Financial Services in the Workplace:
Using Intermediaries to Achieve Long-Term Value
Executive Summary

The financial services landscape has changed dramatically in recent years. In order for financial services providers to acquire customers and reach emerging markets, partnerships and new distribution channels are needed. The workplace is an ideal channel for distributing financial services to potential customers, as it is more than just the place where people do their jobs. Employers have a unique relationship with employees that can allow for regular communication and incentives for saving and investing in financial assets. The workplace also provides a venue for firms to market products to customers at the point where they are in their lives. As employees’ financial needs grow, financial services firms can customize cross-selling techniques and grow options with the customer. While there are challenges in bringing innovative financial services to scale through the workplace, especially for lower-income consumers, workplace-based financial services have the possibility of delivering value to the financial institution, employer, and to employees.1

But it can be very difficult for financial services firms to reach employers in a one-on-one fashion, especially since getting the attention of human resources (HR) professionals for product setup and implementation can be time-consuming and challenging. Moreover, commercial banks often have employer relationships but do not directly reach employees or understand their needs, while retail banks and credit unions often focus on one-off bank at work activities to reach end users, but do not have sustained relationships with employers. Non-depository institutions, such as stored value card providers and others, are also just beginning to look to the workplace as a distribution channel.

Luckily, at the same time that the financial services field is changing, the workplace is transforming in ways that can help to solve these problems. Today, additional distribution points are available to financial services providers wishing to distribute products and services to employees. These methods include pathways through workplace “intermediaries,” including HR outsourcers and professional employer organizations (PEOs), payroll companies, worksite marketing firms, and employee assistance programs (EAPs). These intermediaries are increasingly offering financial services and voluntary benefits. They have great scale in many cases, and may also provide a more trusting relationship with employers than financial services companies alone could offer. Finally, these intermediaries often understand the need to have relationships with both employer and employee.

1 For example, the proliferation of direct deposit, bank at work, retirement planning and tax incentives, in addition to more recently introduced products such as payroll cards and alternative payday loans, all offer entry points for financial institutions seeking new customers. Employers might also offer Employer Assisted Housing programs, financial education or counseling, and Earned Income Tax Credit (EITC) assistance in the workplace. For explanations of these financial services products and for more on the role of the workplace as a distribution point for financial services, see Jacob, K. (2005, August). Meeting Them Where They Work: The Promise of Financial Services Distribution in the Workplace. Chicago, IL: Center for Financial Services Innovation: http://www.cfsinnovation.com/managed_documents/workplacefinance.pdf
As financial services providers look for ways to acquire new customers by marketing to underbanked workers, intermediaries provide at least one strategy. This report serves as an overview of the potential of these intermediary channels to provide distribution and marketing opportunities for financial services. Because of the range of potential products and services available, this report takes an expansive view of the definition of a workplace “benefit,” with a focus on a range of products, from payroll cards to employer assisted housing (EAH) programs, that run the gamut of possibilities for underbanked employees.
Background

The Potential of the Workplace

Financial institutions are well aware of the power of the workplace as a distribution channel for financial services, and of the need for those services. Approximately 22 million, or 20% of all U.S. households, are unbanked, and, according to Visa, an estimated $500 billion of paychecks are issued annually to unbanked employees. Moreover, while nearly 83.5 million American workers participate in retirement plans offered by employers, it is estimated that only 38% of low-wage employees participate in these retirement plans. While retirement services are vital for workers at all income levels and a variety of constituents continue to press for increased adoption of such plans, financial institutions and others have attempted to address a range of other unmet financial needs in the workplace. Indeed, employers are increasingly providing various financial benefits to employees. The chart below outlines what percentage of employers offer these services:

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Direct Deposit and Payroll Deductions</td>
<td>97%</td>
</tr>
<tr>
<td>CU Memberships</td>
<td>55%</td>
</tr>
<tr>
<td>Retirement Planning</td>
<td>38%</td>
</tr>
<tr>
<td>Individual Investment Advice</td>
<td>33%</td>
</tr>
<tr>
<td>General Financial Planning Services</td>
<td>27%</td>
</tr>
<tr>
<td>General Financial Education</td>
<td>27%</td>
</tr>
<tr>
<td>Loans or Other Emergency Assistance</td>
<td>23%</td>
</tr>
<tr>
<td>On-site Check Cashing Services</td>
<td>12%</td>
</tr>
<tr>
<td>CU Memberships</td>
<td>11%</td>
</tr>
<tr>
<td>Loans or Other Emergency Assistance</td>
<td>12%</td>
</tr>
<tr>
<td>Personal Tax Services</td>
<td>2%</td>
</tr>
</tbody>
</table>


