Financial Stability for the Workforce

ideas42

Helping employees manage their finances

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Hourly workers with low or moderate incomes often wrestle with cash-flow issues that can interfere with their performance at work. Innovative behavioral approaches supported by outreach through the workplace can help to improve employees' financial health, benefitting them as well as their employers.

Millions of service workers in the U.S. live from paycheck to paycheck. For many, the idea of saving for the future is an aspiration rather than a reality; they face a constant juggling act as they simply try to cover their monthly expenses. Research suggests that this not only consumes time and energy; it also leads to what behavioral scientists call *reduced mental bandwidth*, as pressing concerns about money consume brainpower that would otherwise go to broader problem-solving and planning ahead.

This depletion of bandwidth can jeopardize the jobs that hourly wage earners depend on. Employees who are distracted by money issues may be late for work or forced to miss entire shifts – which only compounds their financial insecurity. And the negative impact passes on to their employers in the form of lower productivity, increased absenteeism and higher staff turnover.

Some companies have tried to address this costly problem by introducing "financial wellness" programs. But there has been relatively little progress in delivering such programs and building evidence of their effectiveness. Moreover, there are few financial products and services tailored to the needs of low- and moderate-income customers, despite the potential of a segment that has largely been underserved by traditional banking models.

To explore new ways of tackling this challenge, ideas42 – with support from the Ford Foundation and Omidyar Network – set out to create and test a new financial product addressing the unique needs of lower-income employees. Drawing on the insights of behavioral science, we worked with two companies to provide coaching sessions that connect employees to this "financial stabilizer" product. The results have been promising – for employees seeking more control over their financial lives, for employers hoping to inspire a stable and productive workforce, and for financial providers open to taking another look at a neglected market.

Challenged by insecurity

A cruel paradox of financial insecurity is that it typically erodes the very mental resources people must draw upon to better manage their situations. Too often, their energy is drained by having to pay constant attention to unstable finances. Psychological research shows that individuals who expend valuable mental bandwidth on money issues have less ability to plan, to exert self-control and to regulate their emotional states. The effect is only exacerbated when a lower-income worker faces a sudden financial shock, whether from a medical emergency, unforeseen expenses (such as car repairs) or a cut in hours at work.

This was the human context our team kept in mind in designing a more effective, behaviorally grounded program to help people manage their finances. Our proposed financial stability package was built on three evidence-based insights:

First, people with low or moderate incomes are often unable to pay monthly bills on time because of dips in cash flow that occur naturally during paycheck and

Highlights

- People with low or moderate incomes must prioritize expenses each month, making it difficult to plan ahead
- Unpredictable cash flows make it hard to gauge spending versus saving
- People with limited financial resources often have limited time and bandwidth

billing cycles. Instead they must prioritize the most urgent expenses each month, which makes it difficult to plan ahead and results in "leakage" of funds through late penalties and overdraft fees.

Second, in our consumer-focused culture, many of us struggle with impulse buying. And for those living with financial instability, unpredictable cash flows make it even harder to estimate how far a paycheck needs to last – and how much spending is too much. Even a comparatively small purchase can trigger expensive consequences, from cash-advance charges to payday loan fees.

Third, people with limited financial resources also tend to have limited time and bandwidth to compare solutions, which means they often only have expensive tactics to choose from in emergencies. Forced to rely on these costly solutions, they end up suffering long-term negative consequences from what could have been small bumps in the road.

Designing a solution

Guided by these behavioral insights, we structured our financial stability package to reflect employees' three basic needs: paying bills, discretionary spending and savings. Each component would have its own dedicated account – refreshed on payday by an automatic deposit, and then accessible via debit card. Bill payment was the recommended first priority, to ensure fixed monthly expenses such as rent, water and electricity were paid on time. The balance of each paycheck could then be split between discretionary spending and savings.

The financial product was delivered to employees during personal coaching sessions in the workplace. We conducted initial testing at two Panera Bread restaurants in Michigan. Our goal at this stage was simply to gauge employees' interest and identify optimum delivery channels. The pre-pilot phase at Panera yielded insights that led us to revise several design and delivery features. We then moved to a pilot with Stellar Restaurant Solutions, a call center in Colorado Springs, CO. We worked with Stellar's payroll service provider to develop the platform: a conventional payroll card (i.e., which employees could use to make purchases and access cash as they would with a debit or credit card) augmented with bill payment and savings functionality.

