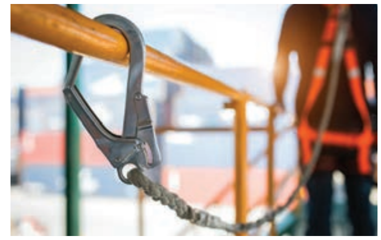




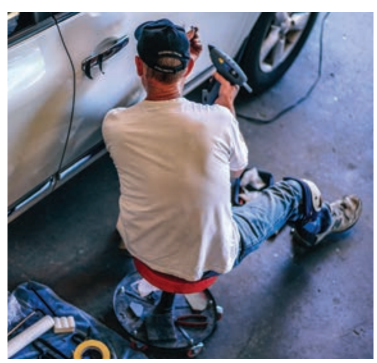

WORKER FINANCIAL WELLNESS INITIATIVE

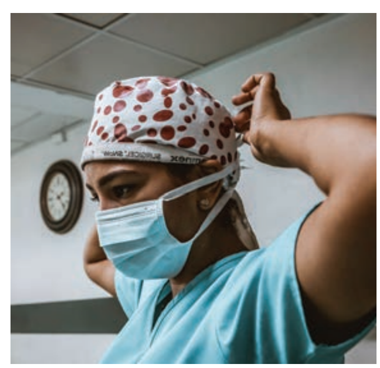
WHERE TO START: ASSESSING WORKERS' FINANCIAL WELLNESS

A GUIDE FOR COMPANIES

This issue brief is the first in a series of reports under the Worker Financial Wellness Initiative, a project founded by PayPal and JUST Capital.





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INTRODUCTION

We believe that any corporate strategy and planning in this moment should include a close evaluation of workers' financial well-being. Our research and direct engagement efforts with some of America's largest companies have shown that investing in workers both improves their lives and leads to meaningful improvements in key business outcomes.

Eight months into the COVID-19 pandemic in America, workers and businesses continue to face significant financial hardships with little to no relief in sight. Currently, **nearly 30 million** Americans are collecting unemployment insurance, **12 million people** have lost their health insurance, and **millions of families are food insecure** and face the **threat of eviction**. While no one could have predicted the severity and impact COVID-19 would have on America, it has exposed the extreme economic fragility of workers. For too long, too many Americans have been struggling to get by each month, let alone save and plan for the future. The reality is that this crisis has been made worse – and the recovery likely further away – due to widespread financial insecurity in America.

At the same time, corporate America faces unprecedented economic headwinds. Many business leaders are developing plans to not only weather this moment but emerge on the other side stronger. Even before the COVID-19 crisis, when companies faced diminishing profits, many would cut labor costs as a potential solution, falling into what MIT Sloan professor and Good Jobs Institute co-founder Zeynep Ton calls a vicious cycle: Lower labor budgets lead to higher turnover and operational problems, which in turn reduce sales and profits, and that often compels companies to cut their labor budget once again, perpetuating the cycle. During the pandemic, some companies have fallen into the trap of this cycle, focusing on short-term finances over the adoption of strategies that meet the severity of the current crisis and provide long-term solutions.

We believe that any corporate strategy and planning in this moment should include a close evaluation of workers' financial well-being. Our research and direct engagement efforts with some of America's largest companies have shown that investing in workers both improves their lives and leads to meaningful improvements in key business outcomes.

That's why PayPal and JUST Capital recently launched the **Worker Financial Wellness Initiative**, in collaboration with the Financial Health Network and the Good Jobs Institute, to make workers' financial security a C-suite imperative. Specifically, we are encouraging CEOs and companies to assess the financial security and health of their workforces. Drawing upon PayPal's **experience and leadership** on these issues, the organizations will help equip companies with the tools and resources needed to conduct assessments of workers' financial wellness, as well as identify different kinds of investments business leaders can implement to improve employees' financial outcomes.

In this brief, we introduce a framework for how companies can assess the financial wellness of their workers and discuss current research on why improving financial outcomes of workers also improves business outcomes, including reducing turnover and increasing both productivity and customer satisfaction.

