June 2021

The Pivotal Role of Investors in Worker Financial Security:

Expanding ESG Analysis to Include Financial Well-Being

Putnam INVESTMENTS

commonwealth

Acknowledgments

Thank you to Commonwealth staff who developed and reviewed this report: Sylvia Brown, Kassidy Cornelison, Charvi Gandotra, and Nick Maynard. Thank you also to our coauthors from the Sustainable Investing team at Putnam Investments: Katherine Collins, Stephanie Dobson, and Yolanda Taylor. Finally, thank you to Commonwealth's communications and design team including Paula Grieco, Gina Ryder, and Teresa Willand.

Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx, and female-led households disproportionately experience financial insecurity due in large part to longstanding, systemic racism and gender discrimination. Addressing these issues is critical to Commonwealth's work of making wealth possible for all. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling 750,000 people to accumulate more than $3 billion in savings. Commonwealth understands that broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policymakers, and mission-driven organizations. 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. To learn more, visit us at www.buildcommonwealth.org.

Founded in 1937, Putnam Investments is a global money management firm with over 80 years of investment experience. At the end of March 2021, Putnam had $193 billion in assets under management. Putnam has offices in Boston, London, Frankfurt, Tokyo, Singapore and Sydney. For more information, visit putnam.com.

Putnam's Sustainable Investing team manages strategies that integrate fundamental equity research with analysis of relevant sustainability issues. The team also generates independent, in-depth research on specific ESG (environmental, social, and governance) issues. For more information, visit www.putnam.com/institutional/investment-capabilities/sustainable.

Introduction

The COVID-19 pandemic has foregrounded the precarious financial situation of many American workers. Millions lost their jobs,[1] and millions more received only temporary hazard pay on top of low hourly wages.[2] However, living paycheck to paycheck[3] or falling behind on key payments[4] is not new to the many American employees who have faced persistent financial insecurity.

Research demonstrates that worker financial security is material to businesses outcomes, particularly businesses with predominantly low- and moderate-income (LMI) workforces.

Employers and investors stand to benefit by paying greater attention to worker financial security because of its association with productivity, absenteeism, and turnover. Employers have become increasingly aware of the importance of employee financial wellness, and similarly, employer vendors such as (retirement) recordkeepers and payroll platforms have begun to offer products that address employees' financial security. Investors are also focusing more attention on the social "S" factor in environmental, social, and governance (ESG) investing. However, metrics and analysis of the "S" in ESG do not yet fully capture the status of employees' financial security or the set of actions employers can take to support it.

Given this context, employers can take action by offering a fuller suite of financial security benefits. To date, the ESG community has primarily focused on employee wages. There is significant momentum behind increasing employee wages, and there is an opportunity to expand this focus by providing benefits that advance financial security, such as by offering retirement plans and short- and long-term savings accounts; providing paid leave; and disclosing these efforts in appropriate detail, including tracking and sharing data on access to and uptake of these benefits. Investors have an opportunity to learn about the importance of worker financial security, investigate if employers are appropriately focused on this issue, and encourage companies to disclose relevant measures of employee financial security.

This report details the current state of employer investment in employee financial security, including recent efforts by employers and their benefits providers; makes the case for considering worker financial security within ESG frameworks; and highlights best practices for employers and investors to improve their business practices and investments related to employee financial security. Given the prevalence of worker financial insecurity and mounting evidence of its materiality to business outcomes, employers, investors, and workers all stand to benefit from companies acting to support their workers' financial well-being.

1 https://www.npr.org/2021/03/07/974079769/why-us-a-year-after-being-laid-off-millions-are-still-unemployed

2 https://www.nytimes.com/2020/11/19/business/retail-workers-hazard-pay.html

3 http://press.careerbuilder.com/2017-08-24-Living-Paycheck-to-Paycheck-is-a-Way-of-Life-for-Majority-of-U-S-Workers-According-to-New-CareerBuilder-Survey

4 https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/01/24183123/Understanding-and-Improving-Consumer-Financial-Health-in-America.pdf

The Current State of Employee Financial Security

Financially secure workers feel in control of their financial lives and are resilient when faced with financial shocks. Being prepared for financial shocks comes from having support to fall back on: a financial cushion to cover emergencies; quality health insurance; good credit; and a social network to turn to for financial help when an expense like a car repair or emergency medical bill arises.[5] Having an emergency fund is particularly important, as it prevents the need to take on expensive debt or delay other necessary expenses such as healthcare. By gaining more stability in the short-term, individuals and families are freed up for longer-term financial planning, including saving for education or retirement.

