Addressing Financial Fragility in the Workplace

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Factors including inflation and the COVID-19 pandemic have taken a toll on workers' financial well-being. How can employers help?

The financial fallout from the pandemic, the war in Ukraine and supply chain shortages have delivered blow after blow to worker finances over the last year or so. Buying power has eroded as the annual inflation rate rose to 9.1% in mid-2022.[1] Although the inflation rate eased to 6.4% in January, it is still historically high.[2] With the Federal Reserve raising interest rates six times in 2022, the average credit card interest rate in the United States in December 2022 was 22.91%. This rate, along with those for other unsecured debt, has reached levels not seen since the early 1990s.[3] Many lower paid workers also lost wages because their jobs were unsuited to remote work.

Meanwhile, employer health care costs have spiked by as much as 5.6%[4] since 2021, with predictions from the health industry and McKinsey & Company[5] of steeper hikes to come. An increasing number of people have been forced to put off medical treatment because they simply can't afford it.

The combined impact of higher inflation, interest rates, unemployment and medical costs have caused many more workers to face what is termed *financial fragility*: living paycheck to paycheck with no safety net in the event of a setback such as job loss, medical bills, car breakdowns, etc.

The signs of stress caused by this uncertainty are evident in the workplace and include declining productivity, absenteeism and resignations. Heightened demands for better pay, benefits and working conditions challenge employers, and they face fiscal pressures amid fears of a shrinking economy and concerns about attracting and retaining talent in a job candidates' market.

Higher wages and richer rewards and benefits aren't always feasible, yet employers likely can't just ignore the economic plight of their employees. Given this backdrop, helping workers manage debt and develop sound financial strategies may be a top priority for 2023. Where should employers start? April is National Financial Capability Month and may represent a good time for employers to consider strategies that address financial fragility among their workers.

takeaways

- Many workers are struggling with financial stress caused by inflation, rising personal debt and higher health care costs.
- Employers may want to consider implementing benefits and strategies that will help workers manage debt and improve their financial well-being.
- Areas of focus for financial support may include financial coaching, emergency savings accounts and student loan repayment assistance. Employers may also want to provide more financial flexibility through programs such as same-day pay plans or lifestyle spending accounts (LSAs).
- To help workers manage their health and well-being, employers can increase promotion of low- to no-cost care options, offer voluntary benefits and enhance mental health programs.
- Employers should be mindful of the impact cost-of-living increases may have on underrepresented employees, including women, people of color and workers under age 25.

Affording Today: Financial Well-Being

Employers increasingly acknowledge that financial well-being is as crucial to the overall health of the workforce as mental, physical, social and career health. And nearly seven in ten working adults report that they would perform better at work if their employer offered more financial wellness benefits, according to a survey released by the National Association of Personal Financial Advisors.[6] Research from Buck shows that this priority rises to 90% for Black, Asian-American, Hispanic and Latino survey respondents.[7]

Historically, employers viewed financial wellness through the prism of wealth accumulation programs, including 401(k) savings, pension and stock purchase plans. But this emphasis on longer range financial security does not address the immediate needs of many workers. Organizations may need to adjust their focus to help workers through their paycheck-to-paycheck strain.

Focus Areas for Financial Support

Financial Coaching and Emergency Savings

Instead of targeting asset management or just generalized education, employers can consider offering personal financial coaching designed to empower behavior change. Many employees cannot begin to think about financial planning until they have resolved a financial crisis. New voluntary emergency loans or alternative credit options linked to payroll provide lower cost lending alternatives to high-cost creditors. Some providers offer helpful tools such as bill-pay services, bill negotiation or other tools that automate emergency savings or prioritize spending.

Some employers also have begun offering "rainy day" savings accounts as a workplace benefit. These accounts allow workers to save for financial emergencies by having an amount deducted from each paycheck and deposited in a separate account. If they need to cover a bill or cash gets tight, they can draw from this fund to bridge a financial gap. Some employers will sweeten the offer with incentive funding. These accounts may become more attractive to employers since the new SECURE 2.0 Act retirement legislation incorporates an emergency savings provision in 401(k) and other workplace retirement programs effective in 2024.

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Assistance With Student Loans

While uncertainty over the Biden administration's loan forgiveness program continues, employers are stepping in with access to online guidance resources and individual coaching to help manage and optimize student loan repayments. These programs may help employees access income-based repayment options that offer benefits like caps on monthly payments and even loan forgiveness after a certain number of years. This will become an even bigger benefit if the Biden administration's proposed regulations that make it easier to qualify for these programs pass.

