Timothy Flacke:
So many of us focus heavily on what we can pay people and that's vital. What if that's not enough to get to the outcome that we care about as employers? What more do we need to do to turn our investment in wages into the outcome that drives business value and makes our workers better off?

LuAnn Heinen:
That's Timothy Flacke, Executive Director of Commonwealth, a mission-driven nonprofit that builds solutions to make people financially secure. A nationally recognized innovation incubator, Commonwealth partners with leading financial service firms and receives support from respected philanthropic foundations. Early in his career, Tim served as an AmeriCorps VISTA volunteer in rural Vermont in the fight against poverty and held positions in corporate human resources and risk management. He holds a Master's in Public Policy from the Kennedy School of Government at Harvard University.

I'm LuAnn Heinen and this is the Business Group on Health podcast, conversations with experts on the most important health and well-being issues facing employers. My guest is Timothy Flacke and we'll be talking about financial security as key to emotional well-being, racial and gender equity and business outcomes, the importance of emergency savings, and how we can break down barriers to building wealth for low and moderate-income Americans.

Today's episode is sponsored by Vanderbilt University Medical Center. Vanderbilt University Medical Center is one of the nation's leading academic medical centers and one of the Southeasts largest research teaching and patient care health systems. VUMC's innovative and holistic approach to population health ensures care is more affordable, predictable, and easier to manage.

Tim Flacke, welcome to the podcast. I'm so glad you're here.

Timothy Flacke:
Thank you. I'm really excited to talk with you today.

LuAnn Heinen:
I'd like to get started by talking about the current state of workers' financial well-being and financial security. We know that 81% of working Americans say financial insecurity is a major problem. Can you put this in context for us?

Timothy Flacke:
LuAnn, I'm so glad that you asked that question. I think most of us, if we stop and think about people we know or our own experience, perhaps in the past, perhaps in the present, we could start to answer that question. So many of us really live in the financial present, living paycheck to paycheck. In fact, I looked it up before we spoke today and there's a recent survey from LendingClub that says 64% of Americans report they live paycheck to paycheck. In past surveys that figure has been as high as 78%. To me what it gets at is this reality of really thinking in terms of will I have enough before the next time when my income comes in and what am I going to need to do to make sure I can make it to that next paycheck moment? The reason I think that's important is when you're that concerned about what happens in the next week or two or month, it really produces a lot of anxiety about whether you're going to have what you need.

That has knock on effects for how we show up in the workplace, how we show up as parents in the family, how we show up in our community as citizens. Finance is one of those things that many of us feel is very personal. We tend to assume that our financial situation is a byproduct of the choices that we've made, which is of course partly true, but not completely true. So we tend not to want to feature the fact that we are in a state of financial stress and anxiety, quite often, many of us. Yet, that's the truth for at least a majority of U.S. workers and is really an important starting point.

LuAnn Heinen:
Well, it's certainly something that doesn't get talked about as much as you might imagine. If such a large percentage of us agree financial insecurities is a major problem, we're not comfortable talking about it. I'm interested in discussing how financial well-being strategies can be a lever for achieving the goals that many employers share: enhanced emotional well-being, improved equity, to start with those two, and maybe we then get to business outcomes in a minute. This is a motivator for companies, right? I mean, I think if I were an employer I'd think, I'm giving people good jobs that goes a long way toward financial security, but I think you're saying that it's not working fully, that there's more that needs to be done, there's still so much anxiety out there. What is it that employers can do to improve emotional well-being by reducing financial anxiety?

Timothy Flacke:
I think you're right that most employers really want to do right by their workers generally, and right by their workers financially, at least within the window of what they feel they can do. Where it sometimes falls short is that we tend to focus as employers on what I think of as the input side. Obviously, wage and wages, trying to pay a fair wage, but even beyond that. For most of us, it takes more than just income to achieve the outcome that I believe we should be aiming for, which is this level of financial security. It takes having access to benefits and tools that allow us to turn that income into stability, and hopefully over time, and opportunity to grow wealth. It's that last piece of providing the most appropriate, most tailored, most useful financial tools or benefits, that sometimes gets lost in the conversation.