HOW COMPANIES CAN ASSESS FINANCIAL WELLNESS

JUST Capital, the Financial Health Network, and the Good Jobs Institute each approaches issues relating to quality jobs and financial health with a different set of expertise and strategies. Our organizations are, however, all focused on a common goal of helping businesses improve outcomes for workers while also creating greater long-term value for companies.

The Worker Financial Wellness Initiative is rooted in the simple belief that when CEOs take the time to evaluate and understand the state of their workers' financial well-being, they will be in a stronger position to identify and implement practices that improve the stability of their workforce and company's operational strategy. A complete assessment of the financial wellness of a company's workforce will allow a business to understand, at a fundamental level, how many of its workers are struggling financially and how that connects to business outcomes.

JUST Capital, the Financial Health Network, and the Good Jobs Institute each provides a range of services and tools to support companies that are interested in executing such an assessment, which could include both quantitative inputs, such as surveys, as well as qualitative components, such as financial diaries or interviews. As a framework, we believe the following components are key to any internal assessment:

Living Wage Analysis: There are a number of ways a company could evaluate the wages it's paying its workers, including comparing wage rates to competitors', a local labor market, or even industry averages. We know from research and experience, though, that even when companies are paying at or above market wages many workers often still struggle financially.

"Markets can do more to help us build a just and equitable society. Treating labor as a cost to be managed or fearing Wall Street reprisals has kept wages stagnant for more than 40 years. If we are going to deliver on the promise of stakeholder capitalism, it's time for business leaders and investors to realize that our employees are our most valuable asset, and that investing in their well-being will drive long-term financial success."

Martin Whittaker, CEO of JUST Capital

Take, for example, someone who is a Retail Salesperson in Pittsburgh. According to the Bureau of Labor Statistics, the average hourly wage for this occupation in that city is $13.75 per hour, and among the top 10% of earners in this occupation, the hourly wage is $21.44. Yet, even for the workers topping out the market wage for that occupation in Pittsburgh, they still don't earn enough to support themselves and one child. **It is clear that in many instances, when market wages are so low, simply paying above average market wages is not sufficient to ensure financial security.**

Therefore, in order to clearly understand whether your company's wages are providing the financial support workers need, **we recommend comparing workers' wages to a local living wage threshold based on family size for the county in which they work**. When conducting this analysis, we recommend utilizing MIT's Living Wage Calculator, which identifies, by county and family size, how much money a person needs to earn each month to cover basic expenses, including housing, food, transportation, child care, and medical care. Among workers earning a living wage, companies should also identify how much money (as a share of their total wages) they have left over after paying for basic necessities, identifying their net disposable income.

Benefits Analysis: Employer-provided benefits – from health insurance and retirement savings to paid parental leave – are designed to ease financial burdens of workers. The magnitude of the impact, however, often depends on the details of each benefit package. In order for companies to better understand how their benefit packages contribute to the financial health of workers, they need to have a clear sense of how many and which employees are utilizing benefits and what if any cost is incurred by employees. We recommend supplementing a wage assessment by also **identifying access and participation rates for key benefit packages by various categories of workers (e.g. frontline, part-time, headquarter). Companies should then assess how much employees typically are paying for or contributing to their benefits**.
For example, determine the:

- Average annual premium of **health insurance**, as a share of total wages, by job category
- Distribution of employee **contribution rates** to retirement plans (e.g. what share of workers are contributing 1%)
- Participation, and repeated use, of **employer financial assistance or grant** programs
- Participation in and contributions made to **stock purchase** program

"As we encourage CEOs to commit to building a more resilient workforce, we also must equip them with the tools they need to gain insight into their workers' needs and deploy innovative solutions. What gets measured, gets managed, and we must urge active leadership during a time when far too many working Americans are financially insecure."

Jennifer Tescher, founder and CEO of Financial Health Network

Identifying how employees are interacting with employer-provided benefit packages will help companies better understand the degree to which these benefits are helping or hindering employees' financial wellness in the short-term and long-term.

