Employer-Based Collaboration: Lessons from Financially Fit Minnesota

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Executive Summary

A unique model for regional, employer-based collaboration to increase the usage of basic financial services has emerged recently in Minnesota, with relevant lessons for companies, communities, and advocates nationwide. The Financially Fit Minnesota (FFM) example offers a replicable model for regional collaboration and employer delivery of financial services; a set of successful strategies for increasing participation rates in workplace financial services; and a starting place for exploring further innovations. This model is potentially a complement or alternative to municipal- and state-level Bank On Cities initiatives, such as Bank On San Francisco, which focus specifically on connecting unbanked consumers with depository accounts.¹

A group of more than twenty major Minnesota employers joined forces to create FFM in early 2008. Their goal is to improve their region’s overall economic stability by ensuring that employees take full advantage of the financial benefits offered to them in the workplace, and by helping employers to act on the understanding that direct deposit and retirement plans are beneficial for both employees’ lives and the corporate bottom line.

FFM has chosen to focus specifically on direct deposit and retirement savings programs in order to leverage its assets as a collaborative initiative of major regional employers. Depository account ownership and adequate retirement savings are essential components of U.S. consumers’ economic stability, and the workplace remains an important delivery channel for basic financial services. Even in the challenging economic climate of 2008 and 2009, participating employers have successfully improved participation rates in both direct deposit and 401(k) plans for targeted employee populations.

CFSI has partnered with FFM to document, evaluate, and disseminate findings from the initiative. This paper summarizes the results of 14 interviews with senior managers engaged day-to-day in FFM efforts and local community leaders who are experts in asset-building and consumer access to financial services. Additional data was gathered from surveys of the participating companies.

Based on this research, strategies that work for FFM companies in increasing both direct deposit and 401(k) include:

- Focusing on the enrollment process;
- Learning from employees about the barriers to participation;
- Person-to-person communication;
- Customizing education and information sessions for targeted populations; and

• Adopting best practices for 401(k) program design that pull, nudge, and empower participants.

**CFSI’s core recommendations** for those who wish to build on and replicate the FFM model are to:

• Explicitly work to address the underlying issue of unbanked employees;
• Use the workplace as a delivery channel to take advantage of new opportunities to implement innovative programs and strategies;
• Keep the focus specific, but also responsive to changing needs and circumstances;
• Continually encourage companies to stretch their goals and focus on targeted populations;
• Leverage the platform to put messages out in the broader community; and
• Look for opportunities to partner with other organizations working on financial fitness.

As FFM enters its second year of work, many opportunities exist to build on and deepen the work of participating companies. FFM’s commitment to improving the financial stability of its region through employer-delivered financial services will continue to yield real benefits for employees, employers, and Minnesota communities alike. FFM’s innovative and promising model serves as an example from which others can learn and develop solutions within their own context.
About the Financially Fit Minnesota (FFM) Initiative

Financially Fit Minnesota (FFM) is an alliance of Minnesota employers that aims to improve the long-term economic stability of the Twin Cities region by increasing the financial fitness of individuals and households. An initiative of the Itasca Project (a Minnesota employer-led alliance working to strengthen the region’s economic competitiveness and quality of life), FFM grew out of several local CEOs’ initial interest in addressing financial literacy in order to improve economic stability for households in the region. The group formed a task force to identify a strategy for work in this area, with Best Buy CEO Bradbury Anderson serving as chairman.

Ultimately, the executives involved in the task force came to the realization that many of their own employees were likely struggling with financial literacy, and that as employers they had access to and information about these employees’ financial lives. As a result of this realization, FFM chose to focus on encouraging banking and saving, setting the primary goals of significantly increasing employee participation in direct deposit and 401(k) retirement savings plans—areas in which employers have a platform to influence employees’ financial decisions. Partly, this strategy was chosen in recognition of the fact that direct deposit and retirement savings participation are mutually beneficial to employers, employees, and the community. Financially fit employees are understood to be happier in their own lives and more productive at work. Employers benefit in terms of increased efficiency, ease of recruitment, and higher retention. Ultimately, a region with financially fit citizens is more economically competitive, with a higher overall quality of life.

The task force initially hoped to recruit five or more leading companies to join a Pacesetter group that would commit to the specific goals of improving direct deposit and/or retirement plan participation, and help to launch the effort. Responses to initial recruitment efforts were overwhelming, and more than twenty companies signed on at the project’s inception. Most companies were recruited to join the FFM initiative via one-on-one conversations at the CEO level.

