Money, Stress, and Work

Improving Employee Financial Health with Behavioral Science

In the past several years, research has exposed startling truths about the financial realities faced by low-income households in the United States. For the employed and unemployed alike, lack of a savings cushion and limited access to affordable credit pose formidable barriers to achieving financial stability. In fact, these barriers can be even worse for low-wage, employed individuals who must juggle volatile income and expenses amid busy work schedules. To make matters worse, recent studies have exposed the cognitive toll that the context of poverty takes on those of us with the fewest financial resources. While many people struggle to manage their finances, the individuals with the least amount of slack face the highest financial, mental and psychological costs, with little room for error and high penalties for making any kind of mistake.




A growing awareness of these challenges has prompted the financial inclusion field to target the workplace for delivering financial tools and assistance to low-income employees.

However, despite a flurry of ideas about how to create "financial wellness" programs, there has been relatively little progress in effectively delivering and testing these types of programs—or building evidence of their effectiveness. Both financial providers and employers appear hesitant to make a real investment in this area, even though it is likely an investment worth making. For financial providers, low- and moderate-income (LMI) employees represent an untapped market segment largely unserved by traditional banking models. Employers too have much to gain from reducing the effects of financial "scarcity", which affect employee productivity, tardiness, absenteeism, and even turnover in the workplace. Yet only a few providers and employers are making an effort to test potential solutions and produce a reliable evidence base of their impact.

Beginning in 2012 with support from the Ford Foundation and the Omidyar Network, ideas42 set out to take key principles from behavioral science to create and test a new financial product that addresses the unique needs of low- to moderate-income (LMI) employees. The original "Employee Financial Stability Package" was designed to streamline and automate key financial processes to meet a broad set of consumer needs via three linked demand deposit accounts – a bill payment account with automatic payments, a discretionary spending account, and a savings account to building a cushion for future expenses. Building on existing research, we went beyond the laboratory and sat down with low-income employees at their workplaces in Michigan and Colorado. Over the course of many financial coaching sessions, we prototyped a financial product designed to provide a moment for setting up automatic savings and bill payments.

Through our experience across two pilots, we learned several key lessons that are broadly applicable to financial service design and delivery for LMI consumers:

1. **Intentions to save:** LMI employees want to save. For many employees, this was true even if they had few surplus dollars from month to month. Providing a moment to take action can close this "intention-action gap" and help people follow through on their intentions.

2. **Need for cash management tools:** This population is much savvier about their financial lives than they're typically given credit for, often handling very complex situations with few formal tools for doing so. Savings, credit and real-time budgeting tools each play a role here, but existing products and tools are incomplete because they're not designed with lower-income consumers in mind.

3. **Trust building:** Many financial wellness programs rely on in-person coaching sessions. Achieving high attendance at in-person sessions takes considerable

effort. This is not because employees are not interested in financial services, but because they are operating under conditions of high cognitive strain (with busy schedules) and also because these programs require a certain level of baseline trust. Using a behaviorally-informed approach can help to build trust.

The insights from our initial Employee Financial Stability pilot can help us begin to design better programs, products and services for LMI employees. We have also continued to expand our thinking in our White Paper, *Reimagining Financial Inclusion,*[1] which challenges the field to rethink traditional banking product models and suggests an innovative product design for financial providers to serve LMI consumers more effectively (and sustainably). Also stay tuned for the results of our Financial Health Check 2.0 pilot, where we scale up an action-oriented approach to financial coaching for credit union members.[2]

There exists an untapped opportunity for employers to improve employee productivity and for financial providers to introduce a financially-sustainable new product, both while having a positive social impact. This work provides a starting point for re-thinking how financial products and services are designed and delivered to LMI consumers. However, much more needs to be done to help low-income employees manage their daily finances and achieve their financial goals. In order to help LMI employees at scale, we need focused efforts from financial providers to build and deliver better products for LMI consumers, and from employers to rigorously test out approaches for helping their employees build financial capability.

Recap

Employee Financial Stability Pilots

Beginning in 2012, ideas42 set out to create and test the development of an Employee Financial Stability Package delivered through financial coaching sessions in the workplace. The package aimed to relieve the cognitive burden of day-to-day financial juggling by organizing and automating key processes in an individual's financial life, such as savings and bill payments.