Most of us, if we've been in jobs that offer benefits, we expect that that might include health insurance. We expect that that might include a retirement plan, maybe some sort of disability insurance, things of this nature. All of those are vital, of course, but if you go back to that worker who is waiting to find out how much this week or this pay period's check was, did the overtime hours hit or will that be in next week's check, and they're very much living in the financial present. Something like whether or not there's a good retirement plan, that's kind of a nice to have, it's not a must have. Where their energy is, is am I going to have to go take some form of short-term loan? Am I going to have to charge something on my credit card? Am I going to have to juggle who gets paid back because I borrowed some money from friends and family? If you think about that financial situation, the workplace and employers have less experience with trying to address those sorts of concerns for workers. Of course, it depends on the employer. Not all employers have a lot of hourly workers who are more likely to be financially concerned about the present and volatility and kind of making it through the month. Although you'd be surprised how far up the income spectrum that anxiety stretches. But we look at some of the things that have happened recently in the employee benefit space and the fintech space. One of the things that's blown up is this concept of earned-wage access. That's a really a straightforward idea, which is that at any given time, most of us have actually earned more pay than we've received because we're typically paid in arrears.

Some innovators have figured out a way to help workers access those earned, but not yet paid wages. I have mixed feelings about this. What I like is it's beginning to say the employer actually is in a good position to help that paycheck-to-paycheck worker manage day in and day out and they can offer things like earned wage access to help with that problem. It may be that there are better ways than that particular one, which sometimes involves costs to employees, but to go back to your original question, that is an example of something that certainly 10 years ago, and maybe even 5 years ago, few employers would see as an employee benefit offering or as something that they would be thinking about. I think it's a positive development that we're now starting to see some of that and that's that final link in the chain, that last piece that in some cases can allow workers who are receiving a fair wage to turn that wage into the financial outcome that honestly is in the worker's best interest, but also in the employer's best interest. That is where that business impact comes from is when you can create a package of wages and benefits that allows workers to have less anxiety and stress and be more present in the workplace.

LuAnn Heinen:
One of the very largest employers in the country pioneered that, I think a couple of years ago. I'm talking about Walmart. I think that that's a program that has grown and found success in that organization.

Timothy Flacke:
That's my understanding as well.

LuAnn Heinen:
Let's talk a little bit about the potential to improve equity, gender and racial equity, through financial well-being strategies.

Timothy Flacke:
Absolutely. One of the things, the data is so clear is that when you look at who, first of all, has lower paying jobs, who has greater short-term financial instability, and absolutely who has less wealth. Unsurprisingly, people of color, black, and Latin households, women-led households, are disproportionately represented in those groups. A big piece of that is the discrimination that's led to that and racism and sexism. Given that fact where an employer or a benefits provider chooses to aim what their priorities are in terms of which financial issues to make the center of their strategy, automatically has an implication for equity. The simple fact of recognizing and prioritizing short-term financial needs in a serious and creative way, I believe and we believe at Commonwealth, is an act of working in favor of equity, racial equity and gender equity.

LuAnn Heinen:
Are you talking about emergency savings or what category of supports are you thinking of?

Timothy Flacke:
Yes, if we go back again just for a second to that volatility issue I was describing, we believe that one of the most helpful ways, perhaps the most helpful way to support workers in managing through those short term up and downs is to help them to build up an emergency savings cushion. To your point about equity, again, the data is so clear that who among us has a cushion of savings is dramatically different by, first of all income, but beyond that also by race and gender. The Federal Reserve for many years has asked a national sample of people, how would they handle a $400 emergency? The last data that we have from them, 36% of respondents indicated they wouldn't handle it by drawing on savings, so it suggests they don't have $400 of savings. That was 36% across the whole population. We were able to break that down and look at it by income and race and gender. For those living on less than $60,000 in income, which is a little less than the median income in the country, that figure pops to 58%. If we look at that for black households under $60,000, it's up to 72%, so almost three quarters of folks very likely don't have $400 in savings. I know that's a lot of numbers, but the point of it is that when something unexpected happens, the proverbial flat tire, something on the expense side, or something on the income side, maybe your hours were cut, you have various tools you could draw on to solve those shortfall, but absolutely the best one, the one that is most cost effective, most flexible and crucially generally leaves people feeling like they had the most agency over the situation, is to have your own first line of defense - that's several hundred dollars or several thousand dollars in liquid savings that you can draw on to solve that shortfall and get through to the next moment when the income comes in. We’re big believers in employers helping to make that possible, helping to support workers in building up that cushion of savings.

