Moving the needle on employees’ financial wellness: What HR leaders need to know

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Introduction

Do your employees have the financial wellness solutions they need to live happier, healthier lives? That is a question today's HR and benefits leaders must consider as a growing number of Americans are facing greater economic strain.

Medical and dental, life and disability are among the more common employee benefits that companies provide, but too many overlook the importance of financial wellness programs. Given the strong correlation between financial wellness and mental health, employers must consider adding financial wellness benefits into the fold.

This means providing to employees financial literacy and education programs, and access to socially-responsible, reasonably-priced credit options.

Companies that underestimate the importance of such programs risk losing talent and, ultimately, profitability. When employees are stressed about finances, they are often less productive and less engaged at work. They are also twice as likely to be looking for a new job.[1]

To help employers, this white paper explores the tools and resources that are needed to move the needle and help ensure employees are on the right path to better financial health.

State of the Economy

People today are financially stressed. And for good reason… Americans, many of whom live paycheck-to-paycheck, are finding that they have even less money to live, let alone save, as interest rates and inflation climb and consumer prices soar.

In fact, a survey by Pew Research Group found that, while the pandemic has receded as a major problem over the past two years, inflation concerns have moved in as the top concern facing the United States. According to the findings, 7-in-10 Americans view inflation as a very big problem for the country. This was followed by the affordability of health care (55 percent).[2]

Underscoring these findings, the BMO Real Financial Progress Index released in September 2022 found that Americans are growing increasingly concerned about rising consumer prices, inflation, and a potential recession.

More specifically, 74 percent of Americans said their concerns about inflation have increased, and more than 70 percent said their financial momentum is threatened by higher grocery bills (78 percent) and the rising cost of gas (76 percent), according to the Index.[3]

[1] PricewaterhouseCoopers. "2022 PWC Employee Financial Wellness Survey." PwC, www.pwc.com/us/en/services/consulting/business-transformation/library/employee-financial-wellness-survey.html

[2] Doherty, Carroll, and Vianney Gómez. "By a Wide Margin, Americans View Inflation as the Top Problem Facing the Country Today." Pew Research Center, Pew Research Center, 12 May 2022, www.pewresearch.org/fact-tank/2022/05/12/by-a-wide-margin-americans-view-inflation-as-the-top-problem-facing-the-country-today/

[3] Group, BMO Financial. 84% Of Americans Concerned a Recession Will Occur in the next Three Months: BMO Real Financial Progress Index, 28 Sept. 2022, www.prnewswire.com/news-releases/84-of-americans-concerned-a-recession-will-occur-in-the-next-three-months-bmo-real-financial-progress-index-301635100.html

Americans who said they feel "less" financially secure, rose to 27 percent from 16 percent a year ago.

Unfortunately, such concerns are justified. In July 2022, the U.S. Bureau of Labor Statistics reported that consumer prices rose 9.1 percent over the year ended June 2022 — the largest increase in 40 years. November 1981 was the last time inflation reached more than 9 percent.[4]

Energy prices — which include prices for fuel, oil, gasoline and electricity — drove much of this growth, skyrocketing 41.6 percent over the last year. This marked the largest 12-month increase since April 1980.[5]

Therefore, it is no surprise that many Americans are feeling the weight of inflation, as worries of a recession loom overhead.

This is resulting in greater financial insecurity and less, if any, money to set aside and save for emergency funds. Should an employee be hit with a surprise expense — like unexpected car repairs, unforeseen medical expenses, or untimely home repairs — the results could be significantly detrimental. In a challenging economic environment, financial progress is extremely difficult.

Consider this, according to the BMO Index:[6]

- Americans who report being "more" financially secure decreased to 39 percent from 50 percent a year ago.
- Americans who said they feel "less" financially secure, rose to 27 percent from 16 percent a year ago.
- The number of Americans who said they are making financial progress decreased to 54 percent from 62 percent a year ago.
- More than 40 percent of Americans under age 35 do not have enough savings to cover an emergency.

