

Product Spotlight:
Reading Cooperative Bank's
Employee Emergency Loan



Product Spotlight: Reading Cooperative Bank's Employee Emergency Loan

Inspired by the pervasive lack of personal savings nationwide, Reading Cooperative Bank in Massachusetts mobilized to add an "Employee Emergency Loan" to their suite of employee benefits. The loan allows full and part-time Reading Cooperative employees same-day access to up to \$1000 for any emergency expense, no questions asked. The loan is low-risk for the employer as repayment is facilitated through payroll auto-deductions and offset by accumulated paid time off. A 2018 survey of employees conducted by Commonwealth two years after the product was implemented showed that awareness of the product was high, and employees had a positive perception of the loan overall. The majority of respondents had incurred at least one emergency expense in the last year with an average cost of \$1,021. This finding in particular prompted Reading Cooperative Bank to increase the maximum loan amount from \$500 to \$1,000 starting in 2019.

Quick Facts

Year Launched:	2016
Product Type:	Salary advance / interest-free loan
Loan amount:	Max \$500 for part-time employees Max \$1,000 for full-time employees
Interest rate:	0%
Availability:	Same-day
Employees eligible:	All
Loans requested¹:	23
Payment term:	Flexible
Repayment rate¹:	100%

Making the Case for Employee Financial Security²

While the US personal savings rate is on the rise,³ saving continues to be a significant financial challenge. According to the Federal Reserve, 4 in 10 adults do not have enough liquid savings to cover an unexpected \$400 expense.⁴ Within months of learning this fact, Reading Cooperative Bank (RCB) leadership took action. "We recognized that the employee base could be any one of us," Julieann Thurlow, RCB President & CEO said. "Emergencies are by definition stressful – alleviating stress must improve employee engagement and must improve efficiency because time is not spent worrying."

"There is a real [savings crisis] in this country. Information about the 40% of the middle class who did not have \$400 for an emergency had a profound effect on us. This is not about people 'out there.' It is about our own people. If we as an employer and a bank cannot help our employees, who can?"

— Maxine Hart
Chief Human Resources Officer
Reading Cooperative Bank

Thurlow's inclination is supported by research from the Center for Financial Services Innovation⁵ showing over 20 hours of productivity per month is at stake for employees struggling with credit and money problems. PwC estimates the cost of a full-time employee who is distracted by financial worries at almost \$900.⁶ Financial stress is also associated with higher rates of absenteeism and employee turnover, and lower job satisfaction.

RCB joins a growing number of employers who recognize the benefits of investing in their employees' financial security. Nine in 10 employers surveyed by Aon Hewitt in 2017 said they were very likely or likely to focus on financial wellness "in ways that extend beyond retirement."⁷ Such benefits might include matched savings accounts, salary advances, financial counseling, and employer-sponsored small-dollar loans.

RCB chose a loan product to discourage employees from relying on alternate sources, particularly their own retirement funds, when the need arises for quick access to cash. When an individual borrows from their retirement accounts, also known as a deferred compensation loan, they must repay the principal -

plus interest - back to their account. "We noticed [emergencies can spark] a perpetual state of borrowing from your 401(k), and you never get out of that cycle," Thurlow explained. According to RCB Human Resources, 15.3% of their full-time employees have at least one active 401(k) loan. The National Bureau of Economic Research estimates that 20% of 401(k) accouholders nationwide have a loan out from their account.⁸

About Reading Cooperative



Reading Cooperative Bank (RCB) is a depositor-owned cooperative founded in 1886. The community-centric financial service provider outside of Boston has \$545.3 million in assets and 8 Massachusetts branches including Reading, Wilmington, North Reading, Andover, and Burlington. RCB employs 90 full and part-time employees.

1. As of March 2019. This is an increase of 9 loans since Commonwealth surveyed RCB employees suggesting that there was increased awareness of the benefit following the survey. The loan amount was increased from \$500 to \$1,000 based on the survey findings which may have contributed to the increase in loans requested as well.

2. For more: "Financial Security in the Workplace," Commonwealth <https://buildcommonwealth.org/publications/financial-security-in-the-workplace>

3. 6.2% as of October 2018. <https://www.bea.gov/data/income-saving/personal-saving-rate>

4. Federal Reserve Board Report on the Economic Well-Being of U.S. Households in 2017 - May 2018

<https://www.federalreserve.gov/publications/2018-economic-well-being-of-us-households-in-2017-preface.htm>. A 2017 Bankrate study yielded similar findings: 39% of households would be unable to afford a \$1,000 expense with their savings.

5. <http://cfsinnovation.org/research/employee-financial-health/>

6. Per employee, assuming a \$14 hourly wage. "Special Report: Financial Stress and the Bottom Line – Why Employee Financial Wellness Matters to Your Organization," PwC, Sept. 2017, <https://www.pwc.com/us/en/private-company-services/publications/assets/pwc-financial-stress-and-bottom-line.pdf>, p. 11.

7. "2017 Hot Topics in Retirement and Financial Wellbeing," Aon Hewitt, Jan. 2017, <http://www.aon.com/attachments/human-capital-consulting/2017-hot-topics-financialwellbeing-report-final-january.pdf>, pp. 1-3.