Unfortunately, for too many Americans, this definition of financial security is far out of reach. American workers have long struggled to be financially secure, and the pandemic has brought new financial challenges. Up to 78% of Americans live paycheck to paycheck,[6] and more than 53 million people, or 44% of all employees aged 18 - 64, work in low-paying hourly wage jobs.[7] With low wages and often volatile income and expenses, American workers are left trapped in and distressed by their financial situations. This issue is particularly pronounced for women and Black Americans, as they are overrepresented among low-wage workers, making up 54% and 15% of this segment of the workforce, respectively.[8]

Up to **78% of Americans** live paycheck to paycheck.

More than **53 million** people work in low-paying hourly wage jobs.

Women and Black Americans make up **54% and 15%** of this segment of the workforce, respectively.

5 https://www.consumerfinance.gov/about-us/blog/4-elements-define-personal-financial-well-being/

6 http://press.careerbuilder.com/2017-08-24-Living-Paycheck-to-Paycheck-is-a-Way-of-Life-for-Majority-of-U-S-Workers-According-to-New-CareerBuilder-Survey

7 https://www.brookings.edu/wp-content/uploads/2019/11/201911_Brookings-Metro_low-wage-workforce_Ross-Bateman.pdf

8 Ibid.

37%

of households **could not cover a $400 emergency expense** with cash or its equivalent, including:

61%

of women earning less than $60,000 annually

69%

of Hispanic households earning less than $60,000 annually

71%

of Black households earning less than $60,000 annually

This issue isn't just impacting LMI people. **About 1 in 10** with family income over $100,000 could not afford a $400 emergency expense.

Employers have an opportunity to better support employees' financial security, not only during crises like the pandemic, but in a more foundational way and on an enduring basis.

In a pre-pandemic survey, Commonwealth research found that **65% of respondents believe employers should do more to address financial insecurity.**

Making matters worse, American workers do not have adequate emergency savings. Nearly 40% of households could not cover a $400 emergency expense with cash or its equivalent. For LMI women and people of color, the situation is more dire. Among those earning less than $60,000 annually, 61% of women, 69% of Hispanic households, and 71% of Black households do not have $400 to cover an unexpected expense.[9] However, this issue isn't isolated to LMI Americans; about 1 in 10 with family income over $100,000 could not afford a $400 emergency expense.[10]

Employers are well-positioned to improve employees' financial security. In a pre-pandemic survey, Commonwealth research found that 65% of respondents believe employers should do more to address financial insecurity.[11] Within industry, companies are increasingly acknowledging their responsibility for workers' welfare as well: in 2019, the Business Roundtable released a statement proposing redefining the purpose of a corporation around a commitment to all stakeholders, including employees, rather than only to shareholders.[12]

Facing extraordinary conditions and an employee population in need, many employers offered temporary support during 2020, such as increased pay and paid sick leave. These interventions provided some relief in the midst of the pandemic, but were not enough to buoy employees' long-term financial security, particularly since most companies ended their hazard pay programs for workers months ago, when pandemic conditions were still acute.[13]

9 https://buildcommonwealth.org/about/equity

10 https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-update-202009.pdf

11 https://buildcommonwealth.org/publications/perceptions-of-financial-insecurity-in-america/download

12 https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

13 https://www.nytimes.com/2020/11/19/business/retail-workers-hazard-pay.html

Employee Financial Security Is Material to Business Outcomes

Employees' financial security can be material to business outcomes, particularly for businesses with LMI employees. Supporting employees' financial security presents an opportunity for employers to improve worker effectiveness, decrease employee turnover, and enhance employee safety.

Improve productivity

Financially insecure workers are often preoccupied and less productive at work. PwC found that one in three employees admit to being less productive at work because of their financial stress,[14] and a 2017 study from Mercer found that employees spend an average of 13 hours per month at work worrying about their finances.[15] This lost productivity has a direct impact on business costs.

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A 2017 study from Mercer found that employees **spend an average of 13 hours per month** at work worrying about their finances.

