employees. A much broader set of financial challenges cause employees stress, affecting their focus, productivity, and retention in the workplace: employees need help managing dips and spikes in their income, building and protecting their savings, avoiding going into debt, and managing debt they already have. Low- and moderate-income workers, in particular, have unique needs to address these financial challenges which we believe require a unique set of behavioral solutions. There are many other insights from behavioral science about how to help people improve their financial health (see a summary in our [HR Design Toolkit](#)), which ought to be applied in HR process design. The next section dives into specific challenges in employees’ financial lives and our *roadmap for experimentation* to solve them. But first, let’s look at the many places employees interact with HR processes and discuss where there is room for innovation in HR systems, processes, communications and defaults.

An employee’s journey through HR includes numerous touchpoints that can be redesigned to improve their financial health. Consider a typical employee’s journey through her company’s HR and benefits services and the touchpoints that affect her financial life: She interviews, gets hired, starts her first day, and fills out paperwork that indicates how she prefers to get paid, how much to withhold for taxes, and what health plan she wants, if available. These forms may be online or paper-based, there may be pre-set defaults, and there may or may not be someone walking her through the process to help her make optimal decisions. This support might be in person, over the phone or email, or self-serve through an online platform, or perhaps a combination of high-touch and low-touch interactions with HR. Then, she may attend a new-hire orientation, a training seminar, or receive on-the-job training. There may be an opportunity to opt into the company’s 401(k) or other retirement plan, or she may be automatically enrolled. With time, she may have performance evaluations, pay raises, benefits election seasons, sessions on workplace safety and benefits, tax season, and other touchpoints with HR. She may experience major life events, drops in income due to fewer hours or FMLA leave, or large expenses that leave her reeling with uncertainty and unfocused on the job. She may

request an advance on wages or a loan against her 401(k). These touchpoints are summarized in Box 2.

BOX 2
A New Solution Type: Embedding Financial Wellness Design into HR Operations



At each touchpoint, **HR systems, processes, communications and defaults** can be modified—using design thinking—to drive positive employee financial health.

During these many touchpoints, there is an opportunity to introduce modest changes to:

- HR systems, whether employer-based or provided by an external third party
- HR processes
- HR communications and messaging, both verbal talking points and written communications
- The “default” choices for employees in payroll, benefits and other HR service decisions

... in order to drive greater employee financial health.

Professional Employment Organizations, payroll system providers, and benefits brokers can also apply such modifications to the solutions they design and implement for client companies, to improve employees’ financial health. These key HR industry players can affect widespread change by applying insights from behavioral science and calling on experts like Neighborhood Trust and other financial service providers, who bring deep knowledge of the unique financial challenges of low- and moderate-income employees. PEOs are uniquely positioned to mainstream financial wellness into payroll and benefits processes, and scale their impact to a vast number of employees. More and more employers use PEOs, which provide timesheet and tax information to employees, design and deploy enrollment and benefits election forms for direct deposit, retirement savings, health benefits, and more. We believe that all PEOs should design their payroll and

benefits onboarding process (whether online or paper-based), as well as other HR services, with worker financial health in mind.

A gigantic digital overhaul is underway in the HR industry, which represents an opportunity to re-think HR design. This includes changes that on the surface seem simple, such as moving employee onboarding paperwork online and transforming the onboarding experience with more digital tools, to deeper changes that re-organize the way work itself is performed, such as the growing trend toward outsourced labor in the platform economy. Within HR services, 56 percent of companies surveyed by Deloitte are redesigning their HR programs to leverage digital and mobile tools¹³. At the same time, the traditional PEO industry has witnessed considerable consolidation over the past decade, while new tech-based PEOs have emerged as formidable competitors. While many HR processes remain paper-based, the trend is moving toward a digital HR experience. The scale of our vision will be magnified when large PEOs and other service providers take hold and deliver it across numerous employers.