PHASE 1: Pre-Pilot with Panera	PHASE 2: Prototyping Pilot
Employer Partner: Panera Bread	**Employer Partner:** Stellar Restaurant Solutions
Where: Michigan	**Where:** Colorado
When: September- December 2012	**When:** August - October 2013
Target Population: 80 LMI employees across two locations	**Target Population:** 178 LMI employees
Goal: Gauging interest in the product, tweaking the product design and identifying delivery channels	**Goal:** Testing uptake and usage of the product with a revised design

Lesson #1: Intentions to Save

LMI employees want to save. For many employees, this was true even if they had few surplus dollars from month to month. Providing a moment to take action can close this "intention-action gap" and help people follow through on their intentions.

What We Did

Due to limitations in building our ideal fully-functional product, and recognizing that many employees already have an existing bank account, we piloted a simplified stability package designed to be more flexible to the circumstances of each employee. As part of the redesign, we tiered our product offering based on banking status and how much of an existing savings cushion employees already. For employees who already had an existing bank account and savings cushion, we were able to offer the "full package", which split the employee's paycheck into designated accounts for saving, spending, and bill payment in specific amounts. For employees who were banked but did not have any savings, we offered a savings card to automatically direct a specific amount of the employee's paycheck onto the card. For unbanked employees, we offered a basic card which contained a "savings purse" to set aside some amount for savings and could be used itself for all banking needs. All employees were given assistance to automate bill payment and savings, regardless of which product they were offered.

What We Learned

During the sessions, we found a strong appetite for automated savings, with over 60% take-up among those offered the Savings Card. This was compared to a take up rate of less than 5% for automated bill payment services.

In fact, many employees chose to save more than the suggested target and eagerly applied a "Savings Only" sticker to their card. This eagerness to save also came with self-awareness around how challenging it can be to exercise **self-control** and save in reality. Some employees created their own informal "commitment devices" to essentially tie their own hands: purposefully not activating the card so they couldn't use it for spending, giving the card to a family member, or putting the card away in a drawer at home.

This suggests that there is demand for a product to help consumers follow through on their intentions to save. Consumers often know the importance of savings but need a moment to follow through on their intentions. Future marketing efforts should focus on this aspect of the product. However, it is important to note that saving and spending are two sides of the same coin, and an effective savings product must also address budgeting in order to truly help consumers find excess income to put into savings.

In addition, given the extreme volatility of cash flows among lower-income households,[3] identifying the "right moment" for saving is a complex task that requires better visibility into cash flows (see cash management needs discussed below). Some consumers may have expenses that substantially exceed their income, in which case automating savings is not realistic. Automating a fixed amount for savings each month isn't a perfect solution, but is a good start towards building a cushion for financial resilience.[4]

Lesson #2: The Need for Cash Management Tools

> **This population is much savvier about their financial lives than they're typically given credit for, often handling very complex situations with few formal tools for doing so. Existing personal financial management tools are incomplete.**

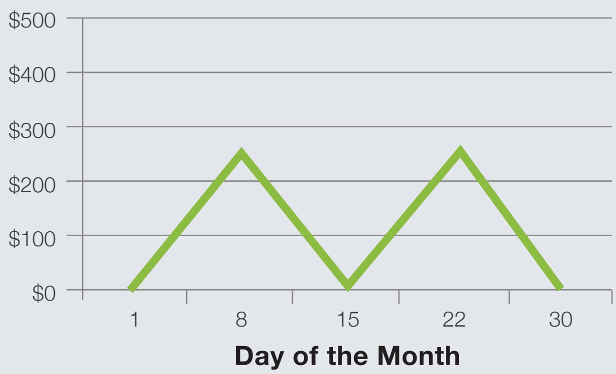
What We Did

The Employee Financial Stability Package was designed to smooth spending and bill payment outflows over the course of the month. Because an employee's income is directed into separate accounts through direct deposit, every paycheck was split proportionally between a bill payment and a spending account (see Direct Deposit Funds below). By creating a tool that automatically translated budget line items into a calendar displaying inflows and outflows, we were able to provide a simple visual of this variability. This opened a discussion between employees and coaches about predicting future expenses, setting spending and savings targets, anticipating potential problems, and the need for emergency savings to guard against disruptions.

