

FINANCIAL WELLNESS:

How To Be Discerning In A Crowded Market

We've all seen the statistics. According to one study, 77% of Americans are anxious about their financial situation (Capital One, 2020). Somewhere between 55-63% of Americans live paycheck-to-paycheck (Steele & Martin, 2023). As an HR leader, you are being asked to "fix" the problems your employees are facing each day that make it harder and harder for them to show up and contribute at work.

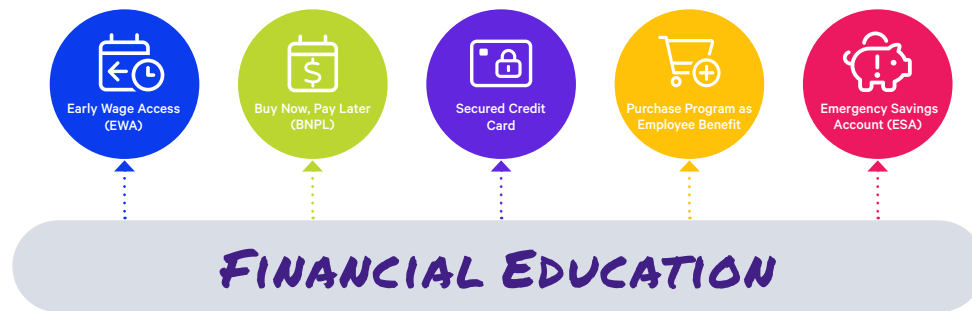
If you search for "financial wellness" on the internet, it's a crowded market. There are over 20 point solutions vying for your attention. They brand themselves as financial wellness when in reality they solve a single problem. Countless more are marketing directly to your employees and promising to be the answer to their financial anxiety.

"Financial wellness" can mean anything from early access to wages, financing options for large purchases, investing services, credit cards, and savings accounts. Each solves a specific problem, but as with any financial product, there will always be opportunities for abuse. It's essential to understand the risks and rewards of each service. In this infographic, we'll break down some of the most common services in plain, everyday terms so you'll have the information you need to best support your employees.

SOLUTIONS

	 Early Wage Access (EWA)	 Buy Now, Pay Later (BNPL)	 Secured Credit Card	 Purchase Program as Employee Benefit	 Emergency Savings Account (ESA)
Ideal Use	This service gives employees access to earned income without waiting for payday so they can deal with an unexpected emergency and avoid high-interest and/or revolving debt.	This product is best used when an employee needs something urgently, but cannot buy it outright. BNPL programs allow them to purchase the item upfront but spread the payments out over several weeks.	Used correctly, a secured credit card is a responsible first step towards improving credit.	A financing option that allows employees to purchase necessary products up front and have payments deducted from their paychecks without credit checks, late fees, or interest charges.	A way to make savings simple, automatic, and affordable, especially for unbanked employees looking to get started saving.
Potential Dangers or Misuse	Dependency 40% of people who begin using EWA continue (Walk-Morris, 2023). It's easy for users to become dependent and avoid dealing with the real reason for lack of savings (maybe insufficient income or overspending), which creates a cycle of reborrowing.	Delinquency This product makes it so easy to borrow money, that borrowers often overextend themselves financially to pay for things they don't actually need and cannot afford. Studies show that BNPL delinquency rates are climbing, nearly doubling in the summer of 2022 (Fitch-Ratings, 2022).	Fees The structure of these cards can be challenging for consumers. Companies will charge hefty fees or require sufficient collateral to approve the loan. Fees are often non-refundable.	Pricing and Priorities This service can also be used irresponsibly to purchase luxury goods (usually listed at a 30% markup). When employees spend their checks before they get them on things they want, they may be unable to pay for the things they need, increasing their reliance on lending options.	Cost For employees with other banking options, the cost of an employer-sponsored account may be more expensive than others on the market.

Each of these solutions can be a useful tool when placed in a larger financial wellness framework. Many employees will find themselves in situations where they need immediate access to cash, but how will they determine which of these options is the best course of action?



As demonstrated in the framework above, effective financial wellness must be built on a solid foundation. First, employers have to pave the way for automatic savings, starting with auto-enrollment and auto-escalation in a 401(k) plan. After that, it's crucial that there be an intermediary between the employee and these point solutions, to guide them towards healthy financial choices. Unbiased financial education is the missing link that will empower individuals to holistically manage their finances and make decisions about products that are right for their season of life.

Should they sign up for a secured credit card? Is EWA their best option? It really depends. The ideal solution is to equip your employees with the education they need to make decisions that align with their long and short-term goals.

Resources

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