OUR EXPERIMENTATION ROADMAP:

Twinking HR operations to address the financial challenges of low- and moderate-income workers

Identifying desired outcomes for employees can be daunting, but is critical to the selection of appropriate solutions. This section lays out our roadmap of the broad categories of financial outcomes where we have discovered that low- and moderate-income employees need the most support, based on our decade of experience counseling these workers. These challenges include (1) managing dips and spikes in income and expenses, (2) building and protecting savings, and (3) paying down debt. These three categories are by no means separate, but instead inextricably linked to one another, especially from the household's perspective. In all three sections we explore the current set of innovative financial wellness solutions as well as areas for further experimentation where we believe the HR industry is well-positioned to incorporate simple process-based solution to nudge employees toward greater financial health.

What financial behavior should firms aim to encourage in their employees?

This roadmap identifies the financial outcomes where we have discovered that low- and moderate-income employees need the most support.

1. Connect employees to foundational banking services

Of all of the tools for improving cash flow, direct deposit is the most foundational and is recommended as a priority focus for any HR redesign initiative. By setting up direct deposit, employees make the significant shift from alternative financial services (such as check cashing services and payday loans) to mainstream banking services. For many low-income workers, this is their first regular interaction with a mainstream financial institution, setting them up to use safer financial products such as credit builder loans, automatic bill payment and savings accounts. In addition, bank accounts are a prerequisite for many of the innovative financial tools described below.

EXAMPLE OF USING BEHAVIORAL NUDGES TO ENCOURAGE PARTICIPATION OF DIRECT DEPOSIT

In launching our partnership with Goodwill NY/NJ, Neighborhood Trust conducted a “checkup” of Goodwill’s employee financial wellness, initially by interviewing Goodwill’s HR and payroll personnel to learn about their HR Processes. In the process we identified that direct deposit enrollment of their employees was below the national average. In response we worked with Goodwill NY/NJ to assess behavioral and environmental barriers affecting direct deposit enrollment rates. For example, the first day of work was the only day the option of Direct Deposit was explicitly presented. Employees were also not encouraged to enroll in Direct Deposit right away, so they may opt to postpone enrollment for a later date. We followed up on this assessment by creating a set of tools that not only addressed these barriers but made sense for the employer’s organizational structure and could be easily blended with existing processes. We simplified and redesigned the Direct Deposit enrollment form so that Direct Deposit is the “default” option, and also added the direct deposit form to the existing list of mandatory onboarding documents that employees must submit to HR. These simple changes helped generate a 40% increase the number of Goodwill employees enrolled in direct deposit.

However, direct deposit is only useful when employees have bank accounts, which many do not. HR managers are often painfully aware of this fact, needing to provide paper checks or prepaid cards to these employees. Often, these are employees who distrust banks, immigrants for whom English is not their first language and don’t feel welcomed or understood by banks, and employees from communities that lack convenient access to branches and ATMs. These are also often employees who struggle with irregular paychecks, struggling to manage cash flow when one paycheck is smaller than the next, and find money management easier with tangible, accessible cash. Even with the specialized needs unbanked employees, there is still a lot that employers can do to encourage such employees to take up helpful banking services.

Employers can embed referral mechanisms to banking products and financial counseling about banking to reinforce the impact of nudging employees to enroll in direct deposit

Product and counseling referrals can be embedded in new employee onboarding when workers first sign up for payroll, or when there are changes to an employee’s payroll file, such as tax withholding changes, wage increases, a noticeable decrease in hours, or when employees ask questions about their paycheck or request a loan or advance on accrued wages. A targeted referral to a dedicated financial counselor, who

BOX 3

When companies re-design their HR operations with employees’ financial health in mind, Trusted Advisors help employees make the most of the new choices and defaults available to them.

Trusted Advisors are Neighborhood Trust’s team of financial counselors. They are highly trained to guide financially stressed employees to make lasting changes, guiding them to make optimal financial decisions in their life and make the most of the HR benefits available to them. Trusted Advisors work through three channels:

- In-person in the workplace
- Scheduled virtual meetings during work or after hours
- On-demand or scheduled phone sessions during work or after hours

Employees can work with Trusted Advisors during a single session or multiple sessions.

can address each employee's unique barriers to banking, is a proven way to help employees begin to use banking services effectively. Counseling often includes assistance identifying quality banking services that meet an employee's needs, as well as other support (see Box 3).