Even more alarming, a recent survey by Prudential Financial found that emergency funds are in crisis. The survey of both younger and older Americans found that half of all respondents have less than $500, or no emergency savings funds at all.[7]

Furthermore, a recent MarketWatch article stated that the personal savings of Americans have "fallen off a cliff," as the government reported that the personal saving rate hit 3.3 percent in the third quarter of 2022, down from 3.4 percent in the prior quarter. "That is the lowest level since the Great Recession and the eighth-lowest quarterly rate on record (since 1947). Adjusted for inflation, savings are down 88% from their 2020 peak and 61% lower than before the pandemic," the article stated.[8]

[4] "Consumer Prices up 9.1 Percent over the Year Ended June 2022, Largest Increase in 40 Years." U.S. Bureau of Labor Statistics, U.S. Bureau of Labor Statistics, www.bls.gov/opub/ted/2022/consumer-prices-up-9-1-percent-over-the-year-ended-june-2022-largest-increase-in-40-years.htm

[5] "Consumer Prices up 9.1 Percent over the Year Ended June 2022, Largest Increase in 40 Years." U.S. Bureau of Labor Statistics, U.S. Bureau of Labor Statistics, www.bls.gov/opub/ted/2022/consumer-prices-up-9-1-percent-over-the-year-ended-june-2022-largest-increase-in-40-years.htm

[6] Group, BMO Financial. 84% Of Americans Concerned a Recession Will Occur in the next Three Months: BMO Real Financial Progress Index, 28 Sept. 2022, www.prnewswire.com/news-releases/84-of-americans-concerned-a-recession-will-occur-in-the-next-three-months-bmo-real-financial-progress-index-301635100.html

[7] "Generational Gap Grows: Work & Money Outlook Divided." Prudential, 3 Nov. 2022, news.prudential.com/generational-gap-grows-work-money-outlook-divided.htm

[8] Fottrell, Quentin. "Personal Savings Have Plunged - How to Boost Your Savings in Case of a Recession." MarketWatch, MarketWatch, 25 Oct. 2022, www.marketwatch.com/story/americans-personal-savings-have-fallen-off-a-cliff-how-to-boost-your-savings-in-case-of-a-looming-recession-11666722275

And with nearly one-third of U.S. consumers having subprime credit histories, the ability to access loans in the event of an emergency is often not a viable option. As a result, too many find themselves turning to predatory lenders that promise quick and easy cash.[9]

"These are good people with good jobs, but who don't have a good enough credit score to walk into any bank or credit union. In our country, sadly, when that happens to people their next best option are these really predatory payday lenders that operate either through storefronts or online, and charge 200, 300, 400, 500 percent APRs on loans," said Tom McCormick, Co-CEO at BMG Money. "And if you think I'm exaggerating, I wish. Please go on-line and see for yourself!"[10]

Predatory Lending

The rising prices of food, gas and housing, coupled with little, if any, savings, forces too many to turn to high-interest payday loans, or other predatory small dollar loans, for access to cash in times of urgent need. These loans are designed to be quick and easy and, in most cases, all borrowers need to be approved is proof of income, a bank account, and a valid ID. Unfortunately, these extremely high-interest rate loans prove to be a debt trap for borrowers.

Payday loans are short-term, high-cost loans that can carry triple-digit interest rates. For instance, a typical two-week payday loan with a $15 per $100 fee equates to an annual percentage rate (APR) of nearly 400 percent, as explained by the Consumer Financial Protection Bureau (CFPB).[11]

The loan features can vary. As explained by CFPB, some loans, for instance, are structured to be paid off in one lump-sum payment. However, in some states lenders can "rollover" or "renew" a loan when it becomes due so the borrower pays only the fees due and the lender extends the due date of the loan. In some instances, the loans may be structured so that they are repayable in installments over a longer period of time, albeit with a terribly high cost.

[9] Stefan.lembo-Stolba. "Fewer Subprime Consumers across U.S. in 2021." Experian, Experian, 17 Nov. 2022, www.experian.com/blogs/ask-experian/research/subprime-study/

[11] McCormick, Tom, phone interview, Nov. 18, 2022

[12] "What Is a Payday Loan?" Consumer Financial Protection Bureau, www.consumerfinance.gov/ask-cfpb/what-is-a-payday-loan-en-1567/

Over the last decade, there's also been a rise in high-cost installment loans, which tend to be larger in size and repaid in several installments that extend over a longer period of time.