14 https://www.pwc.com/us/en/industries/private-company-services/images/pwc-8th-annual-employee-financial-wellness-survey-2019-results.pdf

15 https://www.mercer.com/content/dam/mercer/attachments/global/inside-employees-minds/gl-2017-wealth-worry-while-you-work-infographic.pdf

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Reduce absenteeism and turnover

Financial insecurity also leads to increased absenteeism. Several academic studies have found a positive relationship between employee financial stress and the frequency of their nonattendance at the workplace.[16] Financially insecure employees are also more likely to leave their jobs, whether to find higher pay elsewhere or because of extenuating personal circumstances.[17] This lost time at work, due to absenteeism or turnover, adds up. The Society for Human Resource Management reports that the cost of losing and replacing an employee can amount to roughly one-third of the employee's annual earnings.[18]

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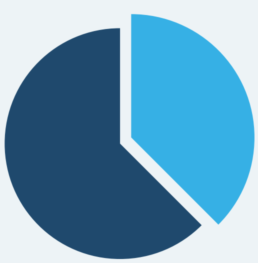

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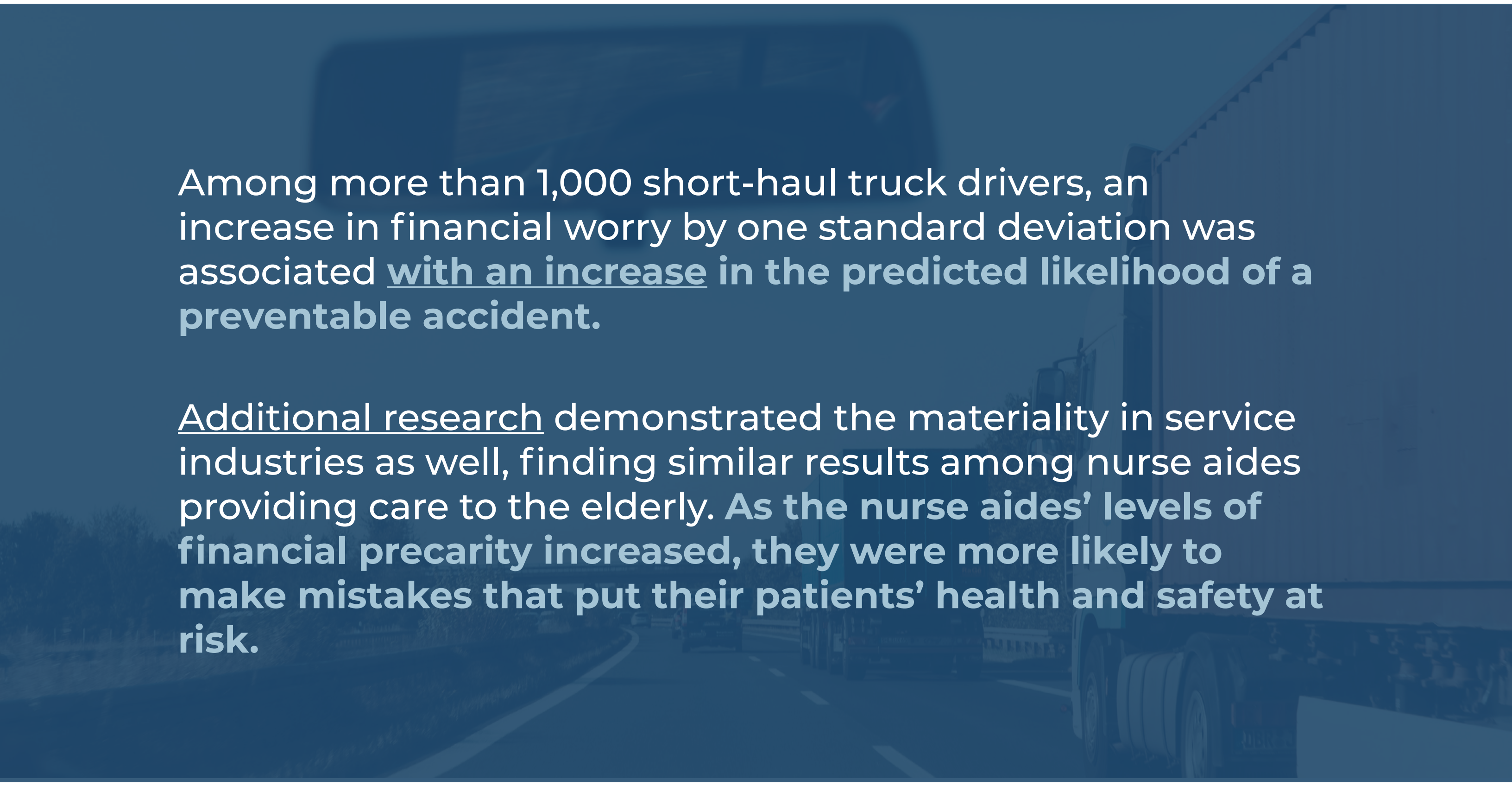
16 https://buildcommonwealth.org/assets/downloads/Financial_Security_in_the_Workplace.pdf