EXAMPLE OF EMBEDDING BANKING PRODUCT REFERRALS INTO THE PAYROLL PROCESS

One of Neighborhood Trust's clients, **an online grocery retailer** with a large low-income workforce in its warehouses, including many immigrants, embedded referral mechanisms to financial counseling across a broad range of touchpoints with employees. With guidance from Neighborhood Trust, the online retailer also developed a partnership with a local credit union, so it could provide employees with a vetted opportunity to open a bank account. The credit union's bank accounts were advertised to employees during the onboarding paperwork process. For the many employees who did not already have a bank account, they were referred to Neighborhood Trust's Trusted Advisor counselors, who worked one-on-one with employees to guide them through the process of signing up for an account with the credit union and enrolling in split direct deposit. 11 percent of the company's employees participated in the financial counseling program. The online retailer also made sure that managers and staff throughout the company, not just at the warehouse, were aware of the financial counseling service. The company found it was important for supervisors to receive financial counseling themselves, so they could develop a full understanding of what financial counseling entails for employees and could confidently talk about the service and promote it among workers.

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

Income volatility has only recently been singled out as a major cause of financial instability and stress among Americans, in some ways even more so than just having low (but stable) income¹⁴. The recent book *The Financial Diaries* explores the consequences of income volatility in detail, with vivid stories about how financial uncertainty forces households (even middle-income households) into vicious cycles of sub-optimal financial choices. Expenses can also be volatile: unpredictable financial shocks caused by illness, divorce, the death of a loved one, as well as smaller but still significant shocks such as expensive car repairs and unexpected home maintenance costs, can wreak havoc on household balance sheets. **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 Fintech apps, described below, are helping American workers predict and manage their income dips and spikes. The more these tools are embedded within payroll onboarding and ongoing payroll processes, the more effective they will be.

EXAMPLES OF CASHFLOW MANAGEMENT TOOLS

Even is an app that helps individuals track their income and smooth it out. For example, in pay periods when a user's income is unusually high, Even keeps some of that money in a separate account so it can't be spent; then, in pay periods when a

user's income is unusually low, Even either releases some of the saved funds or can even lend money to the user to help smooth out their income. For years, many employers have offered payday advances to employees to help them deal with income dips and expense spikes. A growing number of providers help employers facilitate payroll loans to workers. Some of these providers, such as **PayActiv**, **ActiveHours** and **FlexWage**, work with employees' accrued wages, so the money advanced is not a loan *per se*, thus helping to avoid over-indebting workers, but instead just early access to earned income.

In 2016, Neighborhood Trust created WageGoal, an app that works in tandem with FlexWage's access to accrued wages. Currently in pilot phase, WageGoal 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 (see more in Box 1). The WageGoal app helps HR departments streamline the process of granting early access to accrued wages, while providing an app-based tool to employees to analyze their cash flow patterns, better predict income and expense spikes, and determine whether they should borrow against accrued wages or not.

Merely providing cash flow management products and tools, such as those described above, is not enough. More than just advertising the service to employees, employers and payroll service providers could take the impact of these services a step further by redesigning their payroll processes to make enrollment a clear default option during new employee onboarding. To help employees optimize their cash flow management, there is an opportunity for new experimentation to re-design HR operations and introduce targeted nudges.

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. Lack of savings is clearly linked to cash flow management issues because one healthy way to deal with income dips is to draw down savings. But most Americans don't have a rainy-day fund. A PwC study found that the top financial issue that worries employees is the fact that they don't have enough emergency savings. And this worry crosses income levels and generations—having too little savings is not just a concern for low-income workers, although low-income workers are particularly vulnerable.¹⁵ Thus, helping employees to build up a rainy-day fund is not only good business in the short term, giving them peace of mind that will free them from distractions at work; it is also good in the long-term. Having emergency savings is an essential step to avoid falling into unnecessary debt or drawing down a 401(k) to cover regular household budget shortfalls. So, how can employers help employees build a rainy-day fund?