An advisory group of nonprofit and community leaders with expertise in the areas of asset-building and consumer access to financial services provided input on the initiative’s strategies. This group of community leaders also compiled resources for FFM’s website to inform participating companies’ efforts. As with other Itasca Project initiatives, FFM maintains a bare-bones infrastructure, with no staff of its own; all decisions are made by the participants. Organizational support for FFM is provided by the consulting firm McKinsey & Co., and communications support is provided by Weber Shandwick.

There is no one common blueprint for FFM companies; rather, the initiative consists of a collection of companies pursuing a shared vision along separate paths. Participating companies set their own employee participation goals and enforce compliance via peer pressure and mutual responsibility. The executive task force meets several times per year to discuss strategies, and a working Leadership Council group consisting of senior- and mid-level executives who work day-to-day on implementing the initiative meets quarterly to share best practices and provide progress updates.

The campaign was launched in April 2008 with endorsements from the mayors of St. Paul and Minneapolis and the Minnesota governor. Even in the challenging economic climate of 2008 and 2009, participating employers successfully raised the level of participation in both direct deposit and 401(k) plans. FFM companies saw particular improvement in specific employee populations— minorities, younger workers, older workers, and lower-income workers—that had exhibited below-average participation rates prior to the program’s inception. The initiative continues to sign on new participants. Approximately thirty companies with headquarters or significant operations in Minnesota are current
Pacesetter members of FFM, including Best Buy, Target, 3M, University of Minnesota, U.S. Bank, and Wells Fargo. Together, they represent over 200,000 employees. The initial timeframe for commitment to the project was two years. The participants are now considering whether to extend their efforts past the spring of 2010.

Though the spirit of the FFM initiative is similar to that of Bank On Cities programs, FFM’s specific focus on the workplace and on the basic tools of direct deposit and retirement savings made the program different from other regional models. As pioneered by the Bank On San Francisco program, municipal-led Bank On Cities programs aim to increase the unbanked’s access to depository accounts by working in partnership with banks and credit unions as well as community groups. FFM, instead, is focused on particular strategies in which employers can utilize their advantage of access to information about their employees’ use of financial services.

FFM is also distinguished by its unique model of regional collaboration. Most participating companies are committed to the effort not just because they want their own employees to succeed, but also out of a sense of civic responsibility and commitment to the Twin Cities/Minnesota region. Many participants attributed FFM’s success to the strong sense of community and civic responsibility among companies in the Twin Cities region. Best Buy’s leading role as “corporate champion” for the initiative was also perceived as vital to the success of FFM’s efforts.

As the external context of FFM’s work and the interests of the participating companies have evolved over the course of the initiative, project leaders have begun to adapt their work accordingly. Earlier meetings of the Leadership Council working group were narrowly focused on reporting direct deposit and retirement plan participation numbers and presenting case studies on the experiences of individual companies. Now, with the economic crisis sparking more interest in financial education and financial topics in general, the group is broadening its scope to discuss topics like employer-delivered foreclosure prevention training and employer encouragement of short- and medium-term savings. One ongoing challenge for FFM is maintaining a holistic perspective on the civic purpose and mission of the initiative while also keeping a narrow focus on attaining specific measurable goals for the two primary emphases of the effort, direct deposit and 401(k) savings. The ability to adapt, based on changing circumstances and participant feedback, has helped FFM to negotiate this balance and remain relevant.

FINANCIALLY FIT MINNESOTA’S RECOMMENDATIONS FOR ITS PEERS

According to FFM participants, other communities interested in forming their own Financially Fit initiative should consider the following in order to develop a successful collaboration:

- Find a corporate champion to lead the group’s efforts
- Use CEO-to-CEO recruitment strategies
- Provide adequate support, such as talking points, for CEOs making recruitment calls
- The corporate office level is the best entry point for recruitment; initiatives at many corporations will then be implemented company-wide/nation-wide
- FFM companies with links to other metropolitan areas could be helpful in forging efforts in new locations
- Set deadlines to help with recruitment and motivation
- Target metropolitan areas with a significant concentration of large companies and a strong sense of community
- Executive leadership should make commitments and set the priorities for participating companies
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- Involve local government leaders
- Track data and report results publicly to help motivate companies along the way
- Have dedicated leaders and staff support; the local McKinsey office in Minneapolis has served in this role for FFM
- Develop a website as a virtual focal point
- Obtain pro bono and foundation support to provide resources such as project management, data analysis, and public relations

Background: The Workplace, Direct Deposit and Retirement Savings

The workplace is an important delivery channel for basic financial services because of its advantages in scale, facilitation, and timing. Financial services companies gain access to a large potential customer base by catering to a company’s workforce. The infrastructure of the workplace facilitates the distribution of financial services, including direct deposit and retirement benefits. Finally, employees enjoy the convenience of making decisions about their saving and spending in the context of when and how they receive their earnings.2

