The Impact of Employee Financial Health on Business and the Economy

A path to helping employees transition from survival mode to financial stability.

NETSPEND

Executive Summary

Financial health has always impacted workforce productivity and performance, but never so profoundly as it does today.

Even under normal circumstances, employers lose 150 hours of productivity *per employee* each year due to financial stress.[1] That's nearly one month of lost productivity for a full-time employee.

Today, with more than 70% of Americans saying their personal financial situation has been negatively impacted by the pandemic,[2] employers must understand that all employees — even those they can keep or rehire — will struggle to manage financial stress. And the consequences will have far-reaching implications for business performance and profitability.

Before the pandemic began, Netspend commissioned research to examine the status of employee financial health in America, learn more about employees' paths to financial security, and uncover how employers can help to pave the way. We talked to more than 1,000 U.S. full- and part-time workers and more than 500 employers to understand employee needs and what employers are doing to respond.

Now, we've overlaid that data with eye-opening insights on recent COVID-19 employment, financial and spending impacts, all of which are driving new behaviors that will impact businesses for years to come.

From this research we've identified six data-backed findings about the business impacts of employee financial health and what employers can do to maximize employee performance and productivity, while supporting business outcomes in this challenging time.

1. Barriers to financial health go well beyond income levels and are connected to cash flow, and the lack of ability to save.
2. Financially insecure employees impact the bottom line: they are significantly more likely to have lower workplace performance, engagement, satisfaction and retention than financially secure employees.
3. There are two key financial security factors that employers can support to improve employee engagement.
4. Today's workforce needs are increasingly diverse and complex, but employers can respond with helpful innovations while streamlining business processes.
5. Pandemic-driven behavior changes will be a catalyst to improve workforce access to digital payroll and e-commerce, which can reduce financial stress.
6. Employers must seize the opportunity and leverage available tools to respond to emerging behaviors and support employee financial health.

Read on to get the data and actionable insights behind each of these findings.

Unless otherwise indicated by a separate citation, the statistics set forth in this Whitepaper were compiled pursuant to one of two surveys privately commissioned by Netspend Corporation and conducted in January and February 2020: (1) Survey of individuals employed in construction, restaurant, hospitality or retail industries conducted by Murphy Research; and (2) Survey of members of the American Payroll Association conducted by the American Payroll Association.

KEY TERMS, DEFINED:

What is financial health? Simply put, a measurement of a person's financial life assessing whether they believe they can be financially resilient and pursue opportunities over time.[3]

A lack of financial health is also known as **financial insecurity** or **financial instability.**

Financial insecurity or instability can lead to feelings of **financial stress.**

Financial control is the feeling of being in control of one's finances, and having or being on a path to financial health.

Introduction

Employee financial health has always been essential to the stability of the American workforce, but few times in our history has it been more important than it is today. The workforce and the economy are in a state of volatility never before seen. In a matter of weeks, it has transitioned from being a job seekers' market focused on recruiting and retention, to a state of survival.

Today, more than ever, it is imperative that employers enable financial health to support employee stability, engagement and performance.

The majority of Americans across all generations were already consistently worried about their finances before COVID-19, calling it the number one overall cause of stress.[4] In fact, it was estimated every employee lost 150 hours of productivity each year due to financial stress, which negatively impacts reliability and performance.[1]

Now, many who were already living paycheck-to-paycheck have a financial situation that has gone from bad to worse, with 70% saying their personal financial situation has been negatively impacted by the pandemic.[2]

Earlier this year, Netspend commissioned two separate research projects to examine the status of employee financial health in America, employees' paths to financial well-being and how employers can help to pave the way.

First, we conducted a survey of more than 1,000 U.S. workers who are employed full- or part-time nationwide. Then, we partnered with the American Payroll Association to execute a survey of more than 500 payroll practitioners across 17 industries, to learn the actions being taken at the employer level to tackle this issue. Finally, we overlaid the recent impacts of COVID-19, including behavioral shifts that are changing the way people deal with their finances today, and likely long into the future.