LuAnn Heinen:
Is that through relationships with financial institutions that offer low-cost or no-cost savings accounts through payroll deductions?

Timothy Flacke:
Certainly, what you described is the case. Some employers have relationships with financial institutions, in some cases credit unions, who can help workers set up those accounts and then use direct deposit from

paycheck to fund them every single pay cycle. Most employers and payroll systems offer the ability to direct your net pay to multiple destinations, this concept of split-direct deposit, and that's a great way to help workers earmark a little bit from every paycheck for an emergency savings account. A piece that we're really excited about though is to integrate liquid savings and emergency savings into the retirement system. We're really lucky in this country, we have a really robust workplace-based retirement savings system - the 401k, the 403b. It's obviously supported by a very sophisticated industry, supported by long-standing public policy, really has focused by design on the very long term, on the retirement savings. But if it's true that 64% of us are much more concerned about the financial present, we think it makes sense to stretch that system to also be relevant to and address this short-term need. It really means offering liquid savings features right alongside the long-term restricted savings features. In that way, it's just a different mechanism to integrate emergency savings capability and emergency savings opportunities into the workplace, right alongside the retirement savings.

LuAnn Heinen:
What else could companies do or think about to improve, let's say the household balance sheets of women and BIPOC populations?

Timothy Flacke:
Yes, there's so many things to consider, so let me just throw out a few. None of them by themselves are the solution, but we've seen some employers rethink their contribution strategy to health insurance, and much more intentionally design that strategy so that the people with the lower incomes are paying less to achieve the same coverage. That's a very specific tactical change, but it actually can have a significant impact on equity, and to your question, ultimately on those family balance sheets.

LuAnn Heinen:
Our own survey data of employers show that what employees most want is support for health care costs. That's one of their top three interests from their employer when it comes to financial well-being, that's the thing, and many are already offering tiered premiums.

Timothy Flacke:
It goes on from there. We've done some work exploring employee stock purchase plans. That would be an example of a very explicitly balance-sheet focused offering that employers can provide. There's efforts, as I'm sure you know, to help workers pay down student loan debt by offering them eligibility for matches into retirement savings, if they put their money towards paying down their student debt or student loans. One of the things that we've had a chance to do some work on is the 529 education savings plans that every state offers. It's remarkable how, despite the ubiquity of these education savings programs, we haven't seen a lot of evidence of employers introducing them or promoting them to their workforce, and yet they're available really to anyone who would like to open them. Once you kind of think about it in balance sheet terms, there are a number of things you can do and not all of them are necessarily super expensive or elaborate. Certainly, promoting the existing or making your workers aware of the existing state education savings programs doesn't necessarily carry a big price tag, right?

LuAnn Heinen:
No, that's great. I know that financial education is not action or doesn't necessarily achieve outcomes. What's your point of view about where do we need financial education and where do we need action?