17 Ibid.

18 https://www.shrm.org/hr-today/news/all-things-work/Pages/to-have-and-to-hold.aspx

Decrease workplace accidents

Additionally, the stress from financial insecurity can impact physical safety in the workplace. Research from University of Pittsburgh and University of Wisconsin professors Carrie Leana and Jirs Meuris found that among more than 1,000 short-haul truck drivers, an increase in financial worry was associated with an increase in the predicted likelihood of a preventable accident.[19] Additional research demonstrated the materiality in service industries as well, finding similar results among nurse aides providing care to the elderly. As the nurse aides' levels of financial precarity increased, they were more likely to make mistakes that put their patients' health and safety at risk.[20]



Among more than 1,000 short-haul truck drivers, an increase in financial worry by one standard deviation was associated with an increase **in the predicted likelihood of a preventable accident.**

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19 https://pubsonline.informs.org/doi/abs/10.1287/orsc.2017.1187

20 https://journals.sagepub.com/doi/abs/10.1177/0019793917720432

Improve mental and physical health

Supporting employees' financial security also benefits their physical and mental health. Financially insecure workers are more likely to put off critical healthcare due to cost concerns.[21] Skipping or delaying healthcare now may lead to more severe health issues down the line. In contrast, workers who are financially secure are more likely to seek consistent care for their familial and personal physical and mental well-being. When employees are financially secure, they also tend to have better general well-being. MetLife research[22] found that among employees who are financially on track, 84% report being happy compared with 55% for those who are not on track. In sum, financially secure employees, who experience less financial strain, are potentially both happier and healthier.

Employers who invest in their workers' financial security not only support their mental and physical well-being; they can also improve productivity, reduce absenteeism and turnover, and enhance workplace safety—all beneficial for workers, and also beneficial for company financials. Investors and employers often focus only on the initial costs of offering improved wages and benefits, without accounting for the real and potentially sizable financial benefits that can come from these programs, such as lower attrition or higher worker productivity. Both investors and employers have an opportunity to more fully evaluate the net benefits of investing in employee financial security, and consider how such policies correlate to companies' long-term financial performance.

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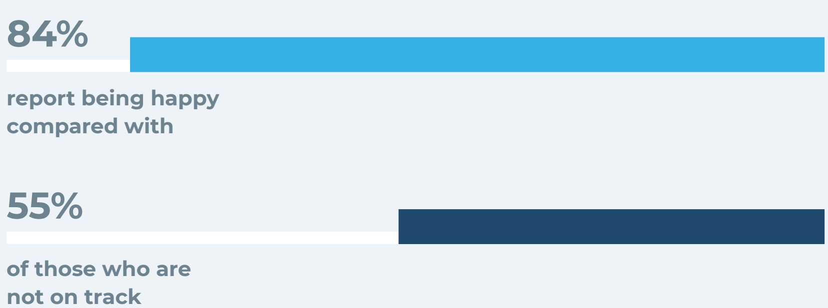
MetLife research found that among employees who are financially on track:



21 https://buildcommonwealth.org/assets/downloads/Financial_Security_in_the_Workplace.pdf

22 https://www.metlife.com/content/dam/metlifecom/us/ebts/pdf/MetLife_Financial_Wellness_Programs_Foster_a_Thriving_Workforce.pdf

Addressing Employee Financial Security

Employee financial security is of increasing concern to employers. A Bank of America report found that in 2020, 62% of employers felt responsible for their employees' financial well-being, up from 13% in 2013.[23] Some companies are increasingly considering improved benefits such as financial wellness programs and hardship funds to support their employees.[24]

To date, ESG research companies, rating agencies, and investors have primarily focused on wages when evaluating the financial security of company's workers. Wages are a foundational component of employee financial security, and several companies have raised wages over the past few years in recognition that investing in their employees is good for their business.[25] The conversations around wage hikes have gained new urgency in light of the pandemic and 2020's response to racial injustices, which shone light on longstanding inequities. Indeed, 72% of Americans support raising the minimum wage up from 66% in February 2020.[26]