The workplace is also a delivery channel for financial education, though programming tends to be narrowly focused around retirement plans offered as employee benefits. Employer-based programs have the potential to be an effective means of providing financial education, given the lack of alternative venues. However, these programs present employers with additional costs and have historically received little explicit demand from employees.3

Retirement Plans

Financial stability and literacy are understood to be closely related to workplace performance and satisfaction.4 Employees who have fewer stresses in their personal financial lives tend to be more dedicated and productive at work. Yet there are indications that the current situation is far from ideal. Many households are at risk of not being able to maintain their current standard of living after they retire, and 53 percent of U.S. workers have less than $25,000 in total savings and investments.5

Employer-based 401(k) account balances are an important indicator of future financial stability during retirement.6 On average, about 75% of eligible employees participate in 401(k) plans nationwide. However, significant disparities exist in certain populations. African-American and Hispanic workers are less likely to participate in employer 401(k) plans than are other workers, and those who contribute to plans save at lower levels than whites.7 Consequently, minorities have far less in accumulated savings and retirement plans. Income level and age also affect participation: the young, the old, and the low-income all save for retirement at levels below the average.

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Employers are becoming more proactive in encouraging employees to participate in 401(k) plans, increasingly adopting practices such as:

- Automatic enrollment
- "Easy" enrollment by postcard or other simple form
- Increased default deferral rates
- Automatic deferral rate step-ups
- Immediate eligibility for deferrals at hire
- Immediate eligibility for employer contributions at hire
- Time-based lifestyle (target) funds
- Internet-based access to plan information

These elements of program design are considered to be among the most effective tools for reducing retirement saving disparities between different demographic groups. Despite these efforts, a recent survey indicates that fewer than 20% of employers believe most of their employees will be ready for retirement.

**Direct Deposit**

Direct deposit can serve as an onramp to saving and asset-building opportunities, providing both direct and indirect benefits. Workers can reduce the transaction costs involved in converting their paycheck into money that can be spent and increase their personal safety by not carrying large amounts of cash. Consumers who use direct deposit are more likely to make use of financial products such as bank accounts or payroll cards. Direct deposit also provides greater reliability of payment streams in emergencies (for instance, in the aftermath of severe weather situations when mail delivery and transportation is restricted). Moreover, consumers who participate in direct deposit are more attractive as customers for banks and credit unions; the opportunity to participate in direct deposit likewise makes checking and savings account ownership more attractive to consumers.

Direct deposit participation rates nationwide are estimated to be between 70% and 80%; large companies have much higher rates of participation, around 90%, while smaller employers have lower rates. Unbanked employees who lack a checking or savings account are least likely to participate. While payroll cards have the potential to help unbanked workers participate in direct deposit programs, on average, less than 2 percent of employees are now being paid via direct deposit to payroll cards.

Of the underbanked population in the U.S., just 33% receive their income by direct deposit to a bank account or payroll card. This percentage is much lower, between 9% and 16%, for certain cash-reliant segments of the underbanked population. Thirty-nine percent of the underbanked receive their income in the form of a payroll check; of this group, just 6% deposit their checks into a checking or savings account. Most cash their checks at banks, credit unions, supermarkets, check cashers, and other money services outlets.

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12 CFSI (2008) defines the underbanked as those who have neither checking nor savings accounts, or those who have an account but have conducted at least one financial transaction at a non-bank/CU outlet in the last month.
FFM Results to Date

FFM has been successful in raising participation rates in key demographic categories, particularly for direct deposit. While retirement plan participation levels experienced a slight decline, dramatic gains have still been made in some targeted demographic categories and at some individual companies. Overall, in the first year of the initiative, total reported direct deposit participation rates increased by 1.7%, and retirement plan participation fell by 1.2%—a decline which is likely attributable to the challenging macroeconomic climate.

At the project’s inception in the spring of 2008, 87.3% of all employees at reporting FFM companies participated in direct deposit—higher than the U.S. national average. Non-Caucasian employee populations participated in direct deposit at lower rates than average: just 79.2% of Hispanics, 84.8% of African Americans, and 86.5% of Native Americans were enrolled in the programs. Similarly, employees at lower salary levels were less likely than average to have direct deposit, with just 63.9% of those earning less than $20,000 participating. On the other hand, employees earning more than $50,000 annually exhibited participation rates near 95% or higher. Employees at both ends of the age spectrum, under 25 and over 59, were also significantly less likely than average to participate in direct deposit. 14

With these disparities in mind, it is encouraging that after FFM’s first year, as of March 2009, the largest gains in direct deposit were evident among both the youngest and oldest, those earning lower salaries, and among Native American and multiracial employees (the latter two categories, it should be noted, represent relatively few employees).

