Employment Capital and Financial Well-Being: Do Non-Income Employer-Provided Benefits Matter?

Research brief

Final

By Rebecca Loya, Sara Chaganti, and Leila Quinn, Brandeis University

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Executive Summary

This study examines an often-overlooked potential source of financial well-being: non-income employer-provided benefits that contribute to job quality, referred to as employment capital (Thomas, Boguslaw, Chaganti, Sullivan, & Shapiro, 2013). In this study, employment capital refers to three key characteristics of jobs that can promote financial security and asset-building: benefits, flexibility, and job security.

This study answers the following research questions:

1. How is each of the elements of employment capital (benefits, flexibility, and job security) related to financial well-being, controlling for financial planning behaviors?
2. Does access to employment capital vary by demographic characteristics (race, gender)? If so, how does controlling for race and gender change the relationship between employment capital and financial well-being?

To answer these research questions, the authors analyzed data from the Federal Reserve Board's 2017 Survey of Household Economic Decision-making (SHED), a survey of individual heads of household in the U.S. intended to assess financial well-being and risks to financial stability. This study utilizes a subsample of 5,498 employed respondents, who were asked questions about the variables of interest to this study: employer-provided benefits, job flexibility, and job security. Sample weights are included in the dataset to generate results representative of the U.S. adult population.

The findings suggest that the three elements of employment capital (benefits, job flexibility, and job security) are positively associated with financial well-being. Financial planning behaviors are not significantly related to financial well-being. Bivariate analyses support the hypothesis that the elements of employment capital vary by race, with non-Hispanic whites having greater access to benefits, flexibility, and job security than workers of color. Women workers have a lower number of benefits on average than their male peers. In the regression models, race/ethnicity and gender are not significantly related to financial well-being after controlling for other factors. However, after controlling for financial planning behaviors, race/ethnicity, and gender, all three elements of employment capital continue to be significantly positively related to financial well-being. These findings suggest that employment capital may contribute to the financial well-being of workers and families. Policymakers and advocates concerned with enhancing the financial well-being of vulnerable populations in the U.S. should attend to the potential roles that benefits, flexibility, and job security can play.

1. Background

In an era of growing income and wealth inequality in the U.S. (Piketty & Saez, 2003; Wolff, 2017) and increasing income volatility (Board of Governors of the Federal Reserve System, 2018; Pew Economic Mobility Project, 2017), understanding both the state of families' financial well-being and the factors that promote increased financial well-being is critical (CFPB, 2015, 2017b). Wide variation exists in perceptions of financial well-being, and patterns of variation have important implications for the financial health of families in the U.S. (CFPB, 2017b). Research shows that income is strongly tied to financial well-being (CFPB, 2015, 2017b).

Consistent with foundational research on assets and inequality (Oliver & Shapiro, 1995; Shapiro, 2004), assets are also critical to financial well-being (CFPB, 2017b). However, recent research suggests several non-financial factors promote financial well-being as well. Notably, job quality is drawing increasing attention among scholars and policymakers (see, for instance, Osterman & Shulman, 2011). This study examines non-income employer-provided benefits that contribute to job quality, referred to as employment capital (Thomas et al., 2013). With wages stagnant for the past several decades (Mishel, Gould, & Bivens, 2015), employment capital can offer important resources to promote financial well-being. Further, if access to these resources varies along racial/ethnic or gender lines, this could also contribute to disparities in financial well-being. This paper explores the relationship between three elements of employment capital (benefits, flexibility, and job security) and financial well-being.

Research questions

This study aims to answer the following questions:

RQ1. How is each of the elements of employment capital (benefits, flexibility, and job security) related to financial well-being, controlling for financial planning behaviors?

RQ2. Does access to employment capital vary by demographic characteristics (race, gender)? If so, how does controlling for race and gender change the relationship between employment capital and financial well-being?

2. About the study

Method

To answer these research questions, the authors conducted bivariate and multivariate analyses of data from the 2017 Survey of Household Economic Decision-making (SHED) to examine the relationships between employment capital and financial well-being. Specifically, this study calculated mean differences between groups and employed multiple linear regression models to test hypotheses about the relationship between elements of employment capital (benefits, flexibility, and job security) and financial well-being, controlling for financial planning behaviors, race/ethnicity, and gender. The models also control for other variables associated with financial well-being, including age, household income, education level, homeownership, and relationship status.