To further illustrate, consider the example provided by the CFPB: "On a typical payday loan, if you borrowed $300, you may owe $345 in 14 days — $300 plus the $45 fee. If you roll over the loan, you pay only the $45 fee, and you have to repay the $300 plus another $45 fee 14 days later. That means the cost of the original $300 loan, due to the rollover, has gone from $45 to $90. If you roll over the loan multiple times, it is possible to pay several hundred dollars in fees and still owe the amount you borrowed."[12]

Over the last decade, there's also been a rise in high-cost installment loans, which tend to be larger in size and repaid in several installments that extend over a longer period of time.

As defined by the Center for Responsible Lending (CRL), these are personal loans or car-title loans (secured by a vehicle already owned by the borrower). There are currently 34 states and the District of Columbia that have state interest rate caps of 36 percent or lower for larger, longer-term, high-cost installment loans. However, some of these lenders will evade state interest rate caps by affiliating with an out-of-state bank. In fact, triple-digit interest rates are common among these types of loans.[13]

To further illustrate, CRL provided the following example of a $2,500 loan with a two-year loan term: "At 100 percent APR — a rate that's common for high-cost installment loans — the total amount of interest paid increases nearly eight-fold, to $3,358. A loan with an interest rate of 200 percent over two years would increase the total cost of interest and fees paid by nearly 18 times, to $7,754 over two years. This means the total repayment cost for a $2,500 loan would be more than $10,000. In effect, a borrower can repay the principal borrowed on a high-cost installment loan and still be less than a third through making payments on the loan."[14]

For those with past due amounts, the repercussions can be devastating. Among the 40 percent of survey respondents who indicated that one of their installment loans was past due, 25 percent of borrowers had a car repossessed, and 25 percent reported having their wages garnished to repay the balance of their loans.[15]

To avoid the negative repercussions for failing to repay these high-cost loans, borrowers must often make unfavorable tradeoffs that further weaken their financial security, according to CRL research. According to the findings:[16]

- 35 percent struggled to make one or more loan payments.
- 29 percent have been unable to buy basic necessities like food or clothing.
- 25 percent did not pay a different bill.
- 24 percent skipped a needed medical appointment or getting a prescription drug.
- 23 percent incurred overdraft fees.

[12] "What Is a Payday Loan?" Consumer Financial Protection Bureau, www.consumerfinance.gov/ask-cfpb/what-is-a-payday-loan-en-1567/

[13] "Unsafe Harbor: The Persistent Harms of High-Cost Installment Loans." Unsafe Harbor: The Persistent Harms of High-Cost Installment Loans | Center for Responsible Lending, 26 Sept. 2022, www.responsiblelending.org/research-publication/unsafe-harbor-persistent-harms-high-cost-installment-loans

[14] "Unsafe Harbor: The Persistent Harms of High-Cost Installment Loans." Unsafe Harbor: The Persistent Harms of High-Cost Installment Loans | Center for Responsible Lending, 26 Sept. 2022, www.responsiblelending.org/research-publication/unsafe-harbor-persistent-harms-high-cost-installment-loans

[15] "Unsafe Harbor: The Persistent Harms of High-Cost Installment Loans." Unsafe Harbor: The Persistent Harms of High-Cost Installment Loans | Center for Responsible Lending, 26 Sept. 2022, www.responsiblelending.org/research-publication/unsafe-harbor-persistent-harms-high-cost-installment-loans

[16] "Unsafe Harbor: The Persistent Harms of High-Cost Installment Loans." Unsafe Harbor: The Persistent Harms of High-Cost Installment Loans | Center for Responsible Lending, 26 Sept. 2022, www.responsiblelending.org/research-publication/unsafe-harbor-persistent-harms-high-cost-installment-loans

Such predatory practices cause more harm than good as exploitative interest and fees often far exceed the amount borrowed, burying borrowers in a mountain of debt that is hard to escape.

Moving the Needle

Financial wellness starts with having the right knowledge, in conjunction with the right tools. These are the ingredients needed to move the needle.