Graph 1. Change in Direct Deposit Participation, by Race

<table>
<thead>
<tr>
<th>Race</th>
<th>Change in Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caucasian</td>
<td>2.2%</td>
</tr>
<tr>
<td>Hispanic/Latino</td>
<td>1.7%</td>
</tr>
<tr>
<td>African American</td>
<td>1.9%</td>
</tr>
<tr>
<td>Asian</td>
<td>2.0%</td>
</tr>
<tr>
<td>Native American</td>
<td>5.8%</td>
</tr>
<tr>
<td>Multiracial</td>
<td>11.8%</td>
</tr>
<tr>
<td>Not Specified</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Total</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

14 Note: Not all participating companies reported direct deposit data or demographic breakouts. All figures cited are from the subset of participants who did report this data.
Despite the economic downturn, FFM saw increased participation in retirement plans by employees earning moderate salaries ($30,000-$50,000), employees in their 20s, and those of Asian and Native
American descent. Additionally, participation rates for African American employees have dipped only slightly. Significant challenges still remain to reverse overall negative trends, especially among lower-income and higher-income employees, Hispanic and African American ethnic groups, and young and mid-career employees. FFM’s current task is to build on the success it has seen in certain employee populations by finding the right messages and delivery strategies for retirement savings plans in the changing economic climate.

**Graph 4. Change in Retirement Plan Participation, by Salary**

15 Total change rates differ based on the subset of companies reporting data in each demographic breakout.
Graph 5. Change in Retirement Plan Participation, by Race

Graph 6. Change in Retirement Plan Participation, by Age
Successful Company Strategies

Specific strategies adopted by FFM participants are widely applicable to other companies. Many are decidedly low-tech, requiring a genuine corporate commitment rather than flashy communications or new tools.

Strategies for Direct Deposit

- **Easy, immediate enrollment**
  FFM companies in the retail and hospitality industries, such as Carlson, a global hotel, restaurant, travel and events company, have increased their direct deposit participation rates by making enrollment an integrated part of the new hire orientation process. One retailer has a network of kiosks in its stores to automate and speed this sign-up process for new hires. Prioritizing the implementation of this system has made a real difference in the company’s participation rates.

- **Learning from employees**
  Companies who are successful in increasing direct deposit rates base their strategies on a strong understanding of their employees. Mortenson, a building design and construction company, regularly solicits employee feedback via focus groups and surveys, and then uses the information gained to improve upon its efforts. The company has seen its feedback improve steadily over time.

- **HealthPartners**, a non-profit health maintenance organization (HMO), surveyed employees who were not enrolled in direct deposit to ascertain whether they had a bank account, where they cashed their payroll checks, and why they chose not to participate. Sixty-four percent of those surveyed indicated that they would consider participating in direct deposit. The company then followed up on the survey’s findings with a fact sheet to encourage direct supervisors to start conversations with their staff about the benefits of direct deposit and the cost and inconvenience of cashing payroll checks. Continuing efforts at the company are focused on addressing the reasons employees cited for not being willing to enroll in the program, including lack of a bank account, poor credit scores, and lack of trust in financial institutions.

- **Person-to-person communication**
  Though many companies do no more to promote direct deposit than mail and payroll check-stuffer campaigns, those who have been the most successful take a more individualized approach. One-on-one conversations, often led by the employee’s direct supervisor or another trusted colleague, were cited again and again by FFM participants, including US Bank and HealthPartners, as the most effective strategy for raising direct deposit participation.

Strategies for Retirement Savings

- **Just-in-time enrollment education**
  Getting the timing right on communications about retirement savings is of the utmost importance. Through employee surveys, HealthPartners found that a major barrier to 401(k) participation was employees’ erroneous perception that they had already missed their sole chance to enroll. Ongoing discussions about retirement savings in the workplace can highlight the opportunities for non-participants to enroll in the 401(k) plan. Another strategy is to regularly promote 401(k)
enrollment alongside healthcare and other employee benefit elections, which often draw more attention from employees.

Educating employees about retirement benefits from the day they are hired is the optimal strategy. Jefferson Lines, a bus transportation provider, has found success in a proactive approach. Though the company requires three months’ tenure for eligibility, the 401(k) plan has been added as a topic in the standard new hire orientation, so that employees will be prepared to enroll when they become eligible.