3 For more on innovative solutions related to retirement plans, see the research series conducted by the Retirement Security Project, available at http://www.retirementsecurityproject.org/print.php?pubs=all
5 Results may vary depending on sampling bias. For example, very small firms might be unlikely to offer many of the services provided in the chart; the graph illustrates trends offered by one set of employer respondents.
In conjunction with the financial services listed in the chart above, employers have begun experimenting with a new crop of wealth-building products and services for employees. A 2002 survey of benefits executives from 605 companies with at least 50 employees indicated that 14% currently offer, or plan to offer in the next 18 months, 529 college savings plans as an employee benefit.6 Others, like Marriott International, are offering matches to employees who contribute to specialized savings accounts. Finally, community groups have begun working with employers to provide employees with information about filing for the Earned Income Tax Credit and other benefits. For example, Corporate Voices for Working Families, a non-profit corporate membership organization of 50 large employers, has created and distributed an EITC Toolkit to highlight the benefits for employers of helping employees apply for the credit.7

The Role of Intermediaries

There are a variety of workplace intermediary organizations that provide benefits administration, HR functionality and financial services through the workplace. Often, financial services and other benefits are not directly provided by an employer’s HR department, but rather through an intermediary channel. These intermediaries play an important role in today’s workforce. For example, more than two million U.S. employees use Comdata payroll cards, which are offered directly through the payroll company.8 Moreover, 73% of companies in the 2005 SHRM Benefits Survey offered EAP programs, while a recent study of 120 large companies by Hewitt Associates found that 94% of companies outsource at least one HR function.9 Finally, according to the U.S. Worksite Study by the Eastbridge Consulting Group, worksite marketing companies (which market services such as insurance exclusively through the workplace) are also growing, experiencing 100% growth over 1997 when worksite sales totaled $2 billion.10 While most of these intermediaries have historically focused on providing benefits such as health insurance, family counseling or simple access to paychecks, there is potential to incorporate more strategic and valuable financial services through these intermediaries.

This paper focuses on the following intermediary groups and discusses the extent to which each could be an appropriate marketing and distribution channel for financial services in the workplace.

- Employee Assistance Programs: EAPs have been around since the 1940s and were originally formed to counsel employees with mental health issues related to alcohol and drug abuse. Today, EAPs provide a wide array of services, including financial and legal services.11 The EAP field is highly professionalized and has grown steadily in recent years.

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7 To access the 2005 toolkit, visit www.corporatevoices.org.
8 Comdata, a payment processor and card issuer, is owned by Ceridian, a leading information services company in the human resource, retail and transportation markets. See http://www.ceridian.com.
• HR Outsourcing Companies: These firms are also in growth mode, and they provide many of the benefits and services previously provided by employers themselves. Examples of common benefits handled by HR outsourcing companies include outplacement services, employee assistance programs, defined contribution plans, COBRA administration, and defined benefit plans. The Professional Employer Organization (PEO) industry offers similar services through a co-employment relationship, wherein employees are employed by both the PEO and the employer, and the PEO handles most HR functions.

• Worksite Marketing Firms: These firms help insurance companies and other providers of voluntary benefits market their products and services to employers. Voluntary benefits, including supplemental health insurance and retirement plans, are those bought by employees without contributions from employers, though with a group discount. As employers have lessened benefits in recent years, voluntary benefits, and thus worksite marketing firms, have grown in prominence.

• Payroll Companies: All employers need a system by which to pay employees. Payroll card companies such as ADP, PayChex and others have developed direct deposit systems and accompanying products for large and small employers. These product offerings have become more diverse in recent years.

Perhaps in part because of the large volume of sales calls received by HR personnel, it is difficult for companies to break through to individual HR departments and convince employers to buy their services through one-off strategies. This is especially true for small firms or nonprofits that would like to reach employees through the workplace but do not have a large sales capacity.

In addition, traditionally, a broader range of workplace financial services have been offered in businesses with retirement or benefit plans – and these tend to be large employers. Indeed, smaller firms are less likely to offer financial products because of the level of investment demanded and the increased cost of keeping up with regulatory requirements. Smaller companies with limited HR functions do not have as much time to put into initiating innovative programs, while others are interested in offering additional financial services but cannot handle the administrative burden. Participation in employer-sponsored defined-contribution plans also diverges according to firm size, with 80% participation among large firms and only 20% participation among smaller firms.

Though small businesses account for up to 75% of all new jobs in the U.S., it can be very difficult for financial services firms and nonprofits to reach small employers directly. For example, the Council for Adult and Experiential Learning (CAEL) is a $15 million national nonprofit headquartered in Chicago that creates and manages workplace educational benefit

programs for working adults through partnerships with employers and others. For years CAEL has worked to establish partnerships with firms with under 500 employees, but has found that for every $1 they spent to bring a new service to a small employer, they only received $1 in revenue. For firms with over 10,000 employees, that same $1 brought in $17 in revenue, making smaller firms a more challenging market for the organization. It follows that utilizing intermediaries could help take the pressure off the firms themselves, and smaller companies could become more enticing targets for financial services in the workplace.\(^\text{15}\)

As financial services firms begin to utilize intermediaries to market financial services, distribution isn’t the only issue. It is also important to consider what products and services could be offered to employees. For example, employees might be offered a broad array of financial services during workplace orientations or benefits trainings. New hires could learn, as part of their orientation through HR or their direct supervisors, about opportunities to access financial advice from the company’s EAP provider, the opportunity to access a payroll card from the payroll company, and the option to access supplemental life insurance or consumer loan products through the voluntary benefits program. As time progresses and employees’ financial needs change, intermediaries could help employers move their workforce along a pathway from transaction-based services to asset-based products. HR personnel could then work in conjunction with the spectrum of intermediary partners to offer employer assisted housing programs, emergency credit vehicles, and other financial services.