Timothy Flacke:
We do have a bias sometimes in conversations. Well-meaning folks go right to this idea that education is the answer around our personal finances. The challenge with that is that it can sound a little patronizing. A lot of lower income workers, people who are living in that space where they spend a lot of time managing week in and week out, they're actually incredibly savvy financial managers in many ways. It can be disrespectful to sort of start from the proposition that what will make the difference is just some more information. Then beyond that, I think your point is spot on, all of us are better off when we know more about personal finance or really

whatever the topic is, but we tend to do better when that information is personalized to us, when it's delivered in a timely fashion when we have a decision to make, and when it is tied to an action that we can actually take. That's what we have found to be the most effective forms of “financial education.” Sometimes the term that gets used is financial capability. It's personalized, it's timely, it's action oriented, and it's really sort of coming from a place of respect to build people's own knowledge and agency. Which leads to the final point I'll say that we have done some work, really interesting work, on opening up access to retail investing for people who have really never had a realistic shot at participating in that, just having some exposure in the stock market and so forth. One thing you hear is that there's a real desire to understand more about how that system works. As a general rule, if you're responding to a worker or a person's interest to something they've identified as a priority to learn more about, that's a very useful and also safe place to be in terms of thinking about education, much more in the service of the worker who has an issue that they'd like to learn more about. By the way, they'll learn a lot more effectively if that's the start of the conversation, that it's meeting their need and their interest, helping them get where they've already decided they would really like to go.

LuAnn Heinen:
Well, that's interesting. It made me think a little bit about something I've heard of before these savings circles. Could you have a stock market club at the office or a sort of a voluntary group where there are some employees who know more and some employees who know less and learn together about the stock market or even invest together or could that be problematic at the workplace to sanction something like that?

Timothy Flacke:
A number of thoughts come to mind there, as you probably already know, there's a lot of history with people saving together often in other countries, this concept of a savings circle, it's actually gotten some traction in the United States as well, but we had not previously seen savings circles, saving together for emergencies specifically, again these short term needs. We've actually had a chance to do some pilot testing of that and have seen very strong response. This was not always in the context of the workplace, but people really like, or at least some people really like that chance to attack a financial goal together in a group. There's an element of peer support. Perhaps there's an element of peer accountability. Most of us just don't like to feel that we're entirely alone in things that can be quite painful. As we talked about earlier, often a lot of incentives not to really air your honest truths and pains around your finances. That concept of a circle focused on emergency savings were very bullish on and I think you're absolutely right that it may well translate to people who may be for the first time in their lives are exploring something like investing. I hear your cautionary note, as employers we want to be careful that we're not inadvertently sanctioning unvetted information or things of that nature, but I think the core insight there is that so often when it comes to financial matters, we're really grateful for whoever can set us up in a forum to find people like us and go on that financial journey together as a group. I think that's an idea that employers should absolutely hold onto.

LuAnn Heinen:
My guest today is Timothy Flacke, Executive Director of the Boston-based nonprofit Commonwealth. We'll be right back.

LuAnn Heinen:
Well, let's talk about gig workers, contract workers, and how employers can support them.

Timothy Flacke:
Yes, the way I think about the gig worker, or sometimes we use the term non-traditional workers, in some ways all of the trends that we've been talking about tend to reach their most extreme in the non-traditional or gig workspace. There are certainly upsides to the flexibility of gig work, and we've all read about those, or maybe recently I've noticed ads on TV or maybe on social media related to that. The challenge can be that you have even less predictability around your income, and so that concept of near term and volatility, of course, is more pronounced if you have less ability to confidently forecast or anticipate what income you have. We think in some ways it's the most extreme case, or it can be, of the volatility and the need is just the same. Folks need that access to a place to build up savings. They may need access to credit on quality terms for small amounts and short durations. We actually had a chance to test with gig workers something that many people don't realize is common in the workplace in this country, which is a form of emergency cash assistance. Before we started doing this work, I did not realize that firms as recognizable and large and diverse as Home Depot and JetBlue and Walmart and many others, offer some form of an emergency cash benefit or an emergency cash grant often their start in response to natural disasters, but some of them extend to other kinds of needs for emergency cash. We had a chance to test that for gig workers together with an organization called The Workers Lab, and we have a whole report on it that you can read up, but it turns out that employers or gig platforms that can make even fairly modest amounts of cash assistance available to their workers in times of crisis can generate enormous goodwill and really solve in the most direct way some of the issues that make it hard for their workers to show up and participate fully in the workplace.