Mortenson distributes its own interactive computer-based game as part of its new hire process, playfully referencing the construction industry with a “building your retirement home” theme. Employees are given incentives to complete and return a brief quiz as they go through the game, which emphasizes the importance of retirement planning and offers basic tools for calculating income replacement needs.

**The messenger matters**
As with direct deposit efforts, individualized, person-to-person communications are most effective in raising 401(k) participation levels and/or increasing deferral rates. Moreover, the messenger for any employer-employee messages about financial services should be chosen thoughtfully to maximize impact. Direct supervisors and company executives are often perceived as more trustworthy, and are thus more effective, than human resources staff in addressing financial issues. Building trust, according to Mortenson, is the most important part of an effective financial fitness program and can only be achieved through an ongoing process of employer-employee relationship building over many years.

Wells Fargo has adopted what it calls a “grassroots” approach. Because most tellers do not have regular e-mail access, and because mass communications in such a large organization can fall on deaf ears, the company has focused on using managers and supervisors to communicate the message about the benefits of 401(k) plans to front-end employees in morning team huddles and one-on-one meetings. A one-page flyer was distributed with talking points for supervisors’ use. With senior management support, supervisors regularly dedicate time in quarterly staff meetings to discuss retirement saving.

The bank simultaneously coordinated an “elite” level internal communications blitz: A letter signed by more than twenty senior-level regional executives urged all employees to enroll in the retirement plan. This executive-level outreach, instead of a more typical communication from HR, was designed to underscore the importance of the message and to reflect the institution’s sincere commitment to FFM efforts.

**Customized programming**
In-person workshops and one-on-one sessions are widely recognized to be more effective than mail and email campaigns; mailings should be used sparingly, as repeated mail campaigns tend to show diminishing returns to investment. Workshops and other formal programming should be customized in format, language, and topic to appeal to the specific employee population being addressed.

Jefferson Lines, a company with fewer than 100 employees, has had success using personalized telephone follow-ups to individualized mailings from both HR and third-party retirement representatives. The company also has its third-party benefits provider representative on site regularly to speak with employees about the 401(k) plan.
Mortenson conducts a series of formal workshops and an annual “benefits expo” to promote health benefits and retirement savings. Different versions of the expo are customized for different employee populations, but each version relies on entertainment, fun, and contests to draw in workers. For the largely Hispanic construction worker population, entire job sites are closed down for a morning—an unusual and expensive occurrence in the industry—for a mandatory bilingual, mariachi-themed festival highlighting retirement savings and health benefits. A recent event yielded a 90% enrollment rate in the 401(k) plan.

Fairview Health Services, a regionally integrated health care network, utilized its existing network of “benefit tutors” to help communicate with its diverse workforce during the rollout of its redesigned 401(k) program. These tutors are bilingual employees who volunteer to undergo training in order to answer their peers’ questions about a variety of employee benefits topics.

Building on the connection between financial and physical health, several FFM companies have modeled their financial education sessions on existing health promotion initiatives. At Travelers, an insurance provider, a long-running “Month of Health” program with brown-bag sessions, massages, and health fairs was followed for the first time this year by a “Month of Wealth” offering programming and tools for retirement planning. The month-long event received positive feedback from employees, and the company saw improved trends in plan participation, deferral rates, and enrollment in the annual deferral increase program.

- **401(k) program design**
  A set of best practices for 401(k) program design are being implemented by most FFM companies. These best practices were identified as program features that add to the real value of benefits to attract employees, nudge employees toward making good financial decisions by making participation the path of least resistance, or empower employees by giving them more information about retirement planning. Some companies—depending on industry and size—face greater challenges relative to others in implementing these program features and not all companies in FFM employ the full set of best practices.

### BEST PRACTICES FOR 401(k) PROGRAM DESIGN IDENTIFIED BY FFM

#### Pulls
- **Earlier eligibility.** Employers are reducing the waiting period for eligibility to participate in the 401(k) plan, or eliminating the waiting period altogether.
- **Increased match.** Employers incent employee participation by raising the percentage level of employer match for contributions.

#### Nudges
- **Auto-enrollment.** At eligibility, employees are automatically enrolled in the retirement plan, and must actively choose to opt out.
- **Auto-escalation—voluntary and involuntary models.** Employees’ contributions to the 401(k) are automatically increased by a percentage point each year. In some businesses, employees must choose to enter the auto-escalation program; at other companies, it has become the default and employees must choose to opt-out.
- **Target funds.** Employees’ default investment options are allocated based on the year of planned retirement, making it easier to balance a portfolio and choose appropriate levels of investment risk.
Empowerment

- **Web portals.** To make sense of a confusing array of information resources for retirement planning, **employers can create** a customized web portal for employees, with links to a variety of planning tools.
- **Financial Engines.** This service allows employees to track the performance of their 401(k) plans, utilizing a simple red-yellow-green light graphic to show employees if their current retirement strategy is sound.
- **Personalized advice.** Employees are encouraged to seek free investment advice from knowledgeable volunteers from within the company.