Early Indications of the Pandemic's Impact on Financial Security

- In January 2020, ***28% of workers*** felt somewhat or very financially insecure.
- In April 2020, ***60% of Americans had some form of negative employment impact***; and ***30% said that their feeling of job security had decreased***.[5]

This research, coupled with new eye-opening insights on the current economic status of America's workforce, highlights the significant impact employee financial health has on businesses and the economy as a whole. Here, we also introduce six key findings about employee financial health and what employers can do to maximize employee performance and productivity, while supporting business outcomes in this challenging time.

1. Barriers to financial health go well beyond income levels.

While income amount will always be a key driver of financial health, several other factors play a role, including many related to cash flow, spending cycles and the ability to save:

What are the barriers to financial health?

- **85%** Not enough income
- **64%** Debt/Loans
- **57%** Insufficient savings
- **42%** Overspending
- **42%** Unpredictable income
- **42%** Inconsistent wage payments

How financial insecurity manifests itself in employees' lives

- **55%** don't have enough leftover each month to save for retirement
- **55%** can't pay for an unexpected $400 expense without going into debt
- **43%** don't have any money left after covering basic expenses each month
- **33%** run out of funds before their next paycheck and need to postpone paying bills or borrow funds

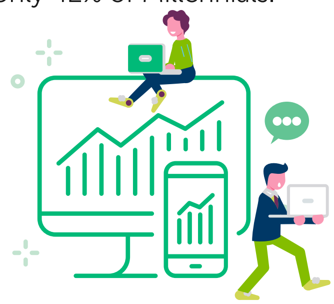
Today, it's no surprise that people are reducing non-essential expenses in difficult times (nearly half reported doing so in March and April 2020[5]) and making efforts to save more. And there was a real-time uptick in the amount of savings being set aside in the early months of the pandemic. Netspend data found that consumers' savings balances increased more than 50% from March to April, although it remains to be seen if those increases will be sustained in the face of ongoing, large-scale unemployment. It's worth noting that March also saw the largest percentage decrease in credit card debt in more than three decades.[6]

Pre-pandemic, financially insecure individuals were also more likely to be employed part-time, work two or more jobs or have inconsistent monthly income. Now, many who previously held multiple jobs may be unemployed or under-employed, as estimates indicate unemployment reached 15% in mid-April (notably, this puts COVID-19 unemployment rates above the rate at the height of the Great Recession).[7]

Recent data also shows that more than half of Americans are concerned about paying their bills, and, as noted, 60 percent have experienced some form of negative employment impacts because of the pandemic, such as reduced hours, unpaid leave, furlough or layoff.[5]

These issues add up to more than lost income. These employees are under increased stress and may have more demands on their time as they look to replace lost work while navigating personal impacts of the pandemic. For businesses, this likely means decreased productivity and employee reliability.

Additionally, recent research showed different generations are tackling this issue in different ways — 46% of Gen Z plans on saving more of what they earn in the next five years, versus only 42% of Millennials.[8]



The impact of financial instability in Gen Z:

The youngest members of today's workforce are especially impacted by financial instability.

> The most likely to be impacted by not having enough income
69%

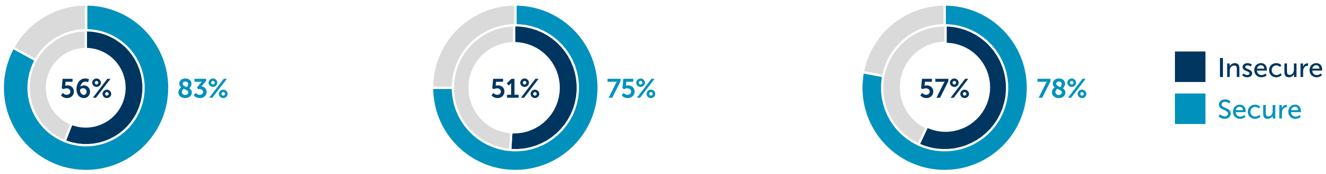
> The least likely to be saving a portion of their monthly income for retirement
only **34%**

> The least likely to be able to pay for an unexpected $400 expense without going into debt
39%

Gen Z is also the most likely to consider overspending (57%), unpredictable income (51%) and inconsistent wage payments (49%) as barriers to financial security. Early data shows younger generations are among the most likely to be impacted by pandemic-related job losses, too — as of April 2020, 61% of Millennials and 56% of Gen Z had already lost their job or had their hours reduced.[9]

2. Financially insecure employees are significantly more likely to have lower workplace performance, engagement, satisfaction and retention.