Knowledge is power and this involves having access to robust financial literacy training to help people better manage their money. Consider, for instance, a solution that can provide free financial services like:

- The ability to chat with a financial coach.
- On-demand counseling services with accredited financial counselors who can work one-on-one to help people address topics like budgeting, debt management, credit report reviews, homeownership, and more.
- Free money management webinars.
- Debt management solutions.
- A credit report review with a financial coach.
- Access to online financial education tools like how-to articles, financial calculators, videos, checklists, and quizzes.

One employee benefits company that understands the power of financial literacy is BMG Money, which enables HR departments to provide financial literacy training for their employees.

BMG Money has partnered with Balance, a non-profit provider of financial counseling and education services, to deliver financial education resources, including free webinars, and no-cost financial counseling services. Through this partnership, BMG Money can provide employers access to a host of programs to help guide employees toward financial success. Available programs include:

- Debt and budget coaching, which includes a personal financial assessment, debt management plan, and budget counseling.
- A credit report review with a counselor who can review credit reports and answer questions about credit scoring, building a strong credit history, and correcting any inaccuracies that may appear.
- Student loan coaching with an expert who can guide borrowers through the complexity of the various programs, explain the options under each, and take into account the context of their financial circumstances.
- Rental coaching with specialized rental counselors who can help develop a personalized spending plan and provide advice for saving money, increasing income, and reducing debt.
- Home ownership coaching, which includes pre-purchase counseling, information on how to avoid foreclosure, and reverse mortgage counseling.

Having access to socially-responsible, reasonably-priced credit is an important lifeline for employees who are too often taken advantage of by predatory payday lenders in their time of need.

Through BMG Money, employees also can access educational resources like how-to articles and online tools to break the debt cycle. With immediate actionable steps, employees have the power to make their money work for them.

In addition, BMG Money delivers tremendous value to employees in need of emergency funds through its short-term employment-based loans that companies can offer as a voluntary employee benefit. Enter the workplace loan solution LoansAtWork.

A 2022 PwC Employee Financial Wellness Survey found that 37 percent of respondents have used payday loans or payday advances in the last year.[17] LoansAtWork is a far better alternative.

Having access to socially-responsible, reasonably-priced credit is an important lifeline for employees who are too often taken advantage of by predatory payday lenders in their time of need.

Through LoansAtWork, employees have peace of mind knowing that they can manage unexpected expenses over time, with fixed, affordable payments — regardless of their credit score. There's no risk to their homes, cars or bank accounts, and there are no balloon payments, late fees, or penalties.

The loan process is quick and easy so employees have swift access to the funds. Plus, payments — which are made via payroll deductions to ensure timeliness — are reported to the credit bureaus, which is beneficial for employees' credit history.

LoansAtWork has critical safeguards in place for employees and there's no cost, no risk for employers. This makes LoansAtWork a truly win-win solution.

Employment-based financial services, like those provided by BMG Money, are not only here to stay, but continue to grow. Providing such services also can help employers better attract and retain talent, which is an especially important factor given today's challenging job market.

The reality is that personal financial issues impact employees emotionally, mentally and physically, as evidenced by the PwC survey of more than 3,000 workers across several industries.

According to the findings, employees said that financial stress/money worries in the past year have had a severe or major impact on their mental health (34 percent), sleep (33 percent), self-esteem (30 percent), and physical health (23 percent).[18]

[17] PricewaterhouseCoopers. "2022 PWC Employee Financial Wellness Survey." PwC, www.pwc.com/us/en/services/consulting/business-transformation/library/employee-financial-wellness-survey.html

[18] PricewaterhouseCoopers. "2022 PWC Employee Financial Wellness Survey." PwC, www.pwc.com/us/en/services/consulting/business-transformation/library/employee-financial-wellness-survey.html

This financial stress has a ripple effect on the workplace, potentially impacting an employer's bottom line. When employees are stressed about finances, they are often less productive and less engaged at work. They are also twice as likely to be looking for a new job.[19]

Furthermore, the PwC research found that, among the employees looking for a new job, 59 percent said they were having difficulty meeting their monthly household expenses, and 50 percent were using credit cards to pay for monthly necessities they couldn't otherwise afford.[20]

"Keeping in mind the high cost of employee turnover, including recruiting and training plus the loss of institutional knowledge, employers should show they care about employee financial well-being by promoting benefit programs that help employees stretch their money further," the PwC survey stated.[21]

Through its holistic approach, BMG Money can work with HR and benefits leaders to help ensure that their employees have the resources and tools needed to achieve financial success. Since its establishment in 2009, the consumer finance lender has grown to count employees residing in 43 states across the country as customers and made more than $2.5 billion of affordable loans.[22]

"We thought there was an opportunity to build a company, mission-driven, around preventing people from having to go to these predatory payday lenders. And the way to make it possible was to offer the loans as an employee benefit," said McCormick, who noted that the company focuses on serving industries where employment turnover is relatively low.