Remaining Challenges and Opportunities for Companies

Though FFM companies have made real improvements in their direct deposit and 401(k) participation rates, serious challenges remain. In particular, the current economic climate makes the effects of FFM efforts difficult to measure. The challenges faced by FFM participants also vary significantly by industry and company size. Each major challenge faced by FFM companies presents an opportunity for further work in this area.

**Challenges for direct deposit**

- **Unbanked employees**
  The majority of employees who do not participate in direct deposit are unbanked. So far, few FFM companies have worked to address this issue head-on by connecting employees with bank, credit union, or prepaid card accounts.

  Payroll cards are a frequently-cited option for providing direct deposit to employees who lack bank accounts. However, several FFM companies—each with thousands of employees—reported that they had run into difficulties in implementing a payroll card program, and that it was unclear whether the benefits of doing so would outweigh the costs to the companies.

  Companies with a small number of unbanked employees as a proportion of their total workforce tend to report that introducing payroll cards as an option is not worth the hassle and expense. The **Metropolitan Council**, a regional city planning agency, has been successful in implementing payroll cards but only because, as a public agency, it is legally allowed to require new employees to use direct deposit.

  CFSI’s research shows that the number one reason people cite for not having a bank account is the perception that they do not have enough money to make an account worthwhile. Past credit problems, distrust of financial institutions, and opaque fee structures are other frequent reasons for not owning a checking or savings account.\(^{16}\)

- **Turnover**
  Some companies, by the nature of their industry, have high employee turnover rates, making direct deposit less attractive both to employees and employers. In the construction industry, non-union craft workers are generally not even eligible to participate in direct deposit because of the challenges inherent to a very mobile workforce with frequent turnover.

\(^{16}\) CFSI Underbanked Consumer Study, 2008.
• **Real and perceived cultural barriers**
  Language is certainly a challenge for providing education and access to financial services in some industries; one company in the hospitality industry reported that 21 unique languages were spoken in just one of its facilities. In certain instances, cultural and religious proscriptions on earning interest persuaded employees to forgo opening bank accounts and participating in direct deposit. Employers’ assumptions about the barriers to participation should be thoroughly investigated, since efforts grounded in a real understanding of their particular employee base are much more effective.

**Recommendations for addressing direct deposit challenges**

*Unbanked Employees*
- There is a real opportunity for prepaid and payroll card providers to make the process simpler for employers.
- Programs that connect employees to specific checking and savings account products, such as second chance checking and zero-minimum-balance accounts, could be useful to employers who wish to encourage account ownership and direct deposit. Bank on Cities programs provide an example that could be followed.

*Turnover*
- Prepaid and payroll cards should be further explored as an option for offering direct deposit for companies with mobile workforces.

*Cultural and language barriers*
- Employers must make concerted efforts to offer appropriate communications for employees who do not speak English as a first language. Because attending a non-English-language session can carry stigma for some employees, the best practice is to offer simultaneous bi- or multilingual workplace information sessions. Training bilingual employees to educate their peers about benefits is another effective strategy.
- Employers should continue to gather more information about how direct deposit usage is related to gender, household dynamics, and specific populations, in order to inform their future strategies.
- Employers should survey those who do not participate in direct deposit to test whether their assumptions about cultural and religious barriers are correct.

**Challenges for retirement savings**

• **Macroeconomic environment**
  For the FFM initiative, the largest barrier by far to improving retirement plan participation has been the recessionary economic climate in 2008 and 2009. Lack of confidence in the market makes 401(k) investments less attractive, especially to those who had not enrolled in the past. More importantly, growing unemployment and other pressures on household budgets have made deferring income more painful for cash-strapped workers. This environment has made the success of FFM’s efforts with respect to 401(k) enrollment difficult to judge. Moreover, it has exposed an overall need for education about the value of saving.

• **Nature of the workforce**
  Turnover
In industries like transportation, retail, and hospitality, turnover is high, and companies report that some of the best practices for retirement plan structure—such as reducing the eligibility waiting period for 401(k) benefits and moving to auto-enrollment—are too expensive to implement.

**Lower-wage earners**
In many sectors, such as retail and restaurant, many employees work part-time for low wages and are not their household’s primary breadwinner; these employees often do not take advantage of 401(k) benefits either because they do not think of themselves as part of the household retirement savings equation or because they prefer not to “lose” any portion of their paychecks.