Even before the pandemic, there was a correlation between feelings of financial insecurity and workplace satisfaction, engagement and performance. Financially insecure workers are also less likely to recommend their workplace to someone they know or stay at their place of employment for the next two years:



Workplace Satisfaction
(% very/somewhat satisfied)

Likelihood to Recommend Employer to Others
(% very/somewhat satisfied)

Workplace Retention
(% very/somewhat satisfied)

Workplace Performance
(% completely agree/disagree)

Most days, I see positive results because of my work	74%	84%
I have the freedom to choose how to best perform my job	64%	82%
It is easy to become absorbed in my job	64%	76%
My company/organization inspires me to do my best work	57%	75%
I feel challenged/stretched in my job in a way that results in personal growth	49%	67%

Workplace Engagement
(% completely agree/disagree)

I feel like I belong there	70%	82%
I am proud to be a member of my company/organization	67%	83%
I feel valued at work	59%	77%
Most days, I look forward to going to work	58%	75%
My job provides me with a sense of meaning and purpose	53%	77%
I rely on my employer to provide financial tools/education to help me manage my money	18%	28%

Financially stable employees are known to be higher performers[10] than their financially insecure counterparts, who struggle to stay engaged, and this is becoming more evident than ever.

Estimates indicate that, during the course of the pandemic, 28 million jobs — which adds up to one in six U.S. workers — are at risk of being cut.[11] As layoffs trend upward, employers can expect the negative impacts to be pervasive as the stress adds up, even for those individuals who remain in their roles.

This translates directly to the bottom line: Companies with high employee engagement are 21% more profitable[12], while low employee engagement costs companies as much as $500 billion each year nationwide.[13]

3. There are two key financial security factors that employers can support to improve engagement.

Our research shows that these two factors are major drivers in employee engagement:

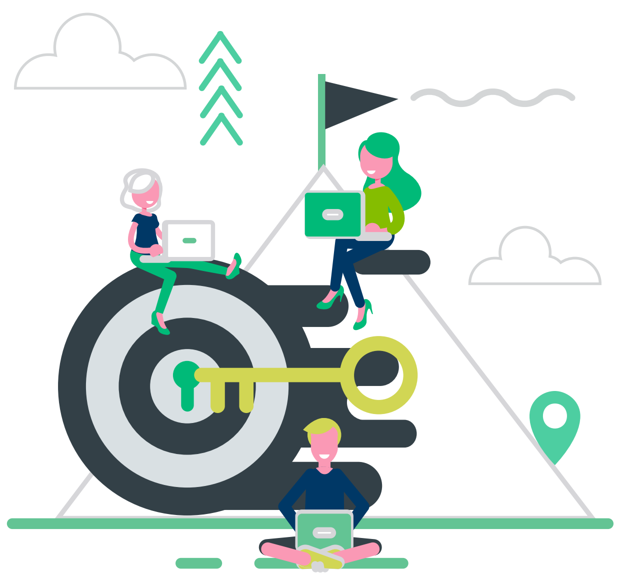
1. How well employers understand employees' needs.

2. How in control of their finances employees feel. This is especially true for Millennials, Gen X and Baby Boomers.

Naturally, employers who both understand and help their employees with financial wellness and control see higher employee satisfaction and increased retention.[14]

When it comes to helping all employees feel financially in control, it's key to understand what they value most. Our data shows that employees value financial health tools that let them access financial services without disrupting their work schedules, and they resoundingly prefer payroll options that give them fast, convenient access to their funds. Direct deposit and same-day access to tips and earned wage payments are some of the top payroll options employees are interested in being offered.