By nudging employees to live by the age-old maxim to “pay yourself first,” employers can considerably improve employees' financial health. Research shows that automating savings is more effective than trying to remember to save, or hoping to have money left over after all expenses have been paid. Recent innovations encourage employees to set aside a portion of each paycheck for savings. By setting up split direct deposit, with a portion of one's wages going into a savings account, employees are more likely to build up their savings than if they have to manually move money into savings on their own.

PEOs and payroll service providers are uniquely positioned to nudge employees toward split direct deposit. For starters, making two bank accounts the default option during payroll enrollment would go a long way.

EXAMPLES OF “SPLIT DIRECT DEPOSIT” SOLUTIONS

DoubleNet Pay is an innovative financial service that helps employees automate savings from every paycheck, and helps them automatically match and pay bills when wages are deposited. As DoubleNet Pay’s website explains, “by getting bills out of the way on payday, users have a clear picture of what is left for spending,” an effective cash flow management tool that helps employees manage dips and spikes in income. DoubleNet Pay is premised on the power of split direct deposit. The service consists of a set of bank accounts (one for savings, the other for expenses) and an accompanying online and app-based platform. But, the service wouldn’t be of any use if employees didn’t choose to sign up for it. There is an opportunity to tweak HR processes and tools to nudge employees to sign up for DoubleNet Pay (such as by making the service the standard default during payroll enrollment).

Goodwill of New York and New Jersey incentivized employees to split 10% of each paycheck into a separate savings account by re-imagining its direct deposit enrollment process as an HR touchpoint that could be better leveraged to improve employees’ financial health. The new form, designed in collaboration with Neighborhood Trust and ideas42², taps into employees’ psychological and behavioral constraints to saving. Our [HR Toolkit](#) includes detailed examples of Goodwill of NY/NJ’s HR process re-design and a before/after view of this powerful new form, which makes split direct deposit the default choice and includes messaging inspired by behavioral science and insights from research among Goodwill employees. By deploying the new form, Goodwill increased its employees’ enrollment in direct deposit at very little cost. “The HR Toolkit was very useful in helping us identify and address the needs of our employees with things that are simple but effective,” explains Goodwill of NY/NJ Manager Balbina Calo.

Employees need support in the workplace to build both short- and long-term savings.

For many low-income workers, it is often necessary to prioritize building a rainy-day fund over saving for retirement, given their immediate financial needs. But, saving for the long-term is also critical in an era of declining pensions and social security benefits. While the shift from an “opt-in” to an auto-enrollment “opt-out” system for retirement plans has been a tremendous success, enabled by the Pension Protection Act of 2006¹⁶, more is needed to help employees avoid raiding their retirement savings to address short-term cash flow problems. More than half (51 percent) of financially stressed employees think it’s likely they will need to use money held in retirement plans for expenses other than retirement, compared to just 20 percent of employees who are not financially stressed.¹⁷ For every \$1 contributed to retirement accounts of savers under age 55, \$0.40

Employees need support to save for the long and short term.

² ideas42’s mission is to use the power of behavioral science to design scalable solutions to some of society’s most difficult problems. Neighborhood Trust is part of an ideas42 initiative called *The Behavioral Design Project: Promoting Financial Health*.

leaks out in the form of withdrawals—and that does not include loans against retirement savings.¹⁸ Three-quarters of people who completely cashed out their retirement plan said they did so because of basic money management problems.¹⁹ A PwC survey found that most withdrawals from retirement plans were driven by an unexpected expense or medical bills. PwC concludes that, rather than tightening plan design to limit withdrawals (which may have the unintended consequence of sending workers to high-cost alternative lenders), employers should address the root cause of retirement savings leakage by helping their employees build emergency funds, prepare for the unexpected and better manage cash flow and debt.^{20 21}

Bundling retirement savings plans with automatic short-term savings is one way to modify HR processes and help employees save for both the short and long term. This idea is not new—it was common decades ago when employers that offered traditional pensions also provided “thrift savings plans” designed to ensure workers had a rainy-day fund. But, with the advent of individual defined contribution accounts, today few employees have access to a workplace-based retirement account that includes an automatic short-term savings plan. In recent years, there has been a push to re-invent the workplace-based thrift savings plan model, in the form of “sidecar” accounts bundled with 401(k) and other employer-based retirement plans.