**Young or inexperienced employees**
Some companies report that their employees, even those earning moderate or high incomes, have difficult budgeting and understanding the value of deferring income for retirement. This issue is particularly acute for young employees or those who have never before had a job with retirement benefits.

**Logistical challenges**
Transportation and service industry employees are mobile, have little access to the internet in the workplace, and rarely gather together with their colleagues. This dynamic creates challenges for efforts to provide education and information about retirement planning.

- **Ambivalence about employer role**
  While many FFM companies see themselves as an appropriate channel for delivering financial nudges to their employees, a few companies are concerned about acting as a “big brother” or undermining employees’ sense of self-responsibility and accountability.

- **Uneven access to resources**
  Both large and small companies often have limited access to systems that facilitate some of the most effective strategies for improving employee financial fitness via retirement savings, such as auto-enrollment and auto-escalation. While most FFM companies are satisfied overall with their relationship with their third-party retirement plan provider, not all providers offer the information systems and educational resources that companies would like.

**Recommendations for addressing retirement savings challenges**

**Macroeconomic environment**
- Employers must emphasize the importance of continuing to save for retirement, particularly in difficult times. Employees may heed these messages now more than they have in the past.
- Messages about retirement savings can be broadened to include a more general message about saving, including short- and medium-term saving that can be of great value for lower-income workers who live paycheck-to-paycheck.
- Consider implementing new workplace-based savings programs.17

17 “Autosave: A Pilot to Test Workplace-Facilitated Employee Emergency Saving.” New America Foundation and MDRC, March 2009. AutoSave is a unique savings plan that automatically diverts through payroll deduction a small amount of post-tax wages into an accessible savings account. The savings are promoted as a form of “self-insurance”, providing a safety net in the event of financial emergencies.
Nature of the workforce
- Education about the value of saving, at any income level and in any amount, should be stressed for employee populations with traditionally-lower retirement plan participation rates.
- Nudging practices should be implemented, and employers should continue to explore cost-effective ways to structure their programs in ways that offer greater benefits to their employees.
- Strategies for providing information to employees must be customized to reach all segments of a company’s workforce. Employers should be on the lookout for cost-effective technological innovations that will allow them to communicate more effectively with far-flung employees.

Ambivalence about employer role
- Companies should promote approaches like opt-out, auto-enrollment, and auto-escalation as ways to empower employees, particularly when they are offered in conjunction with access to information, education, and more attractive benefits.
- Companies can partner with other organizations, including local nonprofits or third-party retirement plan providers, to provide services that are outside the bounds of employer-employee relationships.

Uneven access to resources
- In some cases, companies can provide their own services at a lower cost: FFM companies like Travelers and Mortenson have chosen to develop their own retirement planning websites and communications materials, finding that doing so proved to be more cost-effective than hiring a third-party provider.
- Working with providers to improve the process of implementing program features, such as auto-enrollment and auto-escalation programs, can pay off in the long term.

Major Recommendations for Building on the FFM Foundation
As it enters its second phase of work, FFM and those who wish to replicate the group’s model, should take several steps to advance their agenda:

- **Build on what works in FFM model.** Executive-level commitment and recruitment; regional collaboration with civic purpose; specifically-defined, quantifiable goals; work-based, employer-driven efforts; and the proven success strategies outlined previously in this paper should all be recognized as key elements of the model which can be widely applied to other regions’ efforts and should continue for FFM itself.

- **Explicitly work to address the underlying issue of unbanked employees.** Opportunities exist to partner with financial institutions who are themselves members of FFM, and with local community banks and credit unions. Emphasizing depository account products with the right features, such as opt-in overdraft programs and no minimum balance requirements, would provide a true benefit to unbanked employees.

- **Use the workplace as a delivery channel to take advantage of new opportunities.** Companies already committed to FFM’s goals of increasing retirement savings and direct deposit enrollment are prime candidates for implementing innovative programs, new delivery strategies like prepaid cards, and financial education efforts. While FFM has benefited from a relatively narrow focus on its two primary strategies, it has a great
opportunity to leverage its existing structure and pool of corporate members to adopt new initiatives in response to changing needs and circumstances. Financial education and debt management programs could be added to the existing toolkit for building financially fit employees.

- **Continually encourage companies to stretch their goals and focus on targeted populations.** Even those companies with overall high participation rates in their direct deposit and retirement programs have opportunities for genuine leadership in engaging targeted employee populations that are disproportionately less likely to participate.