Highlights

- Employee's three basic needs are paying bills, discretionary spending, and savings
- In-person coaching as well as behavioral workflow helps establish participant trust
- Assisting employees in automation of bill pay and savings has a lasting effect

Our key goals at Stellar were to:

- improve coaching session attendance and uptake of banking products compared to the Panera pre-pilot;
- encourage participating employees to automate their savings and/or bill payments;
- gauge whether participants' productivity increased following the coaching sessions.

The package was tiered to match employees' banking status and whether they currently had any extra funds set aside. For those with an existing bank account and a "cushion" of saved money, we offered the full three-card package, which would allocate their paychecks toward bill payment, spending and further savings. For employees with bank accounts but no savings, we offered a complementary savings card. For those who didn't use any banking services, we offered a single card with an associated "savings purse."

During the sessions, financial coaches walked participants through a basic budgeting exercise before helping them identify financial goals and set specific spending and savings targets. If they wished, the coaches then helped them open financial stabilizer packages and set up automatically recurring savings, bill payment and/or debt payment transactions going forward. Subsequent coaching sessions focused on how to customize alerts, as well as troubleshooting and making adjustments to target amounts. To promote attendance, we integrated a number of behavioral elements into the launch process, including a raffle-type prize draw, a quasi-default invitation ("Click to confirm your appointment") to simplify booking, and initial face-to-face meetings with participants to establish trust.

Of the 99 Stellar employees randomly selected to receive invitations, 47 registered for a coaching session, and nearly 90% of those registrants subsequently attended. Within the coaching session group, over half adopted one of the stabilizer package options. Overall, we increased product uptake from 6% of invited employees in the original Panera pilot to 25% in the Stellar pilot. This was clearly a vast improvement, and the results overall have been encouraging. (However, we should note that, given the size of our sample, we weren't able to effectively measure changes in employee productivity as a result of the program.)

Turning intentions into action

In working with Stellar employees, we learned several key lessons that can be more broadly applied in developing financial products and services for lower-income customers:

1. Most people want to save. This was true even for employees who only had a few dollars to spare each month. By providing a moment of decision – via a coaching session or another channel – plus the ability to follow through with tangible financial products and services, we can help turn intention into action.

2. Managing money requires the right tools. Lower-income earners are far savvier about their financial lives than stereotypes suggest, often handling complex scenarios with little formal support. What they need from financial providers are cash-flow management tools designed with their unique challenges in mind. For instance, if employees' payroll deposit dates don't fall when the bulk of their bills are due, the gap could be bridged with a short-term line of credit integrated with other banking tools – including built-in safeguards for both borrower and lender. But for such tools to become a reality, there must be a foundation of mutual trust…

3. Building trust takes insight and effort. Encouraging people to attend coaching sessions can be hard work. Although often interested, they're juggling so many demands that they have limited mental bandwidth left for managing their finances. Just as importantly, they need to feel that employer-sponsored programs have their best interests at heart. Our pilots showed that a behaviorally informed approach helps to build that trust. But it also takes a great deal of effort, from arranging private meetings to following up with personal emails and small goodwill tokens such as treats that employees can enjoy on their breaks.

Only the beginning

The lessons we learned in piloting the employee financial stability package hold great promise, first of all, for people with low and moderate incomes. With products designed for their specific needs, these employees can manage their expenses while building financial resilience through longer-term savings. Employers will likewise benefit from having a financially stable and therefore more focused and productive workforce. We're now seeking partnerships with innovative companies that want to build on our initial successes.

Lastly and most significantly, our work points the way for financial providers to reconsider a large segment of the consumer marketplace. As we noted in our 2015 white paper, “Reimagining Financial Inclusion” (authored with consulting firm Oliver Wyman), nearly a third of Americans remain unbanked or underbanked in the aftermath of the Great Recession. Moreover, many financial institutions simply don’t offer products and services tailored to the needs of low- and moderate-income consumers.

A thoughtful bundling of transaction services with the right savings and credit products could do much to mitigate the risks typically associated with lower-income consumers. Evidence-based insights from behavioral science can guide the development of tools that not only help people improve their financial well-being but also deliver a fair return to the institutions offering them – while creating positive social impact. There are already signs in the marketplace that a few financial providers recognize the potential. This is where we’re focusing our collective efforts going forward.

Summary

Attendance and Product Uptake