We also learned that 64% of employees are most interested in savings programs, discounted or free financial services and multiple payroll methods. And about a quarter of employees actually **rely on their employer** to provide tools and education that help them manage their money. For Gen Z, this number goes up to 34%.



There is an opportunity to reduce business costs and risk, to the tune of up to $500 billion per year.[13]

How?

+ Lower absenteeism
  Workers with high financial stress are twice as likely to use sick time when not ill[13]
+ Reduced health-related costs
+ Reduced distractions and workplace accidents or injuries
  One in three employees is distracted by their personal finances at work[13]
+ Higher retention
+ Higher tenure
+ Lower recruitment and HR costs

4. Today's workforce needs are increasingly diverse and complex, but employers can respond with helpful innovations while streamlining business processes.

Workers are more diverse, dispersed, independent and untethered than ever before. And now, it's safe to say that a much larger proportion of the workforce is less financially secure. This should be a major consideration for employers as they work to stabilize and turn toward future growth.

Consider these pre-pandemic workforce demographics:

Five generations are working side-by-side, for the first time[15]

Nearly 2 in 5 workers are remote

3 in 10 workers are part-time employees

Nearly 1 in 10 workers are independent contractors

1/2 of younger workers (Gen Z) are working part-time

1 in 10 workers are seasonal employees

Almost 1/2 of workers are either un-or under-banked (47%)

Sixty-nine percent of financially secure employees are satisfied with the financial health tools they are currently offered. However, it should come as no surprise that only 41% of financially insecure employees are satisfied with their current financial health tools.

The implications can be significant for employers. Due to the increasing number of part-time and gig workers, there are more workers to recruit, hire and retain, and there are more factors to consider in how you pay, communicate and incentivize them. How can employers respond to this diverse evolving workforce, and help it to feel more financially secure in a sustainable, scalable way?

For starters, businesses can **go beyond simply providing a biweekly paycheck.** The increase in Millennials and Gen Z workers has led payroll managers to report that they have higher customer service expectations for the payroll team. As a matter of fact, our research showed more than one-third of employees desire "excellent" customer service from their payroll departments.

Employers can also offer options to be paid more frequently. To feel more in control of their finances, more than half of younger generations (Gen Z and Millennials) are asking to be paid more frequently, or to have on-demand access to wages they have already earned but have not yet been paid. **Forty-one percent of all employees are interested in receiving daily payment options. Why?**

23% believe it gives them fast, convenient access to funds

17% say it helps them feel more in control of their finances

16% believe it makes them feel their employer understands their needs

Some companies go even further by **making tools that support financial health, money management or financial literacy and education** available to their employees. These tools can range from mobile wallets to the ability to track and manage payroll funds, and nearly one-third of employees believe these options allow them to budget effectively. Further, 25% believe money management coaching helps them to feel in control of their finances, while nearly one in four employees reports financial literacy and education make them feel their employer understands their needs. Giving your employees the tools they want and need to support their financial goals has a perceived and real impact on their financial health and their job performance that ultimately improves business outcomes.

5. Pandemic-driven behavior changes will be a catalyst to improve workforce access to digital payroll and e-commerce, which can reduce financial stress

COVID-19 has accelerated a shift to digital and contactless payment methods instead of cash, due to social distancing and concerns of infection. This has added up to cash shortages at restaurants and delivery services — and less cash on hand at locations to pay out tips and reimburse drivers.

At the same time (and for many of the same reasons), consumers are increasingly turning to online shopping for groceries, household goods and takeout or delivery. Research on consumer spending during the pandemic showed online spending increased by as much as 30%.[16] And Netspend cardholder data shows that people are using less cash. The portion of consumer spending that represents cash withdrawals is down 10% both year-over-year and compared to pre-COVID-19 crisis.