- **Leverage the platform to put messages out in the broader community.** FFM has used the press effectively to advance its goals, and has established a website with resources relevant to participating companies and new corporate recruits. There are further opportunities for FFM to build on this powerful platform and deliver messages to the community about the value of saving and overall financial fitness.

- **Look for opportunities to partner.** The engagement of other organizations working on financial fitness, including nonprofit groups, represents an opportunity to leverage FFM’s work by providing services that are outside the bounds of employer-employee relationships. FFM’s regional/community focus makes partnering with other regional and state-wide organizations a particularly attractive option.

As FFM enters its second year of work, many opportunities exist for building on and deepening the work of participating companies. FFM’s commitment to improving the financial stability of its region through employer-delivered financial services will continue to yield real benefits for employees, employers, and Minnesota communities alike. Its innovative and promising model serves as an example from which others can learn and develop solutions within their own context.
APPENDIX

Thank you to the following companies who contributed to this research:

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Direct Deposit Success Story: Health Partners

HealthPartners, a health care organization with 5,000 employees, began its Financially Fit Minnesota efforts at the beginning of 2008 with a fairly high direct deposit participation rate of 87%. Knowing it could do even better, it set a goal of increasing the rate to 97%. HealthPartners was able to achieve this goal by July 2008 by:

- **Profiling non-participants.** Data was analyzed to discover which employees did not participate in direct deposit.
- **Learning why they weren’t participating.** A short survey was given to non-participants, finding that 76% had checking or savings accounts and that 64% were willing to consider signing up for direct deposit services. Of those who did not participate, 39% were concerned about their credit history, 39% lacked trust in banks, and 30% lacked either a checking or savings account. Another 15% simply had not been asked, and 8% did not know about the program.
- **Using team leaders to promote direct deposit and educate employees.** Managers were provided with a fact sheet about direct deposit to guide their conversations with employees.
- **Offering support and options.** Bank days were held so that employees could open new accounts, and the enrollment process for direct deposit was simplified.
- **Timing promotions together.** HealthPartners promoted direct deposit enrollment at the same time that it advertised a new system in which employees can view their pay statements online. The largest increases in participation rates were observed among younger, older, lower-income, African-American, and multiracial employees.
401(K) Success Stories: Auto-Enrollment at Supervalu and Fairview Health Services

When grocery retailer Supervalu joined Financially Fit Minnesota in 2008, it was already working on an overhaul of its retirement plan. A corporate merger and the need to standardize a wide variety of legacy pension and 401(k) offerings had initially prompted the change. The most significant part of SuperValu’s new strategy was auto-enrollment of eligible employees in the 401(k) plan at a 3% deferral rate, with investments defaulting to a target date fund. In-person information sessions supplemented written communications for employees in office and warehouse locations, while a telephone information line offered help with enrollment choices for frontline store employees. The auto-enrollment program proved successful even beyond initial expectations, as few employees chose to opt out of the plan. By March of 2009, the company saw a 21% increase in 401(k) participation, from 68% to more than 89% in just over one year.

Healthcare system Fairview Health Services also found auto-enrollment to be a highly successful strategy for increasing 401(k) and 403(b) participation rates while overhauling the company’s retirement plan. The new program, rolled out in early 2009, automatically enrolls all eligible employees in retirement plans at a 3% contribution level. To help manage the transition, Fairview has been able to tap into its existing network of “benefit tutors,” bilingual employees who volunteer to receive training and teach their peers about a variety of employee benefit topics. Fairview has found that employees now take a much more active role in managing their retirement accounts, and seem to be less afraid of making their own investment decisions. Because of the automatic enrollment program, even employees who choose to opt out of the plan are required to actively go online to do so, thus making themselves more familiar with the employee benefits system and the retirement plan itself. Initial results indicate that 401(k) and 403(b) participation at Fairview will approximately double as a result of the program design change.

Though both Fairview and Supervalu are in the process of phasing out previous pension plan offerings, they have found that with automatic enrollment into defined contribution plans, more employees overall are saving for retirement, many are saving more, and most are more actively engaged in their finances than under previous plans that combined defined benefits and defined contributions. In addition to implementing auto-enrollment, proactively providing information and communicating with employees well in advance about the planned changes helped both companies to achieve significant improvements in participation.
About CFSI:

The Center for Financial Services Innovation is the nation’s leading authority on financial services for underbanked consumers. Since 2004, its programs have focused on informing, connecting, and investing—gathering enhanced intelligence, brokering and supporting productive industry relationships, and fostering best-in-class products and strategies. A non-profit affiliate of ShoreBank Corporation, CFSI works with leaders and innovators in the business, government and non-profit sectors to transform the financial services landscape. For more on CFSI, go to www.cfsinnovation.com.