For example, in Allegheny County, Pennsylvania, the estimated annual medical cost for a single person with one child is roughly **$7,100**, comprising 14% of total living wage expenses. If a company in Allegheny is paying its workers at the living wage threshold but an employee is spending more than $7,100 on medical expenses due in part to high employee premiums, then the workers are de facto not earning a living wage.

Spending, Saving, Borrowing, and Planning: While wages and employer-provided benefits are key determinants of workers' financial health, assessments and metrics related to these issues alone do not paint a full picture of financial well-being. For that reason, the Financial Health Network, the leading authority on financial health, **recommends utilizing a short, eight-question survey to assess workers' spending, saving, borrowing, and planning. A corresponding scoring logic for these questions enables companies to see whether workers are financially vulnerable, coping, or healthy.** Specifically, the survey asks workers whether they:

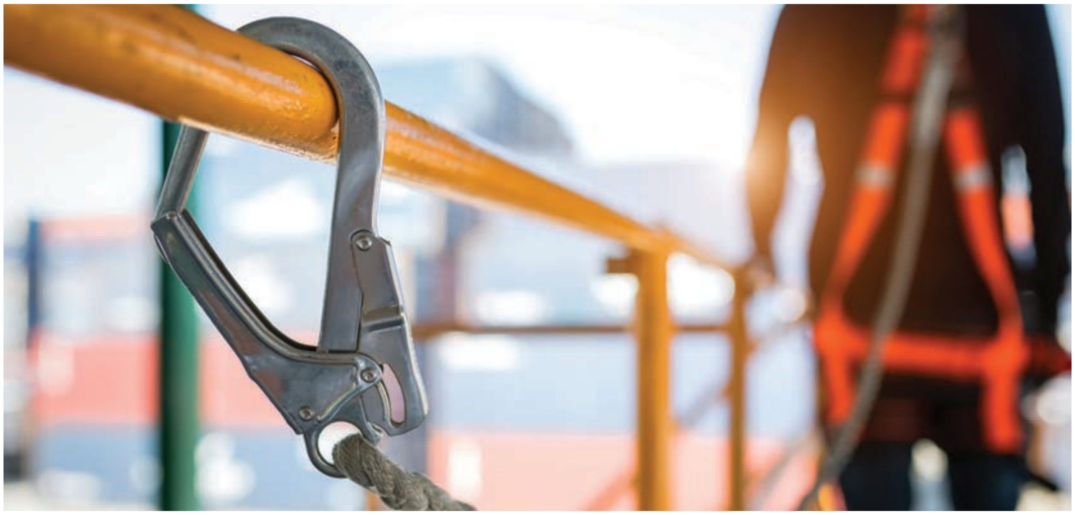
- Spending: Spend less than they earn and if they can pay bills on time
- Saving: Have sufficient liquid savings as well as long-term savings
- Borrowing: Have manageable debt and a prime credit score
- Planning: Have appropriate insurance and plan ahead financially

Deploying a survey that explores the key components of financial health allows companies to understand not simply whether their workers are struggling financially, but why. Are younger workers financially vulnerable because they are saddled with significant debt? Are workers with children financially vulnerable because they don't have sufficient long-term savings? Financial wellness depends in large part on workers' unique circumstances.

When an employee survey is paired with other assessments, such as the wage and benefit analyses previously explained, companies are able to diagnose pressure points of financial strain, and tailor solutions to the needs of their workforces. Moreover, companies that utilize the survey can not only track internal progress over time but also compare their results to those of industry peers and national trends.

Through the Worker Financial Wellness Initiative, JUST Capital, the Financial Health Network, and the Good Jobs Institute will provide companies with the tools and resources to conduct these three types of assessments. Additionally, the organizations will offer assistance to companies as they review their results, identifying opportunities for improvement and initial next steps. The Initiative will also connect participants with other companies that are doing similar work, creating an opportunity for business leaders to share learnings with each other in a private setting.

We know that conducting any of these assessments is no small endeavor and can often be a daunting task. Through the Worker Financial Wellness Initiative, companies can speak directly with our organizations to help determine which combination of financial assessments are a right fit for their business.