Data and sample

The data source for this study is the 2017 SHED, an annual survey of individual heads of household in the U.S. conducted by the Federal Reserve Board since 2013 (Larrimore, Durante, Kreiss, Park, & Sahm, 2018). The purpose of the SHED is to assess financial well-being and risks to financial stability for households in the U.S. The SHED data are representative of adults in the U.S., ages 18 and up, including oversampling low-income participants who have a household income of less than $40,000 per year (Larrimore et al., 2018). A total of 12,447 respondents participated in the 2017 SHED, of whom 12,187 responded to the English survey and thus were asked the full battery of questions of interest to this study (Board of Governors of the Federal Reserve, 2018). This study utilizes a subsample of 5,498 employed respondents, who were asked questions about the variables of interest to this study: employer-provided benefits, job flexibility, and job security. Per the SHED's definition, employed people included those who

worked full- or part-time for someone else or who work as contractors. This definition excludes those who reported being self-employed, working as a partner in a partnership, or being temporarily laid off. Sample weights were utilized to generate results representative of the U.S. adult population.

Measures

Financial well-being

The dependent variable for this study is a financial well-being score based on the five-item instrument developed by the Consumer Financial Protection Bureau (CFPB, 2015, 2017a). The SHED includes the questions from CFPB's validated five-item financial well-being instrument and includes code to generate a financial well-being score from these questions.

Employment capital

This study focuses on the association between employment capital (Thomas et al., 2013) and financial well-being. In this study, employment capital refers to three non-income employer-provided resources that contribute to job quality: benefits, flexibility, and job security. The three aspects of employment capital were examined using the following variables:

- **Number of benefits**: A continuous count (0 to 4) indicating how many of the following benefits respondents had access to: Health insurance, paid leave, retirement, and tuition assistance
- **Flexibility**: A yes/no variable indicating whether the respondent had at least one of the following: a voluntary variable schedule or the ability to work from home
- **Job security**: A yes/no variable defined as the *absence* of job insecurity, which was defined as having variable income or a temporary job as one's main job

Financial planning behaviors

CFPB's previous research on financial well-being suggests that behaviors, attitudes and family influence are key drivers of financial decision making and well-being (CFPB, 2015). Financial well-being is shaped by not only the available resources (i.e., income or employment capital) but also by how the individual interacts with and leverages those resources, such as through financial planning behaviors. The variable utilized to study financial planning behaviors in this study was:

- **Number of financial planning behaviors**: A continuous count (0 to 9) of behaviors respondent engaged in, such as following a budget, tracking spending, or reviewing bank statements

Demographic characteristics

Given well documented racial and gender occupational segregation, we examine whether access to employment capital and financial well-being vary by gender and race. Gender was measured using a 0/1 "female" variable based on respondents' self-reported gender. Race/ethnicity was measured as white or non-white using a 0/1 variable; respondents who self-reported their race/ethnicity as Black, other, two or more races, or Hispanic were designated as "non-white."

Control variables

We include several control variables, which have been reported in CFPB's prior literature to be related to financial well-being: age (in years and age squared), household income (above or below median income), education, relationship status, and home ownership.