As financial services providers and nonprofits look for ways to acquire new customers through marketing to underbanked workers, intermediaries provide at least one strategy. The following chart provides a comparison of the various intermediary channels, including the potential to offer financial services through these channels.

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Comparison of Intermediary Channels

<table>
<thead>
<tr>
<th></th>
<th>EAP</th>
<th>HR Outsourcing/PEO</th>
<th>Payroll Company</th>
<th>Worksite Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STANDARD BUSINESS CASE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Facilitate payroll</td>
<td>●</td>
<td>●</td>
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<td>●</td>
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<tr>
<td>Encourage loyalty</td>
<td></td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Improve benefits</td>
<td>●</td>
<td></td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Financial stability</td>
<td>●</td>
<td></td>
<td>●</td>
<td></td>
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<tr>
<td>Ease HR burden</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td><strong>BUSINESS MODEL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Commission pricing</td>
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<td></td>
<td>●</td>
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<tr>
<td>Flat fee</td>
<td>●</td>
<td>●</td>
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<td>●</td>
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<tr>
<td>Fee for service</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Paid by employee</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Paid by employer</td>
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<td>●</td>
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<td>●</td>
</tr>
<tr>
<td><strong>MARKETING / DISTRIBUTION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Direct Access to employee</td>
<td>●</td>
<td></td>
<td>●</td>
<td>●</td>
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<tr>
<td>Small employers</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Large employers</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td><strong>FINANCIAL SERVICES</strong></td>
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<td></td>
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<tr>
<td>Already offers financial services</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Could offer own product / service</td>
<td>●</td>
<td></td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Could market / distribute others' products / services</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td><strong>POTENTIAL PRODUCTS</strong></td>
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<td></td>
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<tr>
<td>Financial advice</td>
<td>●</td>
<td></td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Payroll Card / direct deposit</td>
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<td>●</td>
<td>●</td>
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<td>Payroll savings</td>
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<td>●</td>
<td>●</td>
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<tr>
<td>Emergency loans</td>
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<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Employer assisted housing</td>
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<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Life insurance</td>
<td>●</td>
<td></td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Benefits screening</td>
<td>●</td>
<td></td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>529 plans</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Retirement / 401(k) plan</td>
<td>●</td>
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</tbody>
</table>
EAP Programs

State of the Industry

Employee assistance programs, which are over 60 years old in the United States, originally focused on counseling employees through substance abuse issues. Since their inception, EAPs have become a common benefit offering. According to the 2005 SHRM Benefits Survey, 73% of companies surveyed offered an EAP service.\(^{16}\) EAPs gained in popularity with the passage of the Drug Free Workplace Act of 1988. Second generation EAPs expanded to deal with other mental health issues. In addition to mental health services, the third generation of EAPs provides a wide array of services including child and elderly care advice and financial and legal services.\(^ {17}\) Today, financial advice is often provided as part of a larger EAP package. The largest providers of EAP services today include:\(^ {18}\)

- Ceridian Corporation
- Magellan Health Services, Inc.
- Claremont Partners Inc.
- ComPsych Corporation
- CIGNA Behavioral Health, Inc.

The inclusion of additional services under the EAP umbrella has largely been driven by increasing financial challenges faced by employees. In fact, the EAP industry has changed its tactics fairly dramatically in the last few years, especially after the terrorist attacks of September 11, 2001. What used to be an industry that focused on offering positive advice has turned into an industry with a crisis orientation, as people’s lives become more distressed--especially in the financial arena. For example, according to Ceridian, 10% to 15% of the calls that Ceridian receives from employees now deal with strictly financial concerns. In addition, the company states that many personal problems that employees have involve financial concerns at some level.\(^ {19}\) According to Ceridian, lower-income employees are especially high users of financial and legal advice offered by EAP programs.

EAPs work in a variety of ways, though most offer phone or web-based counseling. EAPs offer worksite seminars in addition to one-on-one counseling, and the larger firms have their own onsite staff of attorneys, financial planners, and other specialists who can provide assistance to employees who need more than cursory information. These services are usually free to the employee, and employers fund the programs in a variety of ways. Some programs are set up using a flat-fee system, where the employer pays a fee every time an employee uses the service, or with a set monthly fee per employee. According to industry experts, large and small companies utilize both options, and the cost is largely dependent on the expected usage rate of the service and the number of services (legal, financial, child care, etc.) provided. Employee adoption rates range from 3% to 40% according to some of the largest EAP providers.