BUSINESS-SIDE BENEFITS OF IMPROVING WORKERS' FINANCIAL WELL-BEING

For the last 40 years, the conventional wisdom in corporate America has been that minimizing labor costs and keeping wages low is the key to profitability. But research on financial instability shows this approach hurts both workers and companies.

When workers are under financial stress, they may have higher absenteeism and turnover. There are many drivers, from not having the money to fix their car to get to work on time to needing to work two or more jobs with unstable schedules that may overlap. Turnover costs alone can be high for companies – tens of millions of dollars a year for companies with large frontline workforces. What leaders don't often recognize or measure is that with this labor instability also comes operational problems, like misplaced items, high shrink, and long checkout lines in retail; inaccurate orders in food service; or accidents and poor care in health care settings.

Productivity and customer service suffer. Financial stress can create a bandwidth tax of 13 IQ points. Recent studies have shown truck drivers under financial stress have more accidents, costing their companies $1.3 million annually. Certified nursing assistants under financial stress were found to be less likely to identify safety threats to their patients. MetLife estimates that employers could lose as much as $250 billion each year due to employee stress affecting their work, with personal finances running as the top source of employee stress.

And it is more than just money companies are losing, it is also lives: A 2020 study looking at nursing home workers found that if every county in the U.S. raised the minimum wage by 10%, patient health and safety would improve, reducing annual deaths in nursing homes by an estimated 15,000.

"Many companies find themselves in a vicious cycle of high turnover, poor operational performance and lower sales. Frontline workers can help drive sales and lower costs, but without financial stability, they can't truly be present and focus on the job. Knowing how much your frontline workers make is a key first step to building better jobs and stronger performance. We're excited to partner with JUST Capital, Financial Health Network, and PayPal to provide C-suite leaders with the resources and expertise they need to conduct the Worker Financial Wellness Assessment and then identify and implement solutions that can build long-term resilience benefiting both employees and employers."

Zeynep Ton, co-founder and president of Good Jobs Institute



Research by Zeynep Ton and the Good Jobs Institute shows that companies that invest in workers and make operational choices that leverage those investments to help drive productivity can improve business outcomes. These companies see reduced turnover, increased productivity and contribution, and better customer service, which can drive cost reduction and revenue uplift. For example, Professor Ton's research on Quest Diagnostics and Mud Bay illustrate why investing in workers coupled with operational changes can power significant business-side benefits.

QUEST DIAGNOSTICS

After consolidating 20 call centers into two, Quest Diagnostics experienced 60% turnover, which cost the company $10.5 million each year in direct replacement costs alone. Quest implemented the Good Jobs Strategy by raising wages, creating a more clear career path with incremental pay raises, and improving training. It simultaneously raised expectations of employees, with a more stringent attendance policy and better performance metrics. It improved operations as well, reducing non-value-add call volume and creating "model pods" to drive employee engagement and identify high-leverage improvement opportunities. Within 18 months, turnover rates were cut in half and unplanned absenteeism dropped from 12.4% to 4.2%. Quest's service improved too: Its 60 second answer rate went from 50% to 70% and call transfer rate from 12% to 9.5%. And they realized $1.3 million in run-rate cost savings from process improvements, many driven by their call center reps.

MUD BAY

The chain, retail pet food and supply company observed increased store sales, lower turnover, and improved customer service after implementing the Good Jobs Strategy. Over a three-year period, Mud Bay increased wages by nearly one-third, expanded the benefit eligibility to 82% of workers, increased the number of workers getting more than 30 hours, and created an employee stock option plan (ESOP) for those who worked more than 1,000 hours a year. It also made operational changes that helped employees be more productive – including reducing variety and price, improving standards and simplifying returns, stocking, and receiving – smoothing workload and reducing store hours. Its investment in people and operations paid off. Turnover decreased from 48% to 31%: a 35% improvement. Over this period, Mud Bay grew from 32 to 44 stores, total sales grew 70%, sales per square foot increased from $317 to $394, and sales per labor hour increased from $116.86 to $132.07. and sales per square foot increase from $317 to $394. Mud Bay also started receiving "love letters" from customers about its great customer service, and on Yelp, its stores are in the 4-5 star range.