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23 https://www.bofaml.com/content/dam/flagship/institutional-retirement/id20_0901/documents/2020workplacebenefitreport_singlepage_final_9.16.20.pdf

24 https://buildcommonwealth.org/publications/illuminating-a-hidden-safety-net

25 https://www.npr.org/2021/02/25/971338686/costco-to-raise-minimum-wage-to-16-an-hour-this-isnt-altruism

26 https://www.publicagenda.org/reports/americas-hidden-common-ground-on-economic-opportunity-and-inequality/

A living wage is absolutely necessary, but insufficient to achieve worker financial security, and it is this security—less financial anxiety and distraction, more resilience, and greater optimism—that is the key to firms realizing a financial return on an investment in their workforce. Analysis of the "S" component of ESG that focuses only on wages is, therefore, incomplete. Employees would benefit from support beyond wages, and investors would benefit from analyzing employee financial health more holistically. Employers can help wages go further by offering other financial security benefits, and even linking these benefits to moments of wage increase. Commonwealth research found that raises often prompt workers to rethink their finances and make them want to save more.[27] Employers could thus further strengthen their employees' financial security and capitalize on wage hike moments by offering benefits that allow employees to save and better manage their finances.

Fortunately, employers are choosing to offer financial wellness programs. A 2019 survey by the Employee Benefits Research Institute (EBRI) found that over half of employers were offering financial wellness programs to their employees.[28] A more recent study from EBRI found that 90% of companies currently have or are developing a strategy for improving their employees' financial wellness.[29] Commonwealth has increasingly seen employers expand their offerings from solely financial education platforms to include more customized point solutions, such as emergency savings, student loan repayment programs, and employee hardship funds. In this expanded approach, employers can mix and match product offerings depending on their employee population's needs.

A more recent study from EBRI found that **90% of companies currently have or are developing a strategy for improving their employees' financial wellness.**

27 https://buildcommonwealth.org/assets/downloads/Findings_From_Rise_with_the_Raise.pdf

28 https://www.ebri.org/publications/research-publications/issue-briefs/content/2019-employer-approaches-to-financial-wellbeing-solutions

29 https://www.ebri.org/docs/default-source/fwrc/sept-2020-symposium/fwrcsym_masterday1.pdf?sfvrsn=f10f3a2f_2

Beyond financial wellness, some employers are exploring specific solutions in emergency savings, student loan repayment, and employee hardship funds.

- **UPS** launched an emergency savings initiative for 90,000 employees, helping them set aside liquid after-tax savings easily and automatically as part of their 401(k) administered by Voya Financial.[30]
- **Abbott Laboratories' Freedom 2 Save Program** matches student loan payments into 401(k)s for employees who qualify and contribute at least 2% of their pay to student loans.[31]
- **Levi Strauss & Co.** established its hardship fund, the Red Tab Foundation (RTF), in 1981 and has distributed over $35 million to date.[32] In 2015, RTF partnered with the nonprofit SaverLife (formerly EARN) to create a matched savings platform to help employees build emergency savings.[33]
- **Walmart's Associates in Critical Need Trust** (ACNT) offers the Together Fund to provide eligible associates with financial assistance after an unexpected, unavoidable event. Associates are eligible to receive up to $1,500.[34]

These are good markers of progress, yet many workplace benefits still disproportionately benefit higher earners. Data from the Bureau of Labor Statistics showed that in 2020, 88% of workers within the top quartile of wages had access to any type of workplace retirement plan, compared to only 42% of workers with wages in the lowest quartile.[35] Similarly, 92% of workers in the top quartile of wages had access to paid sick leave compared with just 49% of workers with wages in the lowest quartile.[36]

As more companies seek to advance their employees' financial security, they are looking to the market for tools and services that will expand beyond financial wellness paradigms and offer solutions that address LMI workers' challenges.