LuAnn Heinen:
Yes, that's a wonderful benefit that many companies do offer. It reminds me a little bit of donated PTO programs when someone is in crisis or in need and doesn't have the time off, that that can be donated. Not so much in a gig environment, but very much in retail and other lower and middle-wage work environments.

Timothy Flacke:
Yes, with some overtones of the savings circle, right? Sometimes we like the chance to help out our fellow workers, our teammates, and whether it's donating PTO or working together on a financial goal.

LuAnn Heinen:
I think this gets to where we are today in terms of just the climate. People, I think, are more aware of the collective. It reminds me of something you've said about how non-financial factors do drive financial security and things like understanding or giving people a chance to articulate their values and aspirations, having a social network that's financially secure. Those kinds of things that aren't strictly speaking financial that can impact a person's financial well-being.

Timothy Flacke:
Yes, I'm glad you raised that. I think about it this way - we all need a certain amount of material resources, income, and wealth and the rest of it, and then if you think just about the people you may know in your own life, I certainly have met people who appear to have quite a lot and yet still seem to be chronically stressed about their finances, and then there's that other person who seems to have maybe a very modest paying job, and they don't seem to have a lot of resources, but they don't seem to be carrying that sense of insecurity with them. That's in no way to take away from the privacy and the importance of having just a fair wage, but it is an interesting question. If two people with even the same incomes can have very different outcomes in terms of how they feel about their finances, what could we learn about that? That led us to do some pretty deep research with people who are low and moderate-income, but who seem to have that feeling of self-confidence about their finances, feeling of financial security, which again as I said earlier, we really feel is the key to unlocking benefits for the family, the household, but also for the employer. That's what led us to some of the insights that you've previewed. It turns out that when you look at those folks, that they tend to view their financial situation as a journey, as a work in progress, as opposed to feeling that wherever they are at any given moment, that's kind of where they're faded to be and that is where they fit in the economy or otherwise. That concept of a journey really can be useful if we think about how we design and communicate employee

benefits or financial products, we want to mirror that, we want to send that message that whatever we're offering, whatever tool we have available, it is designed to help people keep making progress or keep advancing on their own financial journey.

Some of the other elements come up here as well. The folks who seem to have that good feeling about their finances, that feeling of security, often have a social network of some kind and that social network is important as a source of resources, just in a very practical, tangible way. Those people can offer advice. They can potentially loan you money, whatever it might be. There's also something really important about seeing people like you, who are in a good financial situation and recognizing that that is something that's available to you. Also, as you noted, a piece of this puzzle is embracing the idea that we all have values and aspirations, and that that's something that is a source of strength, or can be a source of strength, and giving voice to that in the way that we, again, design and communicate about financial products or employee benefits. These things like a lot of wisdom, there's something very familiar and common sense about this, but at the same time, if you stop to look, once you identify these things, very often we communicate, whether it's to our workforce or to our customers, not in a way that says, I know you're going somewhere, I know that you are not limited to where you are right now in your finances, I know you have values that are deeply important to you, and that's a source of strength, maybe it's your family, maybe it's something else, and that you are part of a community, or you can be, so that you're not alone. These ideas actually really make a difference in how likely, as we've seen, workers are likely to take up and use products, and ultimately we believe, how likely they are to have that state of mind of being in charge of agency and comfort and security about their finances, which as I keep saying, is really the bullseye we need to be aiming for, the place we need to keep in mind as the purpose of our employee benefits and other interventions.

LuAnn Heinen:
Well, thank you for that. Can you give an example of what would inclusive financial messaging be?