\(^{16}\) Burke 2005.
EAPs and Financial Services

EAPs market their services to employers by highlighting the effect of financial stress on health, which influences attendance and productivity. Some industries prove harder to market to than others. This is especially true of industries with high turnover rates, such as the hospitality industry. EAPs find it difficult to reach lower-wage workers in these industries at times because employees lack Internet access or cannot afford to take time out of their day to call the program. Employers that use EAPs see them as benefits that save them time and energy, so the easy facilitation of such programs is essential to their success. According to industry leaders, the most effective marketing channel, both for employer and employee adoption, is a personal story with which people can relate. EAPs are essentially advice programs that can simplify employees’ lives and save them significant time as they face major life decisions.

These programs are not inherently set up to incorporate the facilitation of financial products and services per se. At this time, inclusion of a broad range of financial products, outside of retirement plans, is rare. While EAPs do not normally market individual firms’ products, one interesting possibility would be to include information about a wide variety of financial services, from public benefits to basic bank accounts to mortgage products, to inform employees of opportunities available to them in the community.

While rare, some EAP programs offer innovative products through employers that provide a pathway to additional financial services for underbanked families. For example, some EAPs use decisioning software to help employees choose the services, from mental health care to child care to legal advice, which will be most beneficial for them. CAPTC, a Tulsa, Oklahoma-based nonprofit that helps working poor families achieve economic independence, has partnered with Family and Children’s Services of Oklahoma (FCS) to offer benefits screening through CAPTC’s BESO software. FCS is a $15 million nonprofit agency that focuses on providing mental health counseling, child abuse prevention and other community services. The agency has an EAP program, and it recently incorporated BESO screening into the service package. Also, Marriott International offers an EAP-based Associate Resource Line, which includes services such as assistance in signing up for the Earned Income Tax Credit (EITC) and financial counseling. The hotel chain has noted that financial issues are some of the most popularly requested services through the resource line.

Another example of EAP facilitation of financial products involves the coordination of hardship grants or loans through employers. EAPs have been known to administer programs for some employers that serve to dissuade employees from taking money out of their retirement plans when emergencies arise. In one case, Ceridian worked with a large bank to administer a private trust that could be tapped when employees faced financial hardship or emergency. The largest users of this low-interest loan or grant program were lower-income tellers at the bank.

These types of innovative programs uncover an opportunity to incorporate a wider variety of financial products through EAP providers. Because EAPs already play an advisory role and are familiar with assisting employees with financial matters, EAPs might be among the most appropriate intermediary channels for distributing financial services.
HR Outsourcing Firms and Professional Employer Organizations (PEOs)

State of the Industries

As the workplace changes, the HR outsourcing market continues to grow. According to a recent study by Hewitt Associates of 129 large companies, 94% of them outsource at least one human resources function. Hewitt found that organizations are most frequently outsourcing outplacement services, employee assistance programs, defined contribution plans, COBRA administration, and defined benefit plans. According to SHRM’s 2005 survey, 44% of organizations fully outsourced at least one human resources function and 56% of organizations partially outsourced at least one human resources function. Full outsourcing occurs when a vendor manages a function in its entirety, and partial outsourcing occurs when the company and the vendor co-manage the HR function.

Frequency of Outsourcing HR Functions


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While new competitors are entering the market, current major players in the HR outsourcing industry include: 21

- Hewitt Associates, Inc.
- Fidelity Investments, Inc.
- Affiliated Computer Services, Inc. (which recently acquired the HR business of Mellon Financial)
- Electronic Data Systems and Towers Perrin, which have formed a joint venture called ExcellerateHRO
- Aon and Computer Sciences, which have teamed up as well
- IBM has also recently re-emerged as a competitor

In the HR outsourcing market, large firms prevail, as they have the technical competency and scale to handle multiple HR functions, from benefits administration to IT infrastructure. Oftentimes, the size of these firms and the pricing model leads the companies to focus on netting large contracts from very large employers. Outsourcers usually make money through an implementation fee and an on-going service fee which may or may not be based on the number of transactions processed. The size and complexity of the largest HR outsourcers poses challenges for firms that wish to use this model as a way to distribute financial services, but there are still opportunities to pursue some innovative ideas such as basic retail financial services, employer assisted housing, and other products.

Another related industry is the professional employer organization (PEO) industry, which has grown rapidly in recent years. PEOs utilize a co-employment relationship to allow small- and medium-sized employers the opportunity to defray costs by using an outside entity to manage human resources functions, including benefits administration, salary administration, workers compensation, tax issues, and regulatory compliance. Employees thus work for both the named employer and the PEO, though administration of payroll and benefits should appear seamless to employees. These companies, which have been in operation for thirty years, were initially known as “employee leasing” firms. They are now known as co-employers. 22 Major players include:

- Oasis Outsourcing
- Axcet HR Solutions
- Administaff, Inc.