30 https://buildcommonwealth.org/news/post/ups-launches-emergency-savings-initiative

31 https://abbott.mediaroom.com/2018-06-26-Abbott-Announces-Freedom-2-Save-Program-for-Employees-to-Address-Student-Debt

32 https://hbr.org/2020/05/employee-hardship-funds-help-companies-help-their-people

33 https://www.aspeninstitute.org/wp-content/uploads/2019/04/Employee_Hardship_Funds.pdf

34 https://one.walmart.com/content/dam/us-wire-wm1/documents/company/community/volunteering-and-giving/acnt/ACNT_Quick_Look.pdf

35 https://www.bls.gov/news.release/pdf/ebs2.pdf

36 https://www.bls.gov/opub/ted/2021/higher-paid-workers-more-likely-than-lower-paid-workers-to-have-paid-leave-benefits-in-2020.htm

Renewed efforts work toward racial equity have increasingly led some companies, such as Adidas and Zillow, to address issues of racial inequity in their work, such as by pledging to fill a percentage of new positions with Black and Latinx[37] employees or add at least one Black director to their boards.[38]

As companies continue to look for ways to promote racial equity, they have an opportunity to support their employees of color by offering high-quality financial security benefits so that workers across all income levels can save for emergencies, plan for retirement, and build wealth. This is especially important given the disparities by race in pay and access to workplace financial wellness benefits.

Black workers are more likely to be paid poverty-level wages compared to their white counterparts,[39] and only 34% of Black households have access to workplace retirement plans compared to 60% of white families.[40] A greater share of Black and Hispanic workers are unable to pay a current month's bills in full compared to white workers.[41]

Beginning to address inequities in pay and access to benefits is a step toward improving the economic outcomes and financial security of Black, Indigenous, and People of Color (BIPOC) workers. While closing the racial wealth gap will require people across multiple sectors to take action, employers can continue to progress by focusing on increasing financial security for employees of color.

37 https://www.adidas-group.com/en/media/news-archive/press-releases/2020/message-adidas-board-creating-lasting-change-now/

38 https://abcnews.go.com/Business/dozen-companies-pledge-add-black-director-boards/story?id=72900675

39 https://www.epi.org/blog/black-white-wage-gaps-are-worse-today-than-in-2000/

40 https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm

41 https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf

Solutions Enabling Employee Financial Security

RECORDKEEPERS

Recordkeepers, who track assets in retirement plans and provide platforms for plan participants to manage their accounts, are starting to support plan participants' short-term *and* long-term financial needs. Initially, the industry focused on employee financial education, but it is now exploring more targeted solutions, such as tools to manage student debt and build short-term savings, to support their clients' increased focus on employee financial security. Recordkeepers have moved from considering *whether* to offer emergency savings products to exploring *how* to do so.[42] Prudential,[43] John Hancock,[44] and Voya[45] now offer emergency savings products, either within the 401(k) plan (through after-tax contributions) or outside of the plan (by partnering with a financial institution to offer an emergency savings account).

According to the Bureau of Labor Statistics, **just 40% of private industry workers in the bottom 50% wage category have access to HSAs,** compared to 84% in the top 50% wage category, as of 2019.

FINTECHS AND FINANCIAL INSTITUTIONS

A growing number of B2B fintechs have entered the employee financial wellness space. They offer solutions ranging from financial wellness education and coaching to emergency savings accounts. Some platforms emphasize customization, providing financial advice and recommending products to employees based on their specific financial situation.[46] Other companies, like Onward, offer financial products directly to employees through their employers, such as app-based emergency savings accounts.[47]

42 https://buildcommonwealth.org/publications/eye-on-systemic-change-in-the-retirement-industry/download

43 https://buildcommonwealth.org/blog/post/leveraging-retirement-platforms-for-emergency-savings-three-industry-leading-products

44 Ibid.

45 https://buildcommonwealth.org/news/post/ups-launches-emergency-savings-initiative

46 https://www.gobrightside.com/

47 https://onward.org/

To support LMI workers, employers could look to expanding access to student loan repayment assistance, as well as increasing access to benefits that support short-term saving, such as emergency savings accounts and HSAs.

Two additional companies that provide solutions are Gradifi, a financial wellness company owned by E*Trade Financial, and HealthEquity, a health savings account (HSA) provider. Gradifi provides a variety of financial wellness benefits, including student loan repayment benefits. The company helps employers contribute to reducing their employees' student debt burdens and also provides student loan refinance opportunities and loan counseling. HealthEquity provides HSAs and other consumer-directed benefits, which allows employers and employees to contribute to tax-advantaged accounts that employees can use towards health expenses.