Some employers are matching student loan repayments made to employees' loan servicer, up to a monthly limit. These programs represent an additional benefit expense, so an alternative is to allow employees to elect having their student loan repayments serve as the basis for 401(k) matching contributions instead of pretax salary deferrals. The SECURE 2.0 Act formalizes these arrangements effective in 2024. While this method is cost-neutral since it replaces an existing benefit rather than adding a new one, it requires extensive plan design updates and revised administrative processes.

Employers that offer such benefits will need to define eligible student loan repayments. For example, do they include paying down credit card debt incurred to finance qualified educational expenses? Is debt incurred in a foreign country eligible? Given the level of outstanding student debt held by workers as well as the future end to the moratorium on loan repayments, it may be hard to foster financial wellness without at least attempting to address this obligation. Plus, solutions offer an enticement to use in recruitment strategies.

Help With Commuting Costs

Some employers are reconsidering the decision to bring workers back to the office and have already adopted or are returning to remote or hybrid schedules. Employees can increase their available cash by reducing commuting expenditures for gas, tolls and public transportation. This may ease financial stressors on lower wage earners and also support disabled and neurodiverse employees. Reinstating or continuing remote working can also have an impact on retention of working parents (especially women).

Some cities are also implementing policies that require employer support for commuting expenses. A recent initiative in Philadelphia requires certain employers to offer an employer-paid, pretax payroll deduction for mass transit expenses, including fare for mass transit or transportation in a commuter highway vehicle. Those who commute by bicycle would get a tax-free reimbursement for the purchase, maintenance, repair and storage expenses incurred by the worker. A similar initiative is already in place in San Francisco.[8]

More Financial Flexibility in Benefits Packages

Same-day pay plans offer workers the choice to be paid a percentage of their daily wage on the same day that the work is performed. Instant access to wages can prevent financial issues, but employees need to ensure that they aren't accidentally accessing and spending their pay early and then facing financial hardship at the end of the pay cycle. Employers should put up guardrails that limit how much money is available for early access or how many times employees may have early access in a pay cycle.

Lifestyle spending accounts (LSAs)[9] are another option that may help employees meet an immediate financial need. These reimbursement-based accounts are funded by the employer and can be used to meet expenses, such as home internet service, food delivery service, children's tutoring costs and emergency savings as well as unexpected, critical expenses, such as car repair or appliance breakdowns. LSAs can help address the needs of multiple audiences at the individual level, enabling employees to choose how they use their subsidy across a range of programs or services.

Reframing Retirement

While saving for retirement may slip to the bottom of employee priorities, it's more important than ever, especially for those challenged to find a way to put away anything for retirement. Employers may need to reassess the equitableness of their 401(k) plan design from the perspective of lower wage and younger earners and their ability to save.

Issues to consider include whether some employer contributions to a 401(k) plan should be made in the form of nonelective contributions as opposed to matched employee deferrals. Another question is whether the matching formula should be adjusted to lower the employee deferrals required to receive the full matching contribution. Sponsors can even consider ideas with admittedly smaller impact such as eliminating fees for plan loans (used primarily by less affluent employees) and slightly raising per-head recordkeeping costs over the entire population as a way to direct benefits to lower wage workers.

One approach that sponsors have traditionally disdained is acknowledging the use of 401(k) loans to address immediate financial needs. But it may be time to at least recognize in plan communications that the 401(k) loans may be a useful source of short-term financing compared with high-cost credit cards or other forms of unsecured borrowing while also pointing out the potential negative long-term impact on retirement savings.

Managing Health and Well-Being

Another top priority in helping employees with their financial strategies is health management. Forty-six percent of those surveyed for the *Commonwealth Fund Biennial Health Insurance Survey* skipped or delayed care because of cost in the past year, and 42% struggled to pay medical bills or were paying off medical debt.[10]

Increased health care costs can have a disproportionate impact on lower income households, which can lead to care avoidance or deferral and further widen health disparities and inequities, such as lower utilization of preventive care, lack of chronic care management and treatment delays. As a result, companies may be reluctant to increase cost sharing in this tough job market for recruitment and retention.

Worker Financial Challenges

A 2022 report by the International Foundation confirms that many workers are struggling with financial issues. *Workplace Wellness and Financial Education Programs: 2022 Survey Results* includes benchmarking data on the financial education initiatives of corporations, multiemployer trust funds and public employers across the United States and Canada.

The survey's 314 U.S. respondents said the following financial challenges have the biggest impact on worker performance.