According to the National Association of Professional Employer Organizations, the industry grosses over $42 billion per year and PEOs have grown as much as 20% each year over the past several years. Moreover, this industry specializes in serving small- and medium-sized businesses. The average number of employees at a company using one of the 700 PEOs in the U.S. is 16. More than two million workers work for a company that utilizes a PEO. 23

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PEOs generally work on a one-year contract basis, and pricing can take various forms. An initial setup fee of between $1,000 and $5,000 is supplemented by a fixed fee per number of employees or a percentage of gross payroll (between 2% and 15%) that is dependent on the number of services provided. While some PEO situations only cover payroll administration and services such as workers compensation, others offer services such as background checks, tax administration, employee training and general benefits administration.

**HR Outsourcers, PEOs, and Financial Services**

HR outsourcing companies package benefits for employers on a regular basis. As employers turn to these companies to provide 401(k) administration and other benefits, financial services companies could use these channels to distribute their products. Currently, insurance benefits administration and retirement plan administration are two of the most commonly outsourced HR functions. Thus, these intermediaries already have expertise related to financial services, but there is room for expansion into more basic financial services. Importantly, many EAP programs are administered through HR outsourcing companies. Some outsourcing companies might be able to work with their EAP counterparts to administer financial services and advice to clients. Financial services firms should note that large companies are the most likely employers to engage in significant relationships with outsourcers. At the same time, many outsourcing companies are very large and focus primarily on strategies that have significant take-up potential.

An interesting opportunity also exists with PEOs, which specialize in serving small businesses. It can be very difficult—and expensive—for financial services firms to reach small employers. At the same time, many small employers might not offer EAP programs, have on-site HR staff that can focus on financial services benefits for employees, or be able to afford to utilize large outsourcing companies. Moreover, some payroll companies, such as Paychex and Ceridian, have their own PEO programs. Because PEOs can package a variety of benefits to offer directly to employees, financial services offered by outside parties could be incorporated into those packages. Unlike many outsourcing firms, as co-employers PEOs have the opportunity to directly access end-users, and they could combine payroll administration with benefits administration to make it easier for employees to enroll in new financial services programs.

**Worksite Marketing Firms**

**State of the Industry**

The workplace is continuing to grow as a distribution channel for insurance companies and other firms that sell voluntary benefits to employees. A 2002 survey of employees showed that three in five employees are interested in purchasing additional voluntary benefits at work. The ease of payroll deduction was cited as a main driver for this interest by 86% of employees surveyed, while 82% noted that benefits help them be more disciplined about saving.

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24 For more information on PEO pricing, see www.buyerzone.com.
Moreover, insurance, especially life insurance, continues to be a very important basic financial service for lower-income people. Research suggests that there are several segments of the lower-income workforce that are under-insured, which creates an opportunity for voluntary benefits companies to step in to provide coverage through the workplace. Finally, as worksite marketing companies contemplate adding non-insurance products to their packages of voluntary benefits, additional financial services might be marketed through this channel.

Arguably the largest and most recognizable voluntary benefits firms, focused on insurance products, include:

- AFLAC, Inc.
- MetLife
- UnumProvident Corporation
- Prudential Financial, Inc.
- American Heritage Life Insurance Company

As demand has increased, supply has as well, with an increase in companies focused on offering voluntary benefits besides insurance, including home buying assistance, prepaid legal programs, and other life-work balance benefits. But insurance remains the mainstay of the worksite marketing industry.

In addition to the increase in product distributors, the brokerage industry surrounding this business model has grown as well. Major players include:

- Mass Marketing Insurance Association
- American Worksite Insurance Marketing

According to the U.S. Worksite Study by the Eastbridge Consulting Group, new worksite sales of voluntary benefits for 2002 totaled an estimated $4.03 billion, a 15% increase over sales in 2001. This represents 100% growth over 1997 when worksite sales totaled $2 billion. In 2004, MetLife surveyed employers of all sizes around the nation and discovered that one-third viewed providing more voluntary benefits as a major priority.

Employers have different reasons for allowing financial services companies and advisors access to their employees. Small- and medium-sized businesses (SMEs) may not have sufficient scale to provide services internally. Employers may be conscious of the fact that they do not provide comprehensive benefits and may view voluntary benefits as a way of closing the gap. Furthermore, voluntary benefits are viewed as a retention and productivity vehicle by

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29 Jones 2003. While insurance companies and other product distributors get direct revenue from selling products, if brokers are involved, commissions are paid based on sales volume.


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employers, who do not see a large increase in cost. The only cost that an employer may be charged is a small set-up fee for automatic payroll deduction. The benefits are also often viewed positively by employees, at least to the extent that the services are cheaper than they could buy on their own in the open market. Because voluntary benefits are purchased at the place of work, employees are often entitled to a group discount, usually 5% to 15% for auto and disability insurance, as an example.  