It is worth noting that although benefits such as HSAs and student loan repayment assistance have become more popular in recent years, they are not always accessible to lower-income employees. According to the Bureau of Labor Statistics, 84% of private industry workers in the top 50% wage category have access to HSAs, compared with just 40% of workers in the bottom 50% wage category, as of 2019.[48] Employer adoption of student loan assistance is low, and information on participating employers is sparse, but companies listing such assistance may be doing so primarily to attract high-earning employees with expensive graduate school debt.[49] To support LMI workers, employers could look to expanding access to HSAs and student loan repayment assistance, as well as increasing access to benefits that support short-term saving, such as emergency savings accounts.

48 https://www.bls.gov/ncs/ebs/factsheet/high-deductible-health-plans-and-health-savings-accounts.htm

49 https://www.forbes.com/sites/robertfarrington/2021/03/10/student-loan-repayment-assistance-is-becoming-a-popular-benefit/?sh=3725765a59ca

PAYROLL FIRMS

The payroll industry has experienced some disruption from earned wage access (EWA) firms, sometimes referred to as the pay advance industry. These fintech tools are intended as substitutes for high-interest payday loans or other high-cost debt options to help employees between paychecks. While these services have some advantages, more research will improve our understanding of the impact of EWA on the financial security of LMI people. For example, tapping EWA for immediate needs may compromise employees' abilities to plan for monthly and longer-term goals.[50]

Although EWA products have recently been popularized, they should not be considered a substitute for foundational financial security benefits such as well-designed and easily accessible emergency savings tools. Further, EWA products have been shown to be more effective when paired with complementary financial tools: Walmart found that their employees who used an EWA feature alongside savings and budgeting features stayed with Walmart longer than those who used EWA offerings alone.[51]

Across these solution types, Commonwealth looks for a common set of features that define best-in-class financial wellness benefits. Specifically, Commonwealth looks for financial benefits that are:

- Low- to no-fee for employees, with no barriers to entry or use, such as requisite minimum account balances.
- Appropriately liquid and accessible to employees given its intended use, so that it can be tapped in times of need. For example, employees should have immediate access to funds in employer-sponsored emergency savings accounts, and the steps for using funds in an HSA should be clear and straightforward.
- Portable between employers so that they continue to help employees even after they have left their current employer.
- Adaptable to allow for auto-enrollment where possible to encourage uptake.

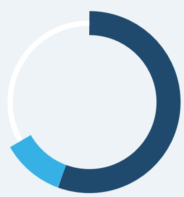
50 https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2021/04/26190749/EWA_D2C_Advance-_sage_Trends_FINAL.pdf

51 https://www.bloomberg.com/news/articles/2021-03-09/walmart-s-experiment-with-paying-early-sees-some-higher-turnover

The “S” of ESG: The Case for Including Financial Security

As employers and solutions providers increasingly recognize their role in supporting employees’ financial security, investors are also more focused on the importance of worker well-being.

For investors, a natural analytical home for examining worker financial security is within the “S” of ESG— the “social” factors that are material to a company’s performance. These issues have recently received increased attention.



In 2020, Edelman found that institutional investors rank social factors as the most important element of ESG, representing a 15% increase from 2019.

Metrics for many social aspects of companies are still early in their development; investors do not yet have the data—or in some cases, even the complete set of questions—that are needed to fully assess these issues. Some areas where investors have at least partial information include wage levels, employee health and safety, and workforce diversity. However, these factors provide little insight into a linchpin of strong employee performance: workers’ level of financial anxiety, resilience, and well-being. Investors can benefit from expanding employee-specific social criteria to move beyond foundational elements, like paying a living wage and workplace health and safety, towards broader measures of worker financial security.

Pursuing this analysis can help investors develop important insights about the culture, effectiveness, and long-term fundamental potential of their investments. Putnam and Commonwealth anticipate discussion and disclosure about this topic to increase over time. Even when incomplete, early information and dialogue can lead both investors and company management teams to ask better questions and make more effective progress.

On page 19, Putnam details its framework for assessing corporate leadership in employee financial security, and Commonwealth puts forth some best practices it has observed from employers who support employee financial security. These tools can help investors begin to better assess this important social issue.

Commonwealth's Best Practices for Employers and Investors

How does Putnam identify company leadership in employee financial security?