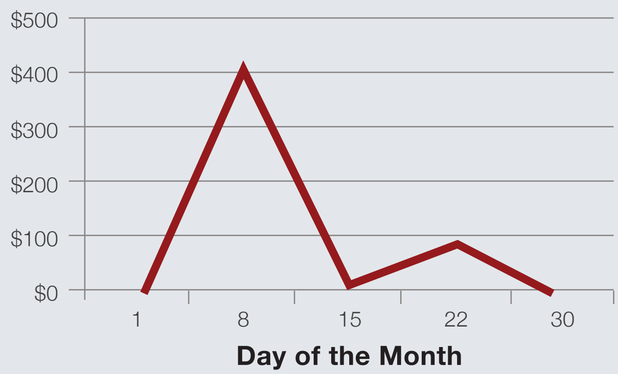
Data Highlight

The Buffer Problem: Misaligned Cash Flows

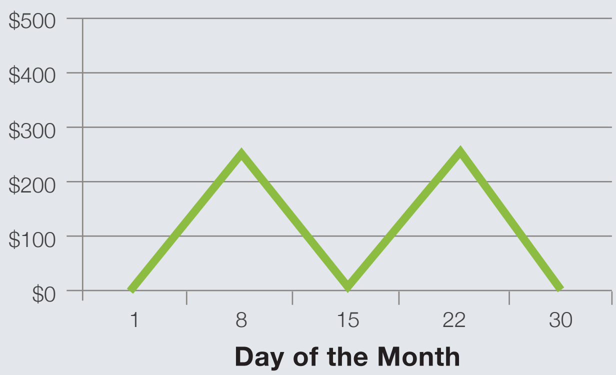
DIRECT DEPOSIT FUNDS FOR BILL PAYMENT



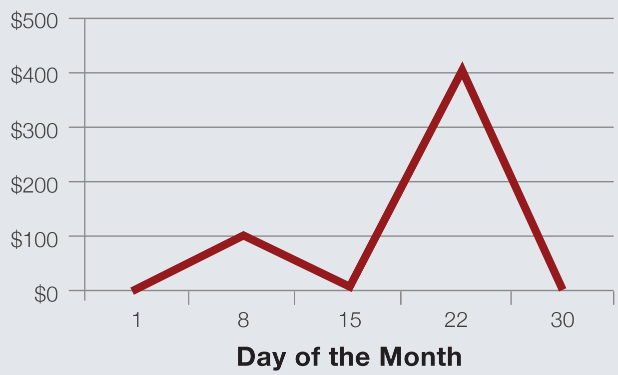
ACTUAL BILL PAYMENTS



DIRECT DEPOSIT FUNDS FOR SPENDING



ACTUAL SPENDING



What We Learned

The LMI employees attending our sessions had a very good grasp of their weekly and monthly budgets and were able to recall general ranges of their cash inflows and outflows. They also used a range of strategies to manage fluctuations. Some participants reported *choosing* to pay a bill late to cover other obligations, rather than use credit sources that would ultimately prove more expensive. Others recognized the importance of achieving financial stability in maintaining a healthy financial life but reported that without access to credit, it was difficult to build towards their savings goals without some temporary relief from volatility.

Without a cushion, fluctuating cash flows make it difficult to smooth spending over the month. For low-wage workers, the largest bill of the month tends to be rent payment, causing bill payment outflows to spike early in the month (see Actual Bill Payments on previous page). Many consumers likely adjust their discretionary spending and wait to make non-urgent purchases during the second half of the month. This isn't an issue for individuals who have a few hundred dollars in savings, or access to credit, to act as a buffer. However, for people without a buffer, it can have significant consequences if they come across a spending need the first half of the month that they can't cover. Further, overspending during the second half of the month, rather than setting aside some amount for the subsequent period, can lead to a cycle of living on the margin and barely meeting (or failing to meet) obligations before the next paycheck arrives. Adding to the complexity, living in this context of poverty can exact a "**mental bandwidth tax**" on our capacity for decision-making, further reducing our ability to perform cognitive tasks and plan ahead.[5]

One piece of the solution to this buffer issue is to provide a low-cost line of credit to help cover cash flow misalignment from week-to-week. This would require a credit provider who was willing to offer affordable short-term credit, along with safeguards to facilitate gradual repayment and ensure that the buffer was not overdrawn or rolled over for more than one period at a time.