**Worksites Marketers and Financial Services**

To date, worksite marketing is overwhelmingly focused on the provision of insurance. At this stage, the worksite marketing industry has really taken off in direct correlation to the increase in voluntary benefits programs. Financial institutions and nonprofits that develop innovative products, such as stored value cards or payday loan alternatives, which could conceivably be marketed as voluntary benefits, might want to consider this channel as a distribution option. Investment accounts and retirement programs are another segment that can be facilitated through worksite marketing firms and brokers, and some brokers have incorporated 529 college savings plans and other financial services into their voluntary benefits packages. For example, companies such as SIRVA offer home buying and selling assistance services as a voluntary benefit. Firms offering small-scale products might find this channel challenging, as the commission-based pricing structure of the relationship means that many marketing brokers focus on large players.

On the other hand, this pricing model can be very attractive to employers. As they become more cost conscious, employers are increasing their expectations of voluntary benefits providers and demand products and distribution systems that allow the employer to bear no or very small costs. Many employers are also looking for product distributors that can develop programs to assist employers in acting as “facilitators of benefits.” Good product providers have an administration and servicing offering that links their products with the payroll department and have a communication program that effectively markets products to employees according to their needs. If worksite marketers are able to provide these services, financial services companies might consider tapping into them in order to distribute products. Insurance companies are already doing this, but there is potential for the incorporation of other products.

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32 Jones 2003.
Payroll Companies

State of the Industry

Payroll processing companies allow businesses to outsource their payroll processing needs, including check processing, direct deposit, and withdrawals for taxes and retirement. The payroll industry is generally viewed as an oligopoly where:

- ADP focuses on medium- and large-sized businesses
- PayChex focuses on small businesses

Paychex has over half a million corporate clients, with an average size of 5 to 14 employees. ADP, which provides payroll services for 1 in 6 private sector workers in the country through over half a million corporate clients, has traditionally focused on larger companies, but has been growing its share of the SME segment. Other significant providers of payroll services include:

- Ceridian Corporation
- Intuit Inc.
- Ultimate Software

The American Payroll Association (APA) lists hundreds of other small payroll providers that may focus on specific geographic areas or market segments. The larger payroll processing companies also provide other services including 401(k) administration, HR outsourcing, PEO services and payroll cards.

Pricing formulas are very similar within this sector. Payroll companies receive either a fixed amount per processing period from their employer clients, or a fixed amount per processing period plus a fee per employee or transaction processed. Competition in this area is driven primarily by price as the service has become commoditized. Payroll companies are finding it increasingly necessary to price competitively because headcount growth is slowing and they need to attract new customers in order to continue to grow. But there are other competitive areas as well. Some payroll companies, particularly those that specialize in serving small firms or particular niches or geographic areas, focus on “high-touch” customer service and compete based on their personal relationships with employers.

As a result of the increasingly competitive environment described above, participants in the payroll space will benefit from being able to provide additional value-added services to clients that can benefit customers and provide higher profit margins for the payroll processing providers. Payroll companies are likely to face competition from HR outsourcing and benefit providers, creating a more competitive environment with greater price pressure.

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Payroll Companies and Financial Services

Payroll companies are constantly seeking ways to encourage participation in direct deposit. According to the American Payroll Association, 90% of companies offer direct deposit, but only 71% of American workers with direct deposit access use it. Yet, payroll companies, their corporate clients and employees all save money by using direct deposit. As payroll companies have recognized the large unbanked population of some of their clients, payroll cards offer an attractive alternative to issuing paper checks. Analysts estimate that companies save $20 per year per employee by going paperless through the use of alternatives such as payroll cards and electronic statements. But uptake has been relatively slow: In Illinois, 3% of the members of the Management Association of Illinois offer entirely paperless payroll, while 8% use paper alternatives in some form. The current climate of increased competitiveness, coupled with the incentive to push for paperless payroll, offers opportunity to utilize payroll companies as distributors of financial services as the firms seek to differentiate themselves in the market.

For example, ADP has launched a variety of products to supplement its payroll business. These include the TotalPay Card, a portable Visa branded payroll card introduced in 2003, and a stored value card for Flexible Spending Account (FSA) use, launched in 2004. Moreover, PayChex offers its own payroll card and also offers 401(k) administration to its clients. Ceridian also offers its own version of a payroll card (through Comdata), which has proven quite popular with over two million users.

One of the main issues to consider here is whether payroll companies are willing to offer and distribute other companies’ products, or whether they will prefer to offer their own branded products or use another firm’s products but private-label them. Part of the answer to this question lies in whether the payroll firm is most interested in generating revenues and touchpoints with end users or whether they are interested in offering value-added services to corporate clients to gain a competitive edge.