EXAMPLES OF BUNDLING SHORT- AND LONG-TERM SAVINGS

The UK government’s NEST retirement savings program has plans to pilot a sidecar savings program in the coming years. This will enable workers in the U.K. to simultaneously save for short- and long-term needs. The **Aspen Institute’s Financial Security Program** has outlined the design and regulatory challenges to implementing sidecar savings with 401(k) plans. One challenge identified is the need for regulatory change to allow employers to auto-enroll their employees in the sidecar account, just like they can auto-enroll employees in 401(k) and other retirement plans. The Aspen Institute’s paper contains ideas and proposals for a path to make this reality for millions of American workers.

Employers can leverage taxes, including tax withholdings, tax credits and the tax 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. Withhold too little and you end up with a large tax burden; withhold too much and you get a large refund but have less income to work with during the year. In general, withholding more, rather than less, has been an effective “savings” strategy for low-income households that struggle with income volatility. Evidence of this comes from research showing that the Earned Income Tax Credit (EITC)—which is not a withholding per se but a government tax credit for working families—is the single most effective program to help low-income American households save money and work their way out of debt. But, to qualify for the EITC, workers need assistance in filing their taxes. With services like TurboTax online and tax filing storefronts like H&R Block, it’s surprising that so many Americans still don’t have support filing their taxes. Some employers have made TurboTax free for their employees. 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 EITC if they qualified. But beyond tax filing support, there is an opportunity for greater experimentation and innovation around the role of tax credits, withholdings, and filing support in the workplace.

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 (70%, compared to just 50% of employees who are not financially stressed)²² and more and more Americans are also financially burdened with payday loans, medical, student loan and utility debt. Helping employees to manage cash flow dips and spikes, and to build emergency savings, are critical first steps to reduce employees' need to take on costly short-term debt or fall into arrears with landlords, utility companies and others. But many employees are already carrying significant debt, and this cannot be ignored. Employers have a unique opportunity to help their employees get a hold of their debt situation, make a plan to pay down debt, and avoid going into further debt. But doing so requires much more than advertising debt counseling services to employees. There is an opportunity to implement a range of small modifications to HR operations, with the goal of helping employees reduce debt.

Employers can embed credit check opportunities into existing HR processes. Some employers have begun providing services and opportunities for employees to check and track their credit reports, often during existing training programs, during onboarding, or when applying for a payroll loan or a 401(k) loan. At this point, many financial wellness services incorporate credit monitoring as part of their offering. We have found that embedding a credit check opportunity into existing HR processes, not only as part of voluntary financial wellness benefits, can build awareness around credit (which is particularly important for immigrant and low-income workers with no credit history or thin credit history). And, a credit check opportunity can be a motivator for employees to think about making a plan to pay down debt. But the credit check is not necessarily effective on its own. Instead, we have found that credit check opportunities during employee onboarding sessions can be leveraged as a “hook” to motivate employees to seek the support of expert financial counselors.

BOX 4

EMPLOYER SPOTLIGHTS:

Home health aide companies offer credit checks and credit counseling

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. For employees motivated to tackle debt, employees were referred to one of Neighborhood Trust's Trusted Advisors. As a CHCA manager explained, if an employee had a question about their credit report, the Trusted Advisor would say, "Come back Friday, I'll meet you in the office and you'll come down with your first paycheck and we'll discuss what I can assist you with. I'll have your letters [to creditors] ready if you have credit issues. I'll help you on how you can either pay off a bill or what should be put in savings." As the result, CHCA found that the number of employees seeking loans dropped dramatically, from 164 requests for payroll loans in 2012 to only eight in the first half of 2016. "The more we kept up the relationship [with Neighborhood Trust] and the more reports we got about the impact on our employees' credit, the more we realized, 'Okay, this is helping our employees. This is working,'" explained a CHCA manager.