Finally, JUST Capital researches the connection between worker treatment and financial performance, and recently looked at Russell 1000 companies and split them based on their scores on the treatment of workers in JUST's ranking model. The top quintile of just companies with the highest workers score outperformed the Russell 1000 by 4.7%, while the bottom quintile underperformed by 4.3%. This correlation continues to disrupt the idea that investing in workers is a tradeoff with financial performance.

Corporate leaders that recognize the financial and competitive benefits of improving workers' financial security will likely gain more from conducting a Worker Financial Wellness Assessment, as they will seek to find and implement practices that add value to employees, customers and investors. Through the Worker Financial Wellness Initiative, our organizations will help companies identify how various changes in policies and practices would improve different business outcomes, and help companies create a framework for tracking improvement overtime.

A LEADING EXAMPLE: PAYPAL'S NET DISPOSABLE INCOME ASSESSMENT

PayPal's catalytic leadership to found the Worker Financial Wellness Initiative builds upon the work the company has done over the last two years to improve the financial health of its workforce.

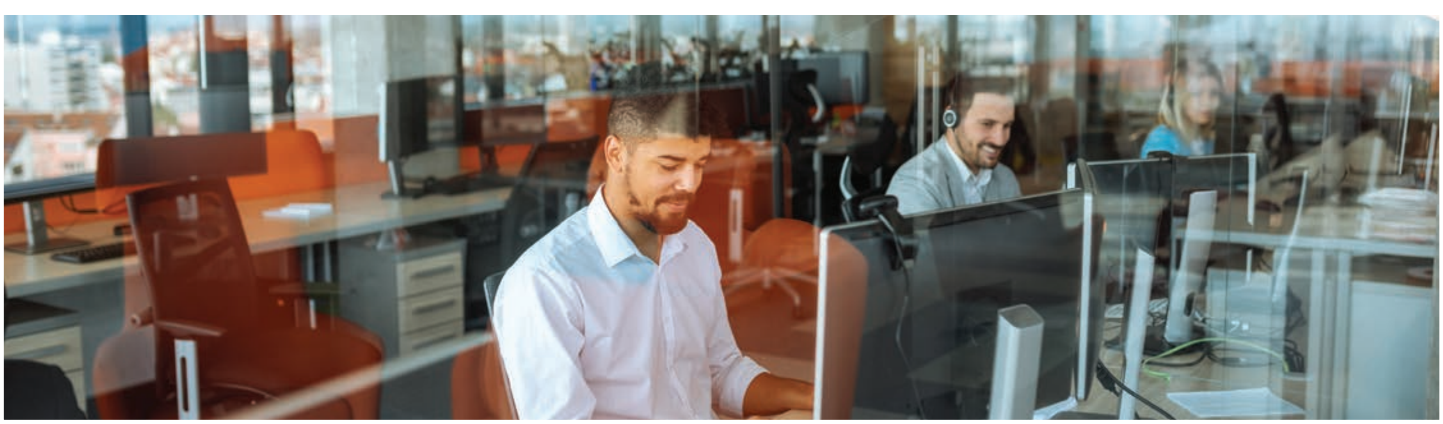
In 2018, PayPal surveyed a large sample of its hourly and entry-level employees to assess their financial security. The results indicated that almost two-thirds of employees were periodically running out of money between paydays. In response to these findings, PayPal undertook an intensive process to determine how much its employees needed to earn in order to be financially healthy. At the core was a calculation called Net Disposable Income, or NDI, which is essentially the amount of money left after paying taxes and necessary living expenses. The PayPal team decided to target an NDI of at least 20% and instituted a number of changes to reduce health care costs, grant stock awards to all employees regardless of level or tenure, raise wages where appropriate, and provide access to personal financial education.

Since instituting these changes, PayPal has already made substantial progress. By the beginning of 2021, the company estimates that the minimum NDI for its hourly and entry-level employees will be approximately 16% across global locations– up from the original estimates, which were as low as 4% in some regions. PayPal has plans in place to achieve its 20% NDI goal and further reinforce the financial security of its workforce.