Some payroll companies attest to the desire to offer their own products, while others claim that building a brand for a financial services product is outside of their expertise, thus making a distribution role preferable. And there are instances where it is in a payroll company’s interests to stay out of the direct provision of financial services. For example, leaders from the payroll industry affirm an interest in helping their employer clients get out of the paycheck-advance business. But the reputational risks associated with offering alternatives to payday loans, coupled with the federal and state regulatory requirements that come along with becoming a certified financial services provider that can make loans, make direct provision of such products potentially unattractive to payroll providers. One possibility is for payroll companies to work with the banks through which they route payroll funds to offer consumer and mortgage lending products or additional financial services.

39 For more information on alternative payday loan products offered through the workplace, see Jacob, 2005.
In addition, payroll company representatives express an interest in the financial stability of employees, which leads to more stable employers. Since the payroll industry can have churn rates as high as 15% annually, stable clients are good for business. Thus, this industry has expressed interest in financial education programs, either through partnership or in a train-the-trainer format in their branch locations. On the other hand, it is important to remember that for many payroll companies, reaching the end-use consumer is a challenging and daunting task. Payroll companies’ business models do not normally incorporate direct relationships with employees, though some companies have expressed interest in reaching out to employees directly. Moreover, sales staff are compensated first and foremost for engaging new clients with basic payroll services. It can be difficult to entice the sales force to focus on new products, given this compensation structure.

Other Intermediaries

In addition to the intermediaries described above, there are other types of workplace intermediaries that offer interesting opportunities for distributing financial services. For example, some nonprofit organizations that act as “service providers” for specific industries also include HR functions in their work. The Metropolitan Chicago Healthcare Council is one example of such an intermediary. This nonprofit group has 94 hospital members and offers a variety of pooled HR functions, such as retirement savings plans and health, dental and life insurance, in addition to other services.

MCHC has an educational focus, offering seminars and programs on its services. The company also offers an employer assisted housing program in conjunction with the Metropolitan Planning Council in Chicago and participating financial institutions. In general, MCHC operates on a fee for service model per employee per month or per quarter; pricing structures can also be set up as a percentage of sales.

MCHC is not the only intermediary of its kind. Similar “service trade associations” assist the health care industry and other industries. As these intermediaries begin to take on additional HR functions because employers find direct administration too expensive, this type of intermediary could be an excellent channel for firms wishing to provide value-added services to members that have significant numbers of underbanked employees.
Challenges / Limits of Workplace Services

While workplace distribution allows financial services firms to access customers who may otherwise be reluctant to take advantage of certain financial products, there are limits on how helpful workplace services may be to some employee groups, especially to the working poor. Limited access to health insurance hampers the ability of employee assistance specialists to aide callers. In addition, many employers who provide traditional health insurance often do not provide adequate mental health insurance which limits the ability of EAPs to provide guidance for employees who are battling issues such as depression.40

But perhaps one of the biggest hurdles is the relative lack of perceived demand by employees for financial services in the workplace. In 2004, MetLife found that only 6% of employees scored financial planning as the most important benefit, compared to 4% of employees who saw banking services as the most important benefit. However, 57% of employees see retirement plans as the most important benefit offered to them, trailing only health insurance and vacation time. The same survey found that employees were concerned about having a financial plan or finding someone to give financial advice.41

While the constraints mentioned above affect all workplace strategies for distributing financial services, there are specific limits related to using intermediaries as well. It is important to note that the incorporation of financial services can be a stretch for some intermediaries, and nonprofits and for-profit companies alike should be strategic when choosing an intermediary strategy. Other limitations include challenges related to reaching small employers through these channels. While some intermediaries specialize in small employers, it may be difficult to encourage salespeople in payroll companies or worksite marketing firms to focus on added services when the initial sell is already difficult. Finally, regulatory issues are a significant concern for employers wishing to add financial services options to their benefits packages.

Indeed, one of the challenges that employers have faced recently when offering financial services through the workplace is the fear of legal repercussions, especially pertaining to advice related to investing in retirement plans. Employees’ rights are covered by the Employee Retirement Income Security Act of 1974 (ERISA), a federal law that sets minimum standards for most pension and health plans in the private sector to provide protection for individuals in these plans.42 Employers need to be sure that the administration of their plans comply with ERISA Section 404(c). Thus, in relation to ERISA, as employers begin to offer independent counselors or advisors in conjunction with financial services, they must consider the implications if the advisor breaches a fiduciary duty. It is possible that employers could be held liable as co-fiduciaries in this case.43

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42 For more on ERISA, see http://www.dol.gov/dol/topic/health-plans/erisa.htm.
43 Mercer Human Resource Consulting recommends that employers consider obtaining independent legal advice from securities and/or ERISA attorneys, establish sound governance processes with independent investment advice, and consider an independent outside fiduciary, namely, financial institutions that apply rigorous professional standards to reviewing developments that potentially affect the employer stock. For more, see Mercer Human Resources
Besides retirement plan issues, other regulations and laws that employers must navigate include various state laws surrounding how employees can be paid. For example, many states mandate that an employer cannot demand that workers receive their pay in a specific manner; payroll cards must be offered as an option rather than a requirement.\textsuperscript{44} In most states, employment laws allow employers to offer direct deposit, but they do not allow employers to mandate that their workers participate in their direct deposit programs. Alternatively, employment laws in other states do permit employers to mandate worker participation in direct deposit programs as long as the worker can choose the financial institution to which the funds are electronically transmitted. Most states also stipulate that employees must be able to access their pay without incurring any additional costs.\textsuperscript{45} Many payroll card products are structured to be offered nationwide and must therefore comply with varying state requirements.\textsuperscript{46} Since most state employment regulations do not specifically address payroll cards, many employers may be relying on what each state says about direct deposit mandates, reasoning that the two payment methods are quite similar.

