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ILLUMINATING A HIDDEN SAFETY NET:

Lessons from Research into Employee Hardship Funds

THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM

commonwealth

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ABOUT ASPEN FSP

The Aspen Institute Financial Security Program's mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.

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Commonwealth is a mission driven organization that builds solutions to make people financially secure. We believe that broad change requires market players to act. That's why we collaborate with consumers, the financial services industry, employers, policy-makers and mission-driven organizations. We apply consumer insight and business acumen to create solutions that our industry partners scale. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them.

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Executive Summary

Financial insecurity is increasingly common among households in the United States (US). Over a quarter of families in the US report that it is difficult to get by, or they feel they are just getting by, and over four in 10 report that they could not pay a $400 emergency expense without borrowing or selling something.[1] In 2014, almost 60% of US households experienced at least one financial shock, with over half of those households suffering lasting consequences due to subsequent struggles to make ends meet.[2] At the same time, the frequency of another driver of financial insecurity – natural disasters – has increased, creating large and highly visible shocks for workers and their families.[3] These statistics underscore the need for both new ideas and deeper investigation of existing practices in order to design a 21st century social safety net that delivers financial security for working families.

In this context, employee hardship funds – a little-known mechanism to help workers who experience a disaster-related or personal financial hardship – warrant more attention. The way that most of these funds work is that workers and the company contribute into a fund, and workers can then apply for cash grants from the fund. Specific grant eligibility criteria vary, but hardship funds generally try to help employees when disasters strike, or other unexpected events occur. One way to think about these funds is that they formalize the common, but generally personal and informal, practice of relying on friends and family in moments of need. In fact, when explaining why they sponsor these funds, many employers say that this is a way to expand on what employees are already doing for one another.

Employee hardship funds are not a replacement for sufficient wages and benefits, nor are they a comprehensive workplace financial health strategy. However, they are part of a hidden social safety net; and they provide something unusual and important within the panoply of financial supports being recommended to help workers who lack financial security: a flexible, quick, cash grant in a moment of need.

Seeing that this under-the-radar practice was growing, the Aspen Institute Financial Security Program and Commonwealth partnered to learn more about how hardship funds work and benefit employees and employers. The research team reviewed the limited available literature, interviewed employers and others involved in offering hardship funds, and conducted both quantitative and qualitative research with workers who have used them.

FUND BENEFITS AND DESIGN

The research identified numerous benefits of employee hardship funds, including:

- **Workers feel grateful and relieved.** Research participants shared resounding feelings of gratitude and relief regardless of how much they received from the funds. Among survey respondents, 60% stated that the funds made them less stressed. One fund recipient shared, "It's indescribable because you wouldn't think that your job or company would have that for you."

- **Workers feel more connected to their employers and their coworkers.** The research found that workers felt valued by their employers because of their funds' existence. As a result, 72% stated that they were more likely to stay with their current employer than leave for a company without hardship funds. In addition, the contributions of their coworkers generated a strong sense of community. One participant stated, "It made me feel like my coworkers had my back."

1 "Report on the Economic Well-Being of U.S. Households in 2017," Board of Governors of the Federal Reserve, 2018.

2 "The Role of Emergency Savings in Family Financial Security: How Do Families Cope with Financial Shocks," The Pew Charitable Trusts, 2015.

3 "Disasters in the United States: Frequency, Costs, and Compensation," Vera Brusentsev and Wayne Vroman, W.E. Upjohn Institute for Employment Research, 2017.

- **Workers are better able to build and maintain financial health.** Funds served as key resources for workers during a time of need. During an interview, a fund recipient described its impact as, "[Without the fund, I] would have been getting loans and falling back, taking from one bucket to fill another."
- **Workers report positive impacts on job performance.** Among survey respondents, 64% felt that the funds enabled them to be less distracted at work. One interviewee described, "As hard as you try to snap out of it, it's very difficult when it's a hardship like that…it would have eventually caught up to me and affected my job performance."

To achieve these benefits, however, fund managers need to design and deliver funds carefully.

There are seven key design decisions:

1. **Fund Structure**: Some sponsoring employers set up a separate charity, while others outsource operations to a third party, and a small number operate the funds entirely internally. Those who maintain closer control argue in favor of folding the fund closely into the company's culture, while those who outsource see greater privacy for grant recipients as a benefit.
2. **Eligibility Guidelines:** All funds require there to be both a precipitating "event," and a resulting financial hardship. Some funds limit the covered events to natural disasters, while others include personal hardships such as major illness or death of a family member, unexpected loss of income, housing disruption or other similar events.
3. **Application Process:** Most often, employees can apply directly through an online process, but some employers require workers to apply through their manager or a human resources professional. The level of documentation required varies widely, with some employers emphasizing speed and ease, and others requiring detailed financial statements or proof of the hardship and the use of funds.
4. **Decision-making:** Some employers emphasize the value of a rules-based, arms-length process (often outsourced) as a way of maintaining consistency and anonymity, while others argue for the value of a personal or committee-based decision in which each application is evaluated individually (though still anonymously).

5. **Grant Disbursement:** Funds are disbursed electronically or by check, directly to the individual or to the ultimate recipient of the funds, such as a landlord or healthcare provider.
6. **Fundraising:** The most common source of funds is a combination of employee contributions, corporate matching funds, and direct company contributions. Many funds run annual campaigns to solicit donations or provide an opportunity to automatically donate to the fund via payroll.
7. **Complementary Offerings:** Provided in addition to cash grants, complementary offerings may include financial counseling, connections to other local resources, case management services, legal services, loans, and debt consolidation.