Timothy Flacke:
I'll answer with a very specific example. We've had a chance to work with United Parcel Service and their retirement record keeper company, Voya, over a number of years. That story really starts with UPS recognizing even before we met them, that the financial security and the financial wellness of their workforce really needed to be a priority and it ultimately led to something that we spend a lot of time on, emergency savings and helping them use their retirement plan to support emergency savings. But to go back to this part of the conversation, as a part of that work, we got to look closely at how they communicated their emergency savings offering to their workforce. The images and language shifted to embrace those concepts I talked about. You can convey or you can reflect people's values if you have, for example, images of families, images of close connection between human beings. You can convey a sense that people are on a journey through the way that you talk about language, or I should say with the language you choose, rather. There are subtle but important ways to incorporate these concepts in how you communicate about the offerings that you have to your workers. That's a very concrete example. I would also refer you to our website. We have a whole toolkit that summarizes our research findings and has examples of some of these principles in action. You can find that on https://buildcommonwealth.org/.

LuAnn Heinen:
Great, thank you for that. Bringing up UPS, what were the business outcomes that UPS found as a result of their program, which was effectively communicated? What changes did it make?

Timothy Flacke:
Yes, it had a significant lift in the number of people who were participating in the after-tax portion of the retirement plan. Not to get too into the weeds, but that really was the practical way for UPS to give their workers a place to save where they could easily get those funds back out if they needed them. That was a way to use a feature in their retirement plan for, I think of it as the shock absorber, savings in their lives. A dramatic increase in the amount of after-tax savings as a result of the work, significant increase in the number of people

using it, an even higher increase in the fraction of their workforce that was aware this feature was available to them for this purpose. Off top of my head, I think we saw open rates in the email campaign, and this was more than 90,000 workers who were targeted, open rates exceeding 40%. It's just one step in a process, but when you see 40% of a workforce responding to that kind of outreach, it suggests to me at least, that you've tapped into an issue that's on their minds. That's where you generate the sort of goodwill of being, if you will, kind of seen that your employer understands that something about how do you manage through the short term is an issue that is part of your life and part of your financial life, and that they're going to get down there in the trenches with you and try to offer you something useful to address that.

LuAnn Heinen:
What is the best evidence you could share that addressing financial insecurity of employees gets to the bottom line?

Timothy Flacke:
I'll share with you some of the sources that we refer to. Mercer is out there with having estimated the lost productivity in the workplace due to financial stress, and they put a $250 billion annual figure on that. $250 billion of business value and of potential profits lost to worker financial stress. In 2019, PWC found that one in three employees admitted to being less productive at work because of financial stress. In 2017, Mercer, again, found that employees spend an average of, this is just almost too high to seem incredible, 13 hours a month at work worrying about their finances. You just kind of keep on going down these, you start to paint a picture that the costs of financial stress are significant. There are a handful of really interesting studies out there. There's one from University of Pittsburgh that looked at short haul truck drivers, and they were able to chart a causal relationship between having greater financial security and less likely to have driving accidents. What I love about that is that, I spent a lot of time in these conversations, I honestly say the idea that someone might be more likely to crash their truck on the job really hadn't occurred to me as a byproduct of financial stress. Once I read that finding out, that makes sense to me, it's the same basic argument, right? There's a little part of that driver's brain chewing away on what if and how am I going to manage and who am I going to talk to and what about this? And one plus one equals two, or three here, I don't know, and I thought, you know, that makes sense to me. Sure, that person is more likely to be at risk for having an accident. I mentioned that, because I think the more you bore into it, the more you'll find a connection between a bunch of different business outcomes and the financial security and anxiety of your workforce. Think about shrinkage in a retail environment, think about quality of customer service, and for those of us who are parents, not our proudest moments, but I think we can all relate to when we have a lot on our minds and maybe we're just a little snappy with the kids or not quite the parent we want to be. You can see how something like that translates to the workplace, right? It's hard to be patient in a customer service capacity, if you have a lot on your mind.

LuAnn Heinen:
Thank you so much for that, Tim. It was great having you on the podcast. Thank you so much.

I've been speaking with Timothy Flacke, Executive Director of Commonwealth, a Boston-based leader in advancing financial security and opportunity for all. To learn more about his organization's collaboration with employers, financial services firms, record keepers, payroll, and other workplace solutions providers, fintechs and policy makers, go to https://buildcommonwealth.org/.

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