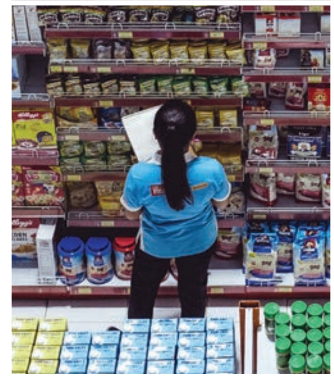
This was adapted from the CNN Business editorial "CEOs, Make Sure Your Employees Aren't Struggling to Get By," by JUST Capital chairman Paul Tudor Jones and PayPal CEO Dan Schulman, which is included on page 9 of this guide.

"Capitalism needs an upgrade. Focusing on the financial wellness of our employees is a tangible action all of us can take to build a more inclusive and equitable economy. Imagine the collective impact we can have if we come together as a business community to ensure that all of our employees are not just surviving – but actually thriving. This is not only the right thing to do for our employees and our communities, but it's also a great investment in the future of our companies."

Dan Schulman, president & CEO of PayPal



TAKING THE NEXT STEP



Over the last few years, an increasing number of business leaders have committed to improving the quality of jobs in America and economic security of their employees. We know that these are complex issues and companies can take a range of steps to achieve these goals. But we also know any meaningful and long-lasting solutions necessitate a clear understanding of the current state of workers' financial health. In partnership with PayPal, JUST Capital launched the Worker Financial Wellness Initiative with the goal of encouraging and helping companies execute a full assessment of their workforces' financial security. Over the next year, this collaborative Initiative will build a network of companies dedicated to tackling these issues, creating chances for peer learning and public leadership.

As companies face an unprecedented health and economic crisis, there is a clear opportunity for business leaders to step back and take stock of their workforce and practices to better understand the financial health of their workers. Business leaders that dedicate the time and resources to evaluate these issues will gain invaluable insights into how to improve the stability of their workforce, and in turn the resilience of their companies, and our national economy.

TO LEARN MORE ABOUT THE INITIATIVE, VISIT US. TO GET INVOLVED IN PEER LEARNING OPPORTUNITIES OR REQUEST ASSISTANCE FROM THE PARTNER ORGANIZATIONS ON HOW TO CONDUCT A WORKER FINANCIAL WELLNESS ASSESSMENT, PLEASE GET IN TOUCH.

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APPENDIX

BUSINESS

· PERSPECTIVES ·

CEOs, Make Sure Your Employees Aren't Struggling to Get By

Opinion by Paul Tudor Jones and Dan Schulman for CNN Business Perspectives
September 22, 2020

Before the coronavirus crisis hit, JUST Capital's research found that 50% of workers at America's 1,000 largest public companies were not making enough to support a family of three, even with a spouse working part time. Today, the health risks encountered by low-paid frontline workers, combined with historic levels of unemployment, have further exposed the fragility of American capitalism and demonstrated why business leaders need to step up and do more to support workers and their families.

If we don't take action now, we run the risk of further entrenched inequality on the other side of the pandemic. That is why we are asking America's CEOs to join us in assessing the financial security of their workforces and taking steps to ensure that none of their employees are struggling to get by.

As we collectively determine how to not only weather this moment but also begin to build a better future, we need to focus significant efforts on what more we can do to develop a resilient workforce. One place to start is to conduct an assessment of employees' financial security and health.

While every company can approach the process differently, the journey PayPal took with its more than 23,000 global employees may offer some useful insights.

In 2018, PayPal anonymously surveyed a large sample of its hourly and entry-level employees to assess their financial security. The results indicated that almost two-thirds of surveyed employees reported periodically running out of money between paydays. This was disappointing and surprising, but provides a valuable lesson to other leaders: Although PayPal's internal analysis showed that it paid at or above market value for each of its employees, the wages were not always sufficient for many families.