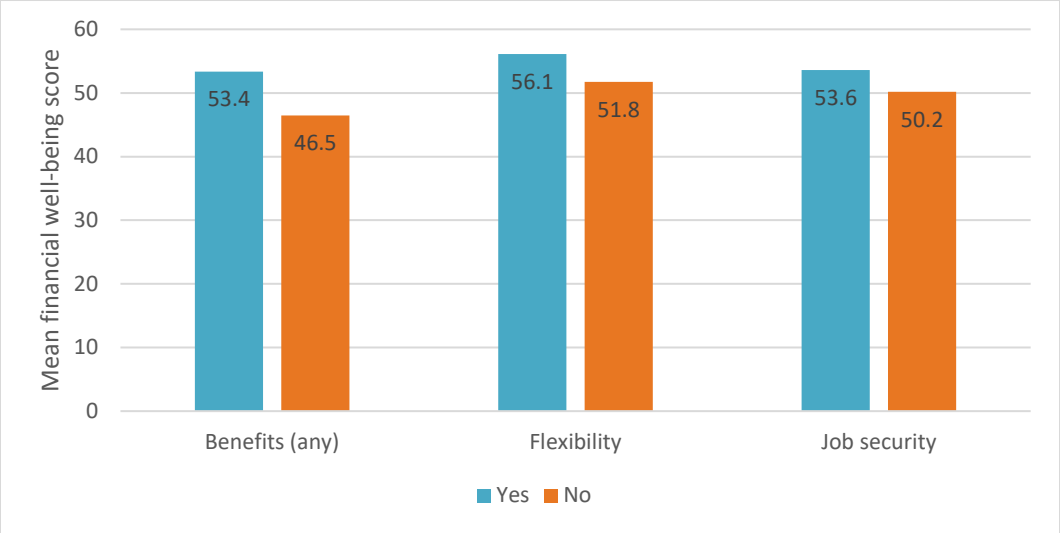
3. Findings

The findings suggest that the three types of employment capital (benefits, flexibility, and job security) are positively associated with financial well-being. Access to employment capital also appears to vary by race/ethnicity and gender, although these findings do not control for other determining factors. After controlling for financial planning behaviors, demographic characteristics, and other control variables, the three elements of employment capital remain significantly positively related to financial well-being. The findings are reported by research question.

RQ1. How is each of the elements of employment capital (benefits, flexibility, and job security) related to financial well-being, controlling for financial planning behaviors?

The mean financial well-being score for the employed subsample is 53.1. In bivariate analyses, having access to each element of employment capital is associated with significantly greater mean financial well-being, compared to no access. As noted in Figure 1, having any benefits was associated with a 6.9 point higher financial well-being score (53.4 compared to 46.5). Flexibility and job security were associated with higher mean financial well-being by 4.3 and 3.4 points, respectively. For reference, 74 percent of respondents with a financial well-being score of 41 to 50 experience difficulty making ends meet, and this is true for 32 percent of those with a score of 51 to 60 (CFPB, 2017b).

Figure 1: Mean financial well-being by employment capital (bivariate analyses)



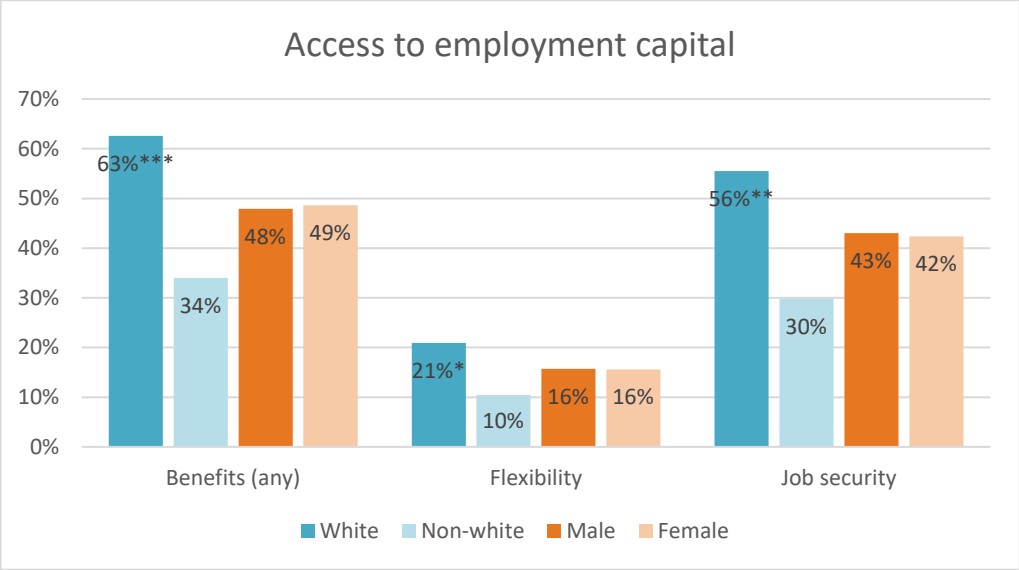
All differences are significant at p≤0.001 level.

Next, we utilized regression models to examine the relationships between financial well-being and the three types of employment capital (benefits, flexibility, and job security), controlling for other variables that likely affect financial well-being. After controlling for financial planning behaviors, age, household income, education, homeownership, and relationship status, the three elements of employment capital are significantly positively associated with financial well-being. The specifics of these relationships will be described in greater detail below. Contrary to our expectations, the number of financial planning behaviors is not significantly related to financial well-being. Detailed regression findings are available in Table 1 (Model A) in the Appendix.

RQ2. Does access to employment capital vary by demographic characteristics (race, gender)? If so, how does controlling for race and gender change the relationship between employment capital and financial well-being?