Added McCormick, "This is a financial wellness tool that actually moves the needle. This financial wellness tool really, really generates satisfied employees, grateful for the program, whose lives get better right away."

[19] PricewaterhouseCoopers. "2022 PWC Employee Financial Wellness Survey." PwC, www.pwc.com/us/en/services/consulting/business-transformation/library/employee-financial-wellness-survey.html

[20] PricewaterhouseCoopers. "2022 PWC Employee Financial Wellness Survey." PwC, www.pwc.com/us/en/services/consulting/business-transformation/library/employee-financial-wellness-survey.html

[21] PricewaterhouseCoopers. "2022 PWC Employee Financial Wellness Survey." PwC, www.pwc.com/us/en/services/consulting/business-transformation/library/employee-financial-wellness-survey.html

[22] McCormick, Tom, phone interview, Nov. 18, 2022

How Does it Work?

By leveraging LoansAtWork by BMG Money, companies can empower employees with access to the emergency funds that make a difference. There is no cost and no risk to the employer. Furthermore, BMG Money manages the program and takes on all administrative burdens, minimizing the impact on employers.

Employees can apply online through the BMG Money platform and are approved based upon their employment status, not their FICO scores or other credit history. This helps guarantee access to those employees most in need. Loan amounts are very limited, based upon individual income to ensure that employees' financial standing improves.

These are simple interest loans, no compounding – no interest-on-interest, and loans are unsecured with no risk to employees' homes, cars, or bank accounts. There are no balloon payments, no late fees, no penalty rates, no pre-payment penalties.

Applications are most often approved immediately, and employees will not be rejected without review by BMG Money underwriters, which generally takes a day or so. The loan proceeds are usually available same day or next day after approval, depending on the employee's chosen funding method. BMG Money handles all enrollments and eligibility — employers don't need to get involved.

Payments then are automatically deducted from the employee's paycheck over a period of time selected by the employee. BMG Money calculates all payroll deductions and manages all loan accounting and servicing. BMG Money assumes 100 percent of the loan default risk, and employers do not pay fees of any kind or bear any risk.

"What the payroll deduction does is it allows people to pay a loan off over time in reasonable installments with confidence that they'll succeed. So, unlike a payday loan which is sort of designed to fail and get you into this unending debt trap, our loans are designed to help employees succeed," McCormick said. "The payment amounts are manageable on purpose… The payroll deduction approach decreases the risk for us. And, as any lender does, you have to price for risk, so the lower the risk, the lower the price, the better the solution for the employee."[23]

Should the employee leave the company for any reason, BMG Money will work with that employee to set up a payment plan outside the workplace — and, of course, the employer is never on the hook for loan balances.

[23] McCormick, Tom, phone interview, Nov. 18, 2022

Conclusion

Amid inflation and rising consumer prices, more and more Americans are feeling the weight of mounting economic pressures. It is likely that some of your employees are among them.

Help employees have the financial wellness solutions they need to live happier, healthier lives. This means providing them with access to financial literacy and education programs, and access to socially-responsible, reasonably-priced credit.

The good news is that companies don't have to go it alone. Through BMG Money's comprehensive financial wellness benefit, employers can differentiate themselves in a tough job market and reap the benefits of more financially-secure and productive employees.

Contact BMG Money today to learn more and ask about its references and successes to date. Make sure that your employees have the financial solutions they need to succeed. The time to act is now.

About BMG Money

BMG Money works tirelessly to create loan programs addressing the many different needs of the employed and retired populations. BMG Money's goal is to enhance the financial wellness of underserved consumers with a combination of financial education, credit monitoring solutions, and emergency loans, all tools that retirees and employees alike need to secure better financial futures.

Learn more about BMG Money