Another piece of the solution is to help consumers gradually build a savings cushion by reducing spending. Unfortunately, existing personal financial management tools are insufficient. First, these tools typically assume that a consumer's income and bills are regular from month-to-month; adjusting these amounts is cumbersome for consumers who lack a steady salary. Second, these tools focus on recurring expenses and do not help to anticipate unplanned expenses. This is problematic because research suggests that as humans, we consistently underestimate our spending on unusual or infrequent purchases.[6] Finally, these tools are backward-looking, not forward-looking. Tracking spending patterns is helpful to analyze trends, but does not shed light on exactly how much is left to spend *right now*, after setting aside funds for future obligations. There remains a dire need for a tool (such as a bucketed account) that enables consumers to predict and actively set aside funds for upcoming obligations.

Lesson #3: Trust Building

Many financial wellness programs rely on in-person coaching sessions. Achieving high attendance at in-person sessions takes considerable effort. This is not because employees are not interested in financial services, but because they are operating under conditions of high cognitive strain (with busy schedules) and also because these programs require a certain level of baseline trust. Using a behaviorally-informed approach can help to build trust.

What We Did

In order to promote session attendance and product uptake, we incorporated various behavioral elements into the product launch during our second pilot. This began with marketing efforts and posters around the call center, including small raffle prizes for participating employees in a random drawing to "buy" employee attention.

After initial marketing, an individualized email invitation was sent to selected participants. This email incorporated a variety of "nudges" to promote session registration, including using a quasi-default structure ("Click to confirm your appointment") to eliminate hassles associated with scheduling the session. Once an appointment was scheduled, the financial coach stopped by the employee's workstation to introduce herself. At this time, she also provided the employee with a checklist and envelope for materials needed for the session, along with some candy. This in-person meeting was intended to build trust and **reciprocity** between the coach and employee. In addition, sessions were conducted in a private room tucked away from the employee desks. At the conclusion of the session, coaches informed employees that they would be offered two follow-up sessions to check in, and then shared contact information for the employee to email or call with any issues.[7]

Example **Behaviorally-informed email correspondence**

Subject Line: Congratulations, Clear$pender!

Dear Janet,

Congratulations! You have been randomly selected to take advantage of a three-month trial of the **Clear$pend Package,** a way to easily manage your money and get ahead financially. The Clear$pend Package will give you an **instant snapshot of your finances and ongoing alerts** to stay in control of your spending, make sure your **bills are paid on time,** and help you meet your **savings goals.**

You will be **paid your hourly wage** to participate in three, one-hour sessions. Employees who complete their sessions will have the **chance to win:** $100 in cash, $10 Starbucks cards, or dinner & a movie!

Your appointment is scheduled for:

Thursday, May 9 at 12pm - 1 pm

Please click here to confirm your appointment on **Thursday, May 9 at 12 pm - 1 pm.** If you can't make it, just contact me to schedule an alternative time. I look forward to meeting with you!