8. Timothy (Jun) Lu, Olivia S. Mitchell, Stephen P. Utkus, and Jean A. Young, "Borrowing from the Future: 401(k) Plan Loans and Loan Defaults," National Bureau of Economic Research Working Paper 21102, April 2015.



About the “Employee Emergency Loan”

The “Employee Emergency Loan” is a small-dollar, interest-free salary advance of up to \$1,000 for full-time employees and \$500 for part-time employees. Based on the number of hours a part-time employee works (at \$15 per hour), RCB felt a \$500 loan was a “reasonable liability” for the bank. Funds are provided via check on the same day that an employee requests them, no questions asked.

Repayment is facilitated directly through payroll. RCB deducts a minimum of \$76.93 per pay period (\$153.86 per month) over 13 pay periods for the \$1,000 loan and \$50 per pay period over 10 pay periods for the \$500 loan. Employees can elect to pay more than the minimum to pay off the loan sooner than 13 pay periods (approximately 6 months). After successfully repaying the loan, employees can request another loan.

If the employee leaves before they have paid back the loan, RCB offsets the loan balance through the employee’s unused PTO time. To date, only one employee left RCB before they had repaid the loan. RCB was able to recover the balance through the employee’s accrued vacation time.

As of March 2019, the bank has issued 23 loans to 14 employees. The loan is primarily marketed through Human Resources. Employees cite managers, announcements at new employee orientation and bank-wide staff meetings, and inclusion in the employee handbook as the top ways they heard about the benefit.

Impact

Commonwealth designed and administered an electronic survey for RCB employees in October 2018. The goals of the survey were to:

- gauge awareness, as well as current and potential future uptake, of the loan
- ascertain employee satisfaction with the loan
- assess the loan’s impact on employee financial security and on employee perceptions of RCB as an employer
- identify opportunities to improve the offering

67% of employees responded (57 responses total; senior managers were ineligible to participate). 93% (53) of respondents were full-time employees and 7% (4) were part-time employees. Three of the respondents had used the Employee Emergency Loan.

Key findings are outlined below.

Employee Pain Points

- **10.5%** of respondents were not confident they could access the cash needed to pay for an emergency.
- **63%** of respondents had faced at least one emergency expense in the last year.
- Emergencies ranged from **\$250** to **\$3,500** with an average cost of **\$1,022**.
- **Half** of employees were able to afford the expense with money currently in a checking or savings account.
- Only **one-third** of employees who would use a credit card to pay for the expense would be able to pay it off in full on their next statement.



Interest-free:

The product is interest-free, making it less expensive than market alternatives such as payday loans and cash advances.



Unrestricted:

The product provides unrestricted funds, giving employees the flexibility to use funds as they deem necessary and conveying a message of trust from the provider.



Seamless repayment:

Automatic payroll deductions facilitate easy and passive repayment. Employees also have the option to play a more active role and pay more than the minimum payments each pay period.

“I love the idea that if an employee is struggling, their employer will take care of them and help them out when the employee is in need.”

— Reading Cooperative employee

The **top emergency expenses** faced were:



Car repair



Home or home appliance repair



Medical emergency, medical or dental bills



Unexpected travel



Pet medical expense



Death in the family



Awareness and Uptake

- The majority of employees were aware of and knew how the Emergency Loan works (67%).
- **1 in 5** (20%) were aware of the Emergency Loan but were not clear on the details of the benefit.
- **86.3%** of employees would consider using the loan in the future.

66.7%

of employees agreed or strongly agreed that “the Employee Emergency Loan sets RCB apart from other places they have worked or could work.”

“...you all actually care about your employees and co-workers. There is empathy and compassion here. Thank you.”

— Reading Cooperative employee

The original loan was set at \$500 for all employees, but as a direct result of the survey findings, RCB increased the maximum loan amount to \$1,000. This was based on the information in the survey about the average cost of an emergency (\$1,022) with two employees commenting, “emergencies often cost more than \$500” and “it’s easier to borrow from one source.” Employees indicated that they would be more likely (37.7%) or just as likely (52.8%) to use the loan if it were expanded to \$1,000.

Promising Practices

RCB’s Chief Human Resource Officer, Maxine Hart, offers this advice to employers seeking to replicate the Employee Emergency Loan:

- Make it as easy as possible for an employee to request funds
- Make it as easy as possible for the employee to access the funds. Same-day access is ideal.
- Respect privacy and refrain from asking employees questions about why they are requesting funds.

In addition to the above guidelines, senior management buy-in and commitment were integral to the launch of RCB’s loan. Julieann Thurlow, President & CEO felt it served to strengthen employee productivity and retention as well as reinforced Reading Cooperative Bank as a “compassionate workplace.”

“There is no potential for harm to the company - it is just good business to take care of your employees.”

— Julieann Thurlow
President & CEO
Reading Cooperative Bank

Interested in learning more or discussing your own employee loan program?
Contact us at info@buildcommonwealth.org.

Acknowledgements:

Commonwealth would like to thank Julieann Thurlow and Maxine Hart of Reading Cooperative Bank for their enthusiasm, support, and collaboration on this research. In addition, we’d like to acknowledge Brian Clarke of the Federal Reserve Bank of Boston for his leadership in convening New England financial institutions around issues of financial security, from which this research emerged. We offer special thanks to the Reading Cooperative employees who shared their experiences and feedback with us.

