

# **It's Time For New Financial Security Benefits That Meet Low-Income Workers' Needs**

Among the many lessons brought home by two years of COVID disruption is the critical role that employers play in their workers' day-to-day financial well-being — and the central role that day-to-day financial well-being plays in attracting and retaining great employees.

Yet ironically, many firms' benefits budgets and energy go overwhelmingly into a handful of offerings — health insurance, retirement plans, disability and life insurance — that do not directly address the top financial anxieties of millions of workers living paycheck to paycheck on low or moderate incomes (LMI). In fact, many of these workers may not even be eligible for, or be able to afford, these traditional benefits.

Employers have an enormous opportunity to recognize and prioritize the pressing financial needs of paycheck to paycheck, LMI workers — with positive outcomes for workers and firms alike.

As widely reported, the Federal Reserve has found that nearly 40% of Americans don't have enough money saved to cover an unexpected expense of \$400, a figure that rises to between 60% and 72% for Black, Latinx and

female-led households making under \$60,000 per year. Meanwhile, the 2021 MetLife Employee Benefits Trend Study indicates that 86% of employees say finances are a top source of stress for them now and in the future, and 27% say they are less productive at work because of financial worries.

These workers live in the financial present, and their most acute financial needs — the ones that keep them up at night — are managing month to month, or sometimes day to day. For them, benefits that smooth income volatility and help them to better manage unexpected expenses are the key to lower stress, stronger performance, higher productivity and greater loyalty. A robust retirement plan may be nice to have, but more essential may be offerings such as workplace emergency savings plans, on demand pay, emergency cash assistance, employer-backed loans and even student debt repayment assistance.

Offered together, these innovations can form a suite of “financial security benefits” united by their goal to directly address the realities of living from one payday to the next. Of note, while all benefits carry costs, many of these new financial security benefits cost a fraction of what many firms invest in

retirement, health and welfare plans. Because one size won't necessarily fit all, savvy employers won't offer just one approach and be done; they'll seek to understand what works for different employee populations, and then assemble an arsenal of tools to support workers in managing financial volatility and responding to financial surprises.

To help deepen our understanding of "what works for whom," Commonwealth is testing the effects of multiple financial benefits on gig workers' financial security in a pilot program with Gig Wage, Steady and GreenDot. While gig workers are not employees, many of the financial challenges they face are similar to those faced by employees living paycheck to paycheck. The pilot focuses on income volatility, but the benefits also translate to managing unexpected expenses.

Benefits being tested include access to emergency grants, access to low-interest, credit-building loans, and recurring stipends, aimed at increasing and stabilizing income through direct cash transfers. We are testing the effects of these interventions on workers' financial status, financial wellbeing, and their feelings of agency and optimism, which our research has found to be important for people's journey to financial security and

opportunity. Findings from this work will add to what we've learned in our extensive work on workplace emergency savings.

One reason to help workers manage immediate financial issues is to make it more possible to focus on the longer-term. It's tough for any of us to take advantage of long-term savings options if our shorter-term, day to day challenges are unmet. In fact, recent research from Commonwealth and Defined Contribution Institutional Investment Association found that retirement plan participants with emergency savings of more than \$2,000 were half as likely to have tapped their retirement savings during the pandemic — and those with little or no liquid savings were more likely to take or plan to take a 401(k) hardship withdrawal, or to pause or reduce retirement plan contributions.

One cannot talk about worker financial security without considering wages. And yet, while critically important, higher wages alone are not enough to ensure financially secure employees. With as many as 70% of workers reporting that they live paycheck to paycheck, it's clear employees need both enough income and tools to translate income into financial security.

During this competitive hiring market, employers are spending more on salaries and in many cases increasing pay. Providing financial benefits aimed at the needs of low- and moderate-income employees allows that investment in workers to translate into increased financial stability – and in turn, more satisfied and less distracted workers. By enabling financial security with specific, targeted tools, benefits professionals can be an integral part of that shift.

By Timothy Flacke