Putnam aims to identify companies that are becoming stronger because of their leadership on material sustainability issues, which in many cases includes employee financial security. In identifying leadership, Putnam looks for four types of indicators:

- **MATERIALITY:** Focus that is informed by thoughtful analysis of materiality and long-term business relevance.
- **CREATIVITY AND PROACTIVENESS:** Action that goes beyond compliance or box-checking activity to demonstrate heightened commitment and potential benefit.
- **TRANSPARENCY:** Goals that are specific, with candid and consistent reports of progress.
- **IMPACT:** Benefits that are meaningful both inside the company and beyond its corporate borders.

What specific steps can employers and investors take to lead on employee financial security?

Commonwealth has sourced steps that both employers and investors can take to support employee financial security from their own and others' research and reports. In taking these steps, employees have more opportunity to thrive, employers have potential to realize business benefits, and investors may be able to improve their investment analysis.

Commonwealth's Best Practices for Employers

OFFER HIGH QUALITY BENEFITS TO STRENGTHEN EMPLOYEE FINANCIAL SECURITY

Worker financial security benefits fall along a continuum, from addressing immediate financial needs to supporting planning for longer-term financial goals. Employers could support employees across the spectrum of financial security benefits and with their unique needs in mind, focusing on the needs of their LMI employees. To do so, employers can offer tools such as liquid emergency savings solutions, hardship funds, credit-building products, children's savings accounts, and employee stock purchase plans, which foster a sense of shared ownership of the employer while helping employees build wealth.[52]

IMPROVE MESSAGING AND DESIGN OF SHORT-TERM FINANCIAL BENEFITS

In addition to offering these benefits, improving access, promotion, and engagement is critical to ensure they make a material difference for employees. Well-designed benefit launches, straightforward sign-up processes, and ongoing messaging help to improve utilization and positive impact for employees.

INCREASE TRACKING AND DISCLOSURE

Employers can carefully track the uptake of benefits to ensure they are useful to—and used by—their employees, especially their LMI employees. They can also ensure there is equitable access and usage of these benefits, and confirm that positive impact on employee financial security leads to improvements in company performance. Tracking the impact of these efforts allows employers to identify opportunities to iterate on and improve their benefits programs.

[52] https://buildcommonwealth.org/publications/record-keepers-role-in-solving-the-u.s-emergency-savings-crisis

Commonwealth's Best Practices for Investors

ENGAGE CLOSELY WITH COMPANIES

Investors can work directly with companies to understand the state and importance of employee financial security and to assess the effectiveness of corporate decision-making around related benefits, particularly whether those benefits are used by and support the LMI employees who most need them.

ENCOURAGE RELEVANT DISCLOSURE

Investors can encourage corporate disclosures that go beyond basic wage information to present a more relevant and complete view of employee financial security. Naturally, the specific metrics that are relevant will vary according to the context of a particular business: for example, a company with a large frontline workforce might disclose, to begin with, detail on their wages and emergency grant program, whereas a company with a small technical team might disclose detail on other benefits programs.

ARTICULATE MATERIALITY OF EMPLOYEE FINANCIAL SECURITY

There is strong evidence linking employee financial security to certain elements important to corporate performance, such as employee productivity and turnover. Investors can work to assess the links between these indicators, long-term corporate financial performance, and investment performance, helping to expand and refine materiality analysis over time.

Employee financial security can significantly impacts businesses' operations and profits by influencing employee productivity, absenteeism, turnover, and accident rates.

Conclusion

Employee financial security can significantly impact businesses' operational effectiveness and profitability by influencing employee productivity, absenteeism, turnover, and accident rates. Although employers and their vendors have begun to adopt tools to support their workers, they have an opportunity to offer more impactful benefits, to improve the delivery of these benefits, and to track and disclose appropriate information about how these benefits help their employees and impact their business.

Investors can improve their investment analyses by expanding analysis of the "S" in ESG and incorporating worker financial security into their assessment of the social factors relevant to the profitability and sustainability of their investments. Investors can recognize the potential materiality of this social factor and encourage companies to address and disclose relevant information about employee financial security.

Beyond the relevance for any particular business or investment setting, financial security is a key ingredient to a thriving society. As employee financial security improves, overall health and well-being also tend to improve among individuals, companies, and communities. Both investors and corporate leadership teams have a unique opportunity to accelerate progress toward financial security and to benefit from the resulting positive impact.

Commonwealth is continuing to develop best practices for both employers and investors to support and track employee financial security. If you are a company or investor interested in learning more about what steps you can take, please contact Commonwealth's Nick Maynard at nmaynard@buildcommonwealth.org.

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