Access to e-commerce is clearly more important than ever. But it's not an option for the 8.4 million Americans who do not have bank accounts, which likely includes many hard-hit restaurant workers.[17] For these individuals, paper checks do not present an attractive option, either. The cost of cashing checks just to access their funds can be steep, as many businesses charge a flat fee plus a percentage of the check itself.[18]

Those operating with cash only are locked out of e-commerce altogether — both during the pandemic and in the future, this segment of the workforce needs access.

Providing additional payment options that don't require a bank account, like paycards, along with financial literacy education can help. And current circumstances are making paycard users even more interested in online transactions. Amongst our cardholders, Card Not Present spend (card-based transactions where the card is not dipped or swiped in person), grew 24% in April compared to February of this year.[19]

Before the pandemic, one in five financially insecure individuals were interested in having paycards as an option to receive pay. Recent consumer behaviors indicate that this number could increase as those behaviors become long-term habits.

Our research also confirmed **high workplace engagement is strongly related to having a payroll option that makes employees feel their needs are understood and that they're in control of their finances.** Thus, businesses who respond to their employees' needs for access to e-commerce could see higher engagement now, and in the long run.

6. Employers must seize the opportunity and leverage available tools to respond to emerging behaviors and support employee financial health.

To be in step with new behaviors while meeting the needs of employees where they are, it is imperative that organizations update their payment tools to reflect cashless trends and respond to employee preferences — and, ultimately, support employee financial health.

Despite a clear demand for support of financial health, many companies are falling behind. In fact, 69% of companies have done nothing to address the evolving needs of the workforce in the last year. During this time, only 12% of companies in our study had expanded their offerings to include payment or money management tools and even fewer — just 9% — had added an option to be paid more frequently than every two weeks.

	WHO IS OFFERED IT		WHO WANTS IT	
TOOL	Financially Insecure	Financially Secure	Financially Insecure	Financially Secure
Early Access to Earned Wages	19%	30%	46%	44%
Online Financial Tracking / Budgeting	16%	30%	51%	52%
Financial Literacy and Education	13%	26%	43%	47%
Money Management Coaching	11%	25%	43%	45%

Employers are still falling short on offering many tools our research shows would help financially insecure individuals to feel in control of their finances.

"69% of companies have done nothing to address the evolving needs of the workforce in the last year."

Empowering employees with the tools and resources to feel in control of their finances, budget and save is clearly more important now than ever. Employers should make it easy for employees to save by giving them the information to be smart about it, along with the technology and tools to make it frictionless. Tips and reminders help to keep them on track and reinforce positive behaviors.

When employers offer tools in these areas, they see both adoption and impact. Here are the tools and resources we found employees are most interested in:

Payment Tools That Deliver Convenient Access to Funds

53% of financially insecure employees are interested in having multiple payroll methods available to them

42% believe multiple payroll methods provide them fast, convenient access to financial services

41% report it helps them feel they have control over their finances

Education

43% of financially insecure employees are interested in money management coaching

28% of employees feel money management coaching allows them to budget effectively, and

43% of financially insecure employees are interested in financial literacy education

26% feel financial literacy and education helps them to feel in control of their finances

Technology

51% of financially insecure employees are interested in online financial tracking and budgeting tools

32% of employees feel these tools allow them to budget effectively

29% of employees say these options help them feel in control over their finances

Note: Of the 16% of financially insecure individuals who have been offered these tools, nearly 60% have used them.

As COVID-19 continues to impact consumer behavior, we saw Netspend cardholders put these trends into action through increased use of our mobile app, online tools and spending features.