PayPal then undertook an intensive process to determine how much its employees needed to earn to enable financial security and health. At the core was a calculation called Net Disposable Income, or NDI, which is essentially the amount left after paying taxes and necessary living expenses. The team decided that hourly and entry-level employees should have a target NDI of at least 20% to ensure they have enough discretionary earnings to do more than just cover the essentials. To drive this increase, PayPal instituted a number of changes to reduce health care costs, grant stock awards to all employees regardless of level or tenure, raise wages where appropriate and provide access to personal financial education.

In less than a year since instituting these changes, PayPal has already made substantial progress. By the beginning of 2021, the company estimates that the minimum NDI for its hourly and entry-level employees will be approximately 16% across global locations – up significantly from the original estimates, which were as low as 4% in some regions. And PayPal has multiple plans in place to achieve its 20% NDI goal and further reinforce the financial security of its workforce.

Fifty years ago this month, the economist Milton Friedman published his influential essay, The Social Responsibility of Business Is to Increase Its Profits, which helped usher in decades of shareholder primacy as the dominant management philosophy for business. Friedman's belief that a laissez-faire approach to markets was most beneficial for society has simply been disproven. Today, there is strong evidence for why CEOs should make workers' financial security a C-suite priority – because building a resilient workforce is a strategic investment to your bottom line, a down payment on future growth.

JUST Capital's analysis has shown that companies that prioritize their workforces outperform their industry peers.
And PayPal is finding that when workers aren't worrying about whether they can provide for their kids or afford to go to the doctor, they are more engaged, innovative and committed to serving customers. This performance, in turn, benefits customers and shareholders.

And while we acknowledge that it is a tough time for many businesses, this moment presents us with a rare opportunity to build a better version of our companies. With last year's Business Roundtable new statement on the purpose of a corporation, CEOs of some of the largest and most successful companies in America said they believe that serving all stakeholders is the best path for creating sustainable and inclusive growth.

Imagine what we can accomplish if we collectively recognize the link between employees' financial well-being, our company's performance and the health of the overall economy. The economic impact that would have on families and our communities – particularly those that have historically been most marginalized and vulnerable – would be enormous.

WHERE TO START: ASSESSING WORKERS' FINANCIAL WELLNESS

ABOUT JUST CAPITAL

The mission of JUST Capital, an independent nonprofit, is to build an economy that works for all Americans by helping companies improve how they serve all their stakeholders – workers, customers, communities, the environment, and shareholders. We believe that business and markets can and must be a greater force for good, and by shifting the resources of the $19 trillion private sector, we can address systemic issues at scale, including income inequality and lack of opportunity. Guided by the priorities of the public, our research, rankings, indexes, and data-driven tools help measure and improve corporate performance in the stakeholder economy. To learn more about how data-driven insights are creating a more just future for capitalism, visit www.JUSTCapital.com.

ABOUT PAYPAL

PayPal has remained at the forefront of the digital payment revolution for more than 20 years. By leveraging technology to make financial services and commerce more convenient, affordable, and secure, the PayPal platform is empowering more than 300 million consumers and merchants in more than 200 markets to join and thrive in the global economy. For more information, visit paypal.com.

ABOUT THE FINANCIAL HEALTH NETWORK

The Financial Health Network is the leading authority on financial health. We are a trusted resource for business leaders, policymakers and innovators united in a mission to improve the financial health of their customers, employees and communities. Through research, advisory services, measurement tools, and opportunities for cross-sector collaboration, we advance awareness, understanding and proven best practices in support of improved financial health for all. For more on the Financial Health Network, go to www.finhealthnetwork.org.

ABOUT GOOD JOBS INSTITUTE

The mission of the nonprofit Good Jobs Institute is to help companies thrive by creating good jobs. Millions of Americans are stuck in bad jobs with poverty-level wages, unpredictable schedules, and few opportunities for growth, meaning, or dignity. By making better operational choices and investing in their employees, a system outlined in GJI President Zeynep Ton's book ***The Good Jobs Strategy***, companies can create good jobs that can build stronger companies and communities. The Good Jobs Institute builds partnerships with companies looking to implement a Good Jobs system and creates tools and resources to inspire and guide any organization that wants to offer good jobs. To learn more about the Good Jobs Strategy and access free tools and resources, visit www.goodjobsinstitute.org.