- Covering an emergency expense: 61%
- Saving for retirement: 44%
- Paying off credit card and other debt: 39%
- Paying medical expenses: 38%
- Paying off personal loan debt: 35%
- Paying for basic living expenses: 32%
- Supporting elderly parents: 28%
- Saving/paying for dependent education expenses: 27%

Organizations offer a wide range of financial education initiatives with voluntary classes/workshops being the most prevalent, offered by 56%, followed by retirement income calculators, provided by 55%. Although they are less common, organizations also are offering programs that provide assistance with expenses. They include emergency hardship assistance provided by 20% of respondents, payroll advance loans (8%), student loan repayment assistance benefits (6.4%) and emergency savings accounts (3%).

For more information about the survey, visit www.ifebp.org/research.

Employers can support employees with their physical well-being through strategic packaging and promotion of benefits that meet their needs. Priority areas to help employees get on track include the following.

Preventive Care Offerings

Employers can step up promotion of low- to no-cost care options, especially preventive care visits and cancer screenings, which are generally covered at 100% in network. If online care options are provided, employers should make sure that these resources will work for people who may have intermittent or limited cell and/or Wi-Fi access or provide a stipend for broadband internet. This will avoid excluding lower wage earners, many of whom are underrepresented employees, from programs that can improve health outcomes.

Voluntary Benefits

Employers can also turn to the voluntary benefits environment for help. Voluntary benefits enable group rates and employee savings for diverse needs and have expanded to include a broad range of physical, financial, social, emotional and work-life options. Options may include supplemental medical benefits that provide additional financial support for covered health care services, identity theft protection and long-term care insurance.

Medical Financing Options

New medical financing options allow an employee to take an interest-free loan with no credit check to pay back out-of-pocket medical expenses through payroll deduction over 12-24 months. This may be a better alternative than high-interest credit cards and can help employees manage cash flow when they are faced with unexpected medical emergencies.

Mental Health

Employer-sponsored mental health options, such as employee assistance programs (EAPs), provide an excellent resource to tackle depression, anxiety and fear caused by financial insecurity. Employers may want to consider enhancing or more aggressively promoting such programs.

Spotlight on DE&I

Economic pressures are hitting particularly hard on lower wage earners, a segment that is composed largely of underrepresented employees, including women, people of color and workers under age 25.[11] As a result, some employees are considering a job change or are applying for a second job to be able to afford basic goods and services, disrupting employer strategies to increase diverse representation in their workforce.[12] In response, employers are reevaluating their compensation and benefit strategies to attract and retain talent through a diversity, equity and inclusion (DE&I) lens in the context of "financial fragility."

Equitable and Inclusive Benefits

Addressing social determinants of health (SDoH) has become an even more pressing priority since socioeconomic factors, including income, have a 40% influence over an individual's health and well-being outcomes.[13] This has caused employers to focus heavily on health care affordability, including how to increase an employee's take-home pay and remove cost barriers.

Some employers have decided to absorb health care premium increases to alleviate financial stress for their employees. Other tactics to promote affordability may warrant a longer term strategy but can include plan design tactics such as tiered deductibles and out-of-pocket maximums, pay-banded premium contributions or salary-tiered health savings account contributions. Solutions also may include providing a choice of health plan options (e.g., copay plans or hybrid copay plans) that are more affordable and predictable at point of service.

Bottom Line

Economic pressures are reinforcing the importance of employers infusing DE&I into their total rewards strategy through tangible, measurable investments and actions. The immediate request from employees is for help and support during this challenging time.

Listening and Communicating

Employers need to deeply understand the pressures faced by their specific workforce. Many of the ideas presented here are already part of their total rewards offering. Yet amid the worries that employees face, it's easy for people to lose sight of those benefits.

If programs exist but are underutilized, employers should assess the barriers to use and step up promotional communications. If employers find gaps in their offerings, it may be time to enrich the organization's investment in programs that will best fill those gaps and meet employee needs.

For example, employees often don't know or fully understand the range of both core and voluntary benefits open to them. Multichannel education and

bios

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communication throughout the year (not only at open enrollment) can help. Employers should keep in mind differences in communication preferences across their population.

Staying the Course

Employers have a lot to consider at a time when they, too, may be feeling financially fragile. Quick solutions are hard to find since paychecks likely won't keep up with rising costs and debt requires sustained discipline to be resolved.

The ideal approach for any employer that wants to help its workforce cope with current financial conditions is to listen to employee pain points, identify whatever gaps and barriers exist in their programs, build a strategy based on current and coming labor needs, and engage employees with personalized communication tactics.

Endnotes

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