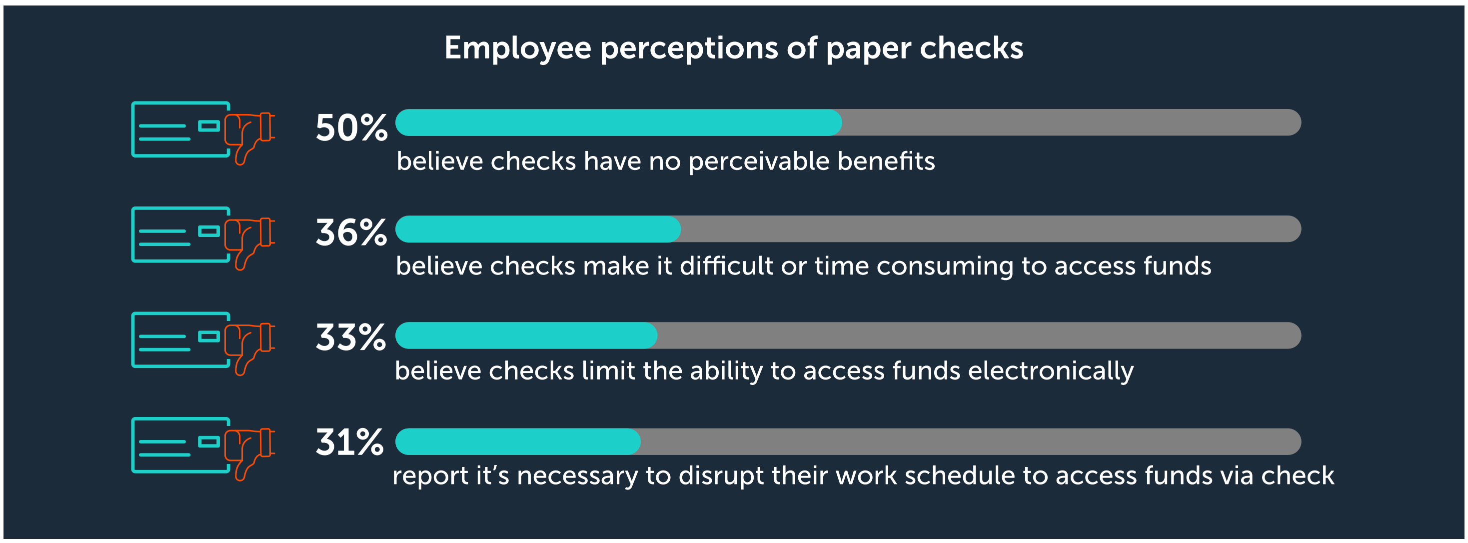
Increase in the use of digital and mobile tools between February and April 2020[20]

- **+ 73%** increase in new user mobile app installs
- **+ 20%** increase in online account users

Cardholders are also using digital and mobile tools to send money to others and purchase goods. Between February and April 2020:

- **+ 18%** increase in Peer-to-Peer (P2P) transfer volume
- **+ 39%** increase in the number of accounts purchasing digital goods
- **+ 63%** increase in digital goods purchase volume
- **+ 90%** increase in digital goods spending

Our research also shows high workplace engagement is tied to having a payroll option that makes employees feel understood and in control of their finances. This is true across all generations and industries. Additionally, direct deposit and paycards are both preferred among employees because they provide convenient, electronic access to funds. **More to the point, paper checks are among the least desirable ways for employees to be paid.**



Today, we're seeing more checks being deposited to Paycards via the Netspend app. In April 2020, the number of cardholders who use our mobile check load feature increased 22% over April 2019.[21]

Paycards give employees more financial convenience, security and freedom. Employers can fund wage payments at any interval, allowing for direct, and even on-demand or same-day access to earned payroll funds. This helps employees manage cash flow, saves them time and money, and frees them from the many burdens of check cashing.

Employees who earn tips can also use paycards to get more reliable payouts and eliminate time waiting after their shift for cash tips.

CONCLUSION

Consumer preferences have been moving toward digital payments for several years, and COVID-19 will continue to accelerate adoption as new behaviors become long-term habits. Pre-pandemic research showed that consumers choose a preferred payment method largely because of convenience and speed, factors that aren't associated with checks.[22]

As we continue to navigate these unprecedented circumstances, employers must adapt. By embracing available information, technology and resources, they can better address the quickly evolving needs of their workforce and improve employee financial health. Doing so will enable a strong foundation for business stability and growth.