Employers working with HR outsourcers, PEOs and others must also consider privacy regulations and data security when constructing partnerships with these firms. Other considerations include employees’ perception of a “hands-off” employer who does not want to be involved with direct benefits administration; some employees might not take to self-service delivery of benefits (such as using kiosks or portals to access benefits). Some employers worry that using intermediaries will have a negative impact on customer service, while others perceive that intermediaries are better poised to service employees. As employers and financial services providers engage in partnerships via intermediaries to deliver financial products to employees in the workplace, these concerns should be addressed during the negotiation process.

Consulting (2005, September). “10 Steps You Can Take Now to Minimize Fiduciary Risk.” Managing 401(k) Plans. It is important to note that there is some movement afoot to reduce this burden. By the end of the year, the Department of Labor plans to propose regulations to encourage employers to automatically enroll employees in 401(k) plans. These regulations might lower some of the legal risk that companies currently face when using automatic enrollment. Even without this regulation, automatic enrollment is on the rise. According to Hewitt Associates, 19% of large employers automatically enroll workers in 401(k) plans with the average enrollment of 3% of salary, compared to only 7% of employers in 1999.


\textsuperscript{45}For more information, see the American Payroll Association website http://www.apa.org.

\textsuperscript{46}Apart from the state employment law issue, the OCC has also issued guidance on how national banks should deal with payroll cards. The guidance warns national banks about unfair marketing practices and disclosures, unauthorized use and error resolution. The OCC is specifically concerned with payroll cards being designed to facilitate payday lending programs or other services that the Comptroller deems predatory. See: Office of the Comptroller of the Currency (2004, May 6). Advisory Letter 2004-6. Washington, DC:
Conclusion

Currently, the following intermediaries seem to offer the most promising avenues for financial services distribution in the near future:

- EAP providers: Because of their experience in financial counseling, these firms are very well-suited to offering more concentrated financial advice and decisioning around financial products. EAPs could also provide information and referrals on financial benefits such as employer assisted housing (EAH) programs.

- Payroll companies: These firms are already offering their own financial services in the form of direct deposit vehicles and payroll cards. As these firms look for a competitive edge and contemplate offering outside services as niche benefits, EAH programs, emergency consumer loans, and comprehensive bank at work programs could be added to the product suite.

While the above intermediaries seem to have the most immediate potential, there are important advantages inherent in the other intermediaries as well:

- PEOs: These firms, which provide similar functions to the outsourcing companies that often serve only very large firms, are well-positioned to offer packages of bundled benefits, such as emergency consumer loans, payroll cards, and 529 plans. PEOs serve as co-employers of employees and thus have the opportunity to directly access end-users. PEOs could combine payroll administration with benefits administration to make it easier for employees to enroll in new financial services programs.

- Worksite Marketers: These companies provide access to important voluntary benefits, primarily in the insurance arena. Because life insurance and related products are essential to lower-income workers, this channel remains promising. Moreover, if these firms begin to significantly enter into packaging non-insurance benefits, other financial services might be incorporated as well.

An employer’s size might also dictate what type of intermediary makes the most sense for distribution of financial services. Currently, many small employers do not offer EAP programs, but because of a limited HR capacity, small firms are beginning to outsource HR functions and offer voluntary benefits. Large firms often utilize the range of intermediary services, offering multiple points of entry for financial services companies looking to market their services in the workplace. At this point in time, most intermediaries are not engaging in direct sales of financial services, but the opportunity for utilizing this channel to acquire new customers and provide expanded services to the underbanked is exciting and full of potential.
The Center for Financial Services Innovation (CFSI), an initiative of ShoreBank Advisory Services with support from the Ford Foundation, was founded in 2004 to encourage the financial services industry’s efforts to serve un- and underbanked consumers. The Center provides funding for innovative solutions, a meeting place for interested parties and resources for testing products and services. CFSI also identifies, develops and distributes authoritative information on how to respond to the needs of the underbanked profitably and responsibly. CFSI works with banks, credit unions, technology vendors, alternative service providers, consumer advocates and policy makers to forge new relationships and pioneer products and strategies as it seeks asset-building opportunities that create value for both customers and companies. For more on CFSI, go to www.cfsinnovation.com

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