A non-profit social services agency, **St. Nick's Alliance**, embedded a referral process to financial counselors into its existing HR and supervisory processes for its home care workers. All employees went through standardized onboarding and periodic required training programs. During these programs, St Nick's also offered an opportunity to meet with Neighborhood Trust's Trusted Advisors. Employees who met with a Trusted Advisor had impressive results: 42 percent reduced debt and more than half (56 percent) improved their credit scores, with an average increase of 25 points.

Embedding referrals to a financial counselor can reinforce the modifications to the HR process, resulting in maximum impact. When companies offer a financial counseling service to employees, publicizing the service is not enough to reach the employees who need the service most. To get the most impact from financial counseling services—whether that service is in-person, phone-based or virtual—companies must build smart referrals into existing touchpoints with employees, such as payroll loan requests, 401(k) withdrawal and loan requests. The more the referral process is embedded or automated within standard HR operating procedures, the higher the chances that employees will learn about the service and take advantage of it when it means the most to them.

BRINGING THE VISION TO SCALE:

Mainstreaming financial wellness across workplaces

For a given workforce, how does an employer or an HR service provider diagnose what modifications could be made to systems, processes, communications and defaults? Our roadmap provides insights on the broad categories of financial goals that employers and their partners ought to focus their attention on. For companies that are ready to begin their design journey, to diagnose and design those modifications, Neighborhood Trust has launched its **HR Design Toolkit: A Roadmap for Designing HR Interventions to Improve Employee Financial Health**. The toolkit is a simple, streamlined and replicable suite of

tools. It enables employers and HR service providers to help default employees into financially healthy practices—a high ROI approach to driving financial health.

Our vision is to catalyze a fundamental re-think of the role HR processes play in employees' broader financial lives.

While we certainly hope more and more individual employers will catch this vision, we believe true scale will only be possible when PEOs, payroll service providers and other HR providers get on board too.

These providers ought to incorporate 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.

BOX 5

Employers can invest in employee financial wellness by prioritizing process design in their organizational structure.

Goodwill of NY/NJ had a strong track record of supporting financial wellness among its rehabilitation participants, but recognized that as a mission-driven employer, it needed to apply those lessons learned to its employees. Following our pilot with Goodwill, the company created a new position, Director of Financial Empowerment & Benefit Services, dedicated to supporting the financial health of its employees. The role will function independently of key HR benefits functions and will include:

- Creating and testing behavioral interventions that improve employee health;
- Connecting staff to financial empowerment products and services;
- Mapping and redesigning HR, payroll and management systems; and
- Designing and testing communication routes and touchpoints around clients' financial needs.

About Neighborhood Trust

MISSION

To empower low-income individuals to become productive participants in the U.S. financial system and achieve their financial goals

OUR VISION

Our vision is a world where all workers have access to trusted financial guidance linked to effective financial products. We believe financial empowerment is a critical ingredient in the fight for better job quality, along with living wages, more predictable scheduling and worker benefits and protections that smooth out income and bolster financial security.

OUR IMPACT

We measure program success as the achievement of financial stability and financial mobility for low-income families via access to affordable financial services, credit establishment, and asset accumulation. We hold ourselves accountable for proving our value to our partners as we make the case for investment in worker financial health.

SERVICE FOOTPRINT

Historically New York City and growing expansion nationally

Neighborhood Trust is one of the nation's leading providers of financial empowerment services and products.



Endnotes

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The survey found that half (50%) of financially stressed workers spend 12+ hours and 20% spend 20+ hours per month dealing with personal financial matters while on the job.

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⁹ Aon Hewitt, “2017 Hot Topics in Retirement and Financial Wellbeing,” January 2017. <http://www.aon.com/attachments/human-capital-consulting/2017-hot-topics-financialwellbeing-report-final-january.pdf?elqTrackId=284B8F7AF66B224DAF7C6CA203C2907B&elq=513883ed34ea4b718024d1f1648855f7&elqaid=25542&elqat=1&elqCampaignId=> According to the report, nearly six of out ten employers (59 percent) were “very likely” to create or focus on a program that extended beyond retirement decisions, compared to just 30% percent of employers three years ago.

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