Often, as fund sponsors make these decisions, they are primarily concerned with two central issues: ensuring that grants awarded do not exceed funds raised and adhering to hardship fund regulations. These issues are the right place to start, as they are critical to a fund's sustainability. However, the research demonstrates that exclusively prioritizing these issues in fund design can negatively affect recipients' experience in terms of their awareness of the funds, their satisfaction with the overall experience, and the impact that it has on their financial health.

DRIVERS OF EMPLOYEE AWARENESS, SATISFACTION, AND FINANCIAL IMPACT

To achieve a balance of ensuring that funds have long-term viability and also deliver on intended outcomes for recipients, it is important to understand what drives awareness, as well as the two core outcomes of satisfaction and financial impact.

Awareness

Awareness affects both usage of the funds, as well as contributions to funds. The research indicates that integrating funds into company practices and communicating regularly about them is a driver of their success. This can be through senior leadership support, fundraising drives, new hire orientations, or any communications consistent with company norms.

Satisfaction

User research indicates that application, decision-making, and payment processes with the following characteristics are more likely to lead to high satisfaction rates:

- **Anonymity:** Maintain applicants' privacy with their coworkers and managers, as well as potential payees, such as landlords or medical providers.
- **Ease:** Limit the detail and complexity of the information required.
- **Timeliness:** Provide quick turnaround. Any approval and payment process lasting longer than two weeks saw a significant drop in users' satisfaction.
- **Clear Communication:** Provide consistent and clear communication on what is needed and what applicants can expect before, during, and following the application.

Financial Impact

For the purposes of this research, financial impact was defined as enabling the grant recipient to return to his or her pre-hardship financial position. The research team also investigated if fund recipients experienced less financial worry and were more effective at work as a result of the grant. This definition sets a high bar, as many funds self-define their objective as helping in a moment of need, rather than solving financial challenges. Fund managers point out that an employee who has lost everything in a natural disaster or other emergency will need to access resources outside of the hardship fund. Nonetheless, the research team determined that this definition of financial impact is useful in highlighting the criteria that drive financial impact, regardless of the bar set, especially for funds that have broader eligibility criteria in terms of the types of events covered.

The research findings highlighted the following as key drivers of financial impact:

- **Rate and Timing of Approval:** Low approval rates lead to both dissatisfaction and low impact, as do narrowly applied eligibility criteria with no room for an "override" to prevent deserving applicants from being denied funds based on technicalities. Receiving funds quickly – before the initial financial hardship is further aggravated by late fees and penalties, expensive borrowing, or harm to the recipient's credit score – improves the financial impact of grant funds.
- **Amount of Funds Granted:** Among those who received a grant that fully covered their specific expense, almost 40% reported that they were able to return to their pre-emergency financial position, compared to only 5% of those who did not receive enough to fully cover their specific expense.

- **Additional Resources Provided:** Grantees who had access to complementary, voluntary resources, such as fair and low-cost loans, legal counsel, mental health services, and financial advice or coaching reported the greatest financial impact.

- **Compensation and Benefits:** Overall, survey respondents had relatively low and fluctuating incomes, low levels of assets, and high levels of debt. Almost 70% reported that they do not save regularly, and 50% reported drawing from their retirement savings for non-retirement expenses. In this context, employee hardship funds cannot be expected to ensure workplace financial health on their own, and the research confirmed that hardship funds delivered the greatest financial impact for those with compensation and benefits packages that made it more likely that the hardship funds operated as an additional supplementary payment, rather than as a substitute for low wages and benefits. Grantees with incomes between $40,000-$60,000 annually (towards the higher end earned by employee research participants) reported the highest impact of the funds in terms of feeling less distracted at work, spending less time worrying about their finances, and being less likely to miss work due to personal finance issues.

CONCLUSIONS AND RECOMMENDATIONS

Taken together, the research findings point to five best practices that can help funds maximize their impact:

1. **Maximize Dignity:** clear communication and respect for employee privacy are crucial aspects of a good application and decision-making process;

2. **Be Efficient:** onerous paperwork requirements and burdensome interactions lead to applicants dropping out of the process and generate frustration rather than goodwill;

3. **Balance Rules with Flexibility:** standardization facilitates consistency, but maintaining some decision-making flexibility helps programs to respond to workers' problems;

4. **Integrate in Culture:** funds are most successful when fundraising and awareness campaigns are integrated thoughtfully into company culture; and

5. **Proceed Expansively:** hardship funds that complement a robust workplace financial health infrastructure can most effectively address workers' inevitable financial ups and downs. Regularly revisiting funds' usage and measuring outcomes offer insights that can be used not only to optimize the hardship fund directly, but also to inform the development of that broader infrastructure.

For those exploring further opportunities to promote the financial health of their workforce, employee hardship funds can provide tremendous benefit to both workers and employers. They can boost loyalty and cohesion within the company and provide a formal mechanism to support workers in moments of need. They can also deliver financial health gains by helping recipients to smooth over a rough patch and enabling them to come to work, and to come to work with less worry.

These benefits are far more achievable if fund sponsors are clear about their goals and desired outcomes, and design and deliver their fund with those goals in mind. In doing so, they will need to delve more deeply into measuring their performance against specific objectives. This is necessary to continuously improve program functioning, and to begin to investigate how deeper data analytics could enable fund sponsors to not only measure impact, but also to target their funds more effectively.

At the same time, when fund managers were asked why they operated these funds, the most common answer was "because it is the right thing to do," and this is likely central to why they work. Workers' gratitude and appreciation emerge from the sense that their employer and coworkers are helping for reasons of principle, rather than self-interest. In thinking about how these learnings can inform additional work to establish a 21st century social safety net that delivers greater financial security for more workers while helping firms to invest in a more engaged, productive workforce, it is important to keep this in mind. Even when it may be hard to fully prove how flexible, cash grants to workers deliver positive returns to the bottom line, they are still "the right thing to do."

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