ENDNOTES

1. Chicago Business Journal, April 2019, "Employees' Money Worries Drain Employers' Bottom Line" https://www.bizjournals.com/chicago/news/2019/04/15/employees-money-worries-drain-employers-bottom.html
2. The Financial Brand, "A Closer Look at How Covid-19 Is Smashing Americans' Finances" https://thefinancialbrand.com/94831/coronavirus-covid-19-loan-credit-layoff-furlough-relief/?edigest
3. Financial Health Network https://finhealthnetwork.org/research/financial-health-measurement/
4. Forbes, September 2017, "What Employees' Financial Unwellness is Costing Their Companies" https://www.forbes.com/sites/ellevate/2017/09/07/what-employees-financial-unwellness-is-costing-their-companies/#5d79a5055f9a
5. YouGov survey of 2,589 employed Americans, March 12 – April 29, 2020 https://campaign.yougov.com/US-understanding-economic-recovery-and-consumer-behaviour-during-COVID-19-webinar-recording.html
6. CNN, May 2020, "New Threat to the Economy: Americans Are Saving Like It's the 1980s" https://www.cnn.com/2020/05/12/investing/jobs-coronavirus-consumer-spending-debt/index.html
7. Brookings.Edu, "The Unemployment Impacts of Covid-19: Lessons from the Great Recession" https://www.brookings.edu/blog/up-front/2020/04/15/the-unemployment-impacts-of-covid-19-lessons-from-the-great-recession/
8. Forbes, April 2020, "Covid Impact: Gen Z versus Millennials" https://www.forbes.com/sites/forbesinsights/2020/04/16/covid-impact-genz-versus-millennials/#6f0022cf5b5d
9. PRNewswire, April 2020, "Millennials Report Greatest Impact of Covid-19 on Jobs and Income" https://www.prnewswire.com/news-releases/millennials-report-greatest-impact-of-covid-19-on-jobs-and-income-301041050.html
10. Forbes, August 2019, "Why Your Employees' Financial Well-Being Affects Your Corporate Brand" https://www.forbes.com/sites/williamarruda/2019/08/04/why-your-employees-financial-wellbeing-affects-your-corporate-brand/#60d735dd40f5
11. Time, March 2020, "As Covid-19 Crashes the Economy, Workers and Business Owners Wonder If Anything Can Save Them from Financial Ruin" https://time.com/5805526/coronavirus-economy-layoffs/
12. Smarp, January 2020, "Eight Employee Engagement Statistics You Need to Know in 2020" https://blog.smarp.com/employee-engagement-8-statistics-you-need-to-know
13. HR Technologist, August 2019, "Businesses Losing $500 Billion Due to Employees' Financial Stress" https://www.hrtechnologist.com/articles/compensation-benefits/businesses-losing-500-billion-due-to-employees-financial-stress-2/
14. Plan Adviser, April 2017, Financial Wellness Benefits Key to Employee Retention https://www.planadviser.com/financial-wellness-benefits-key-to-employee-retention/
15. Inc., "Different Motivators for Different Generations of Workers" https://www.inc.com/john-rampton/different-motivations-for-different-generations-of-workers-boomers-gen-x-millennials-gen-z.html
16. BigCommerce, "Understanding the COVID-19 Effect on Online Shopping Behavior" https://www.bigcommerce.com/blog/covid-19-ecommerce/#changes-in-revenue-across-ecommerce
17. EconomicInclusion.gov, "2017 Household Survey Results" https://www.economicinclusion.gov/surveys/2017household/
18. U.S. News and World Report, March 2019, "How to Cash a Check Without a Bank Account" https://money.usnews.com/banking/articles/how-to-cash-a-check-without-a-bank-account
19. Compiled from Netspend internal data, April 2020.
20. Compiled from Netspend internal data, April 2020.
21. Compiled from Netspend internal data, April 2020.
22. MetaBank, "Faster Payments: What Consumers Want from Businesses in 2019" https://www.metabank.com/lp/faster-payments-a-business-growth-opportunity-infographic