Warm regards,

Emily, Your Clear$pend Coach

Trial period provides a low commitment way to engage the employee

Raffle is a low-cost monetary incentive to "buy" attention

Pre-scheduled appointment slots reduce procrastination in scheduling a session

Personalized coach helps to build a feeling of trust

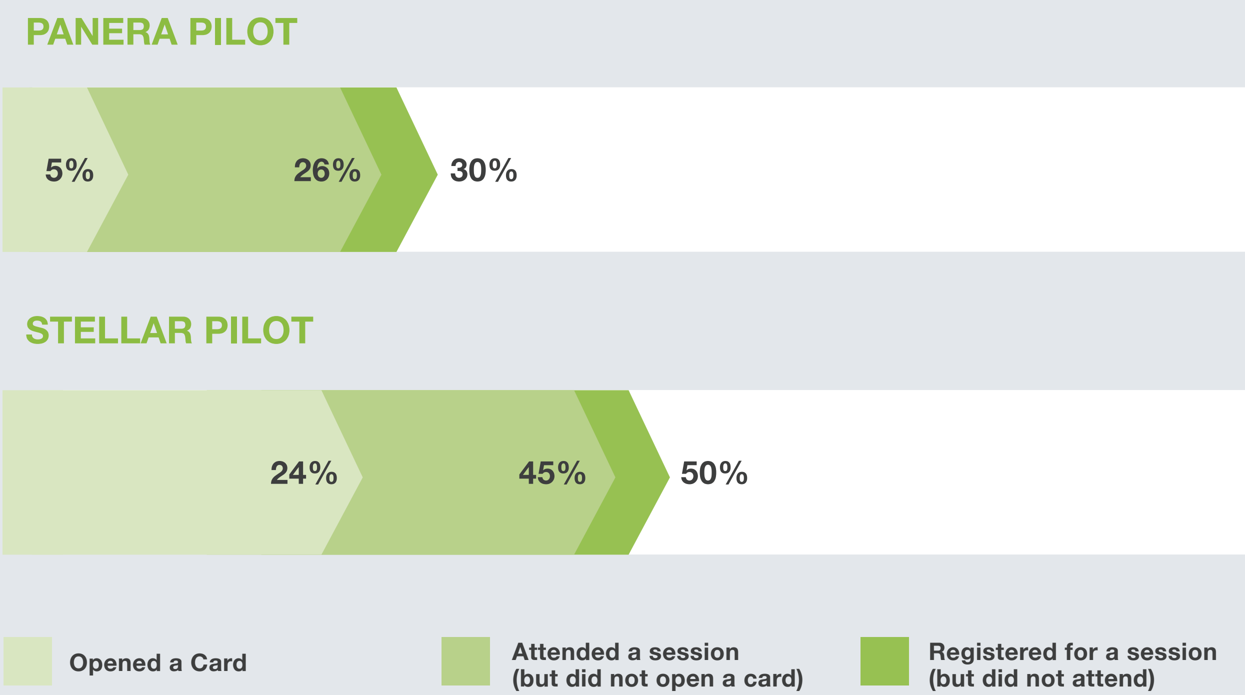
What We Learned

By incorporating behavioral elements to build trust and reciprocity, we significantly improved attendance and product take-up in our second pilot relative to the previous trial. Out of 99 employees who were invited to a session, 47 registered for a session. Almost 90% of employees who registered for a session attended that session, and over half of those employees took up the product. Overall, we increased product uptake from 6% in the original Panera pilot to 25% in the Stellar pilot.

Our overall take-up rates are at the high end of similar studies, such as AutoSave in the US (rates of 10%-25% take-up for automated savings)[8] and SEED in the Philippines (28.4% opened commitment savings accounts).[9] This suggests that the behavioral elements we included in the pilot – the small raffle prize, a quasi-default structure for session scheduling, and building trust and reciprocity – were effective tools in promoting product interest. A designated moment to offer the stability product after setting spending and savings targets also appeared to improve product uptake once an employee attended a session.

Summary

Attendance and Project Uptake



Conclusion

These key learnings from our Employee Financial Stability pilots provide a jumping off point for better serving the financial needs of LMI employees. Innovative employers can explore similar strategies to helping their LMI employees build savings and take action on their financial lives. Tools designed to help reduce cognitive scarcity can not only increase the productivity of the workforce, but can also tangibly improve employee lives. ideas42 continues to work on building an evidence base around similar programs like our Financial Health Check 2.0 pilot.[10] We have seen a tremendous willingness to innovate among our employer partners during the pilot phases of the project, and we are hopeful that star employers who are willing to innovate will step forward.

Financial providers also have an opportunity to capitalize on a new market segment while having a positive social impact. An integrated service delivery model that bundles together transaction services, savings and credit could actually mitigate some of the risks typically associated with LMI consumers, such as by dampening credit risk – see our white paper on this topic, *Reimagining Financial Inclusion*.[11]

At ideas42, our next phase of work will explore the financial side of this product model as well as other considerations facing financial providers like reputation and regulatory risk. It is our hope to identify the overlap between what financial providers are willing to offer and what can help LMI consumers achieve economic success and stability, both inside and outside of the workplace.

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[2] http://www.ideas42.org/blog/new-model-financial-education/

[3] Morduch, J., & Schneider, R. (2013). *Spikes and Dips: How Income Uncertainty Affects Households.* Retrieved from http://www.usfinancialdiaries.org/issue1-spikes

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[10] http://www.ideas42.org/blog/new-model-financial-education/

[11] http://www.ideas42.org/blog/project/reimaginingfinancialinclusion/