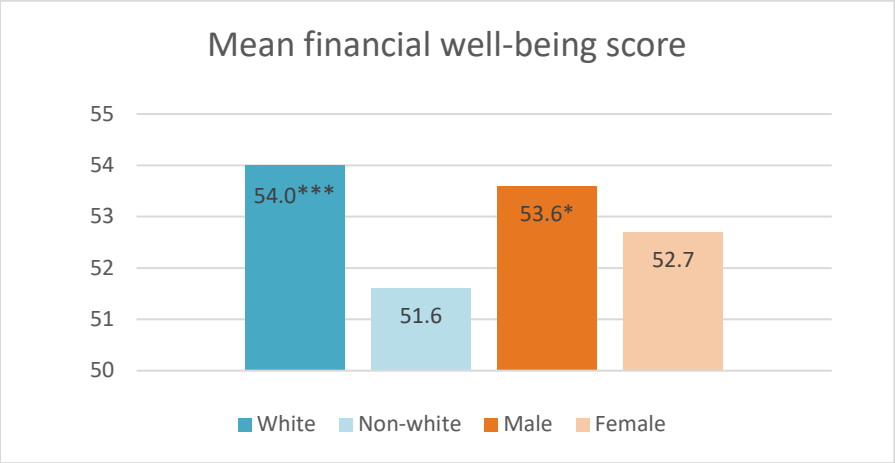
Bivariate analyses suggest that there are significant racial and gender differences in both access to the elements of employment capital and financial well-being. As noted in Figure 2, non-Hispanic whites have significantly greater access to all three aspects of employment capital (benefits, flexibility, and job security) than non-whites (Black, Hispanic, other, and multiracial). Women workers do not significantly differ from men on access to benefits, flexibility, or job security. Additionally, non-Hispanic white workers' mean financial well-being score is 2.4 points higher than workers of color, while male workers' mean score is 0.9 points higher than women's. In interpreting these findings, it is important to note that bivariate relationships offer only a partial picture of larger patterns, as they do not control for other variables that may help explain the relationships, such as job characteristics associated with aspects of employment capital.

Figure 2a: Employment capital and financial well-being by race/ethnicity and gender



* Difference is statistically significant at p≤0.05 level; **P≤0.01; ***p≤0.001

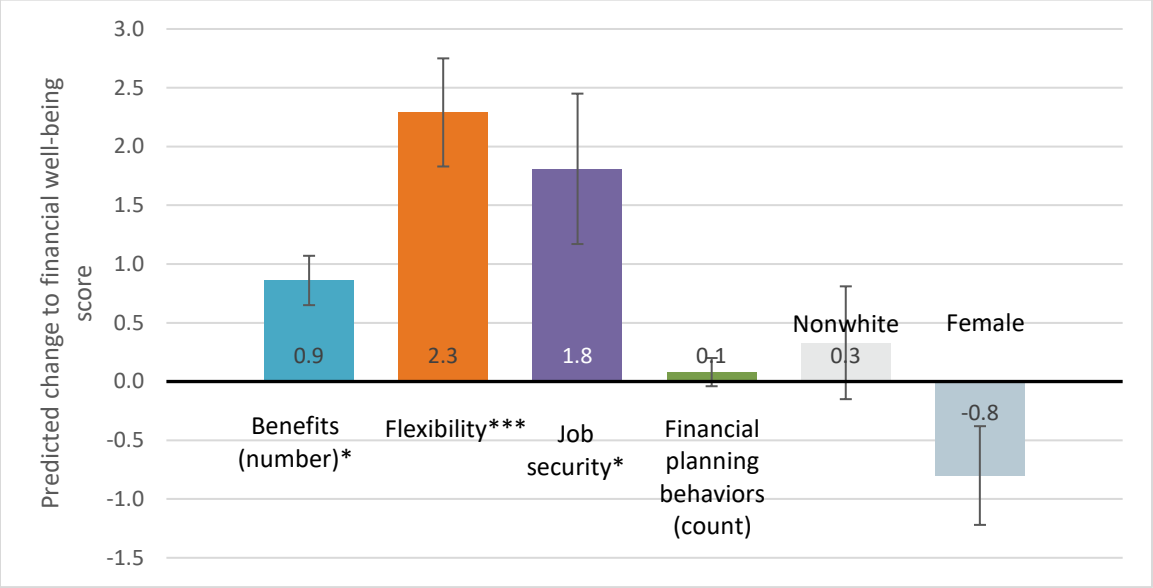
Figure 3b: Financial well-being by race/ethnicity and gender



* Difference is statistically significant at p≤0.05 level; **P≤0.01; ***p≤0.001

After controlling for race/ethnicity and gender along with the other covariates (financial planning behaviors, age, household income, education, homeownership, and relationship status), the three elements of employment capital remain significantly positively associated with financial well-being (Figure 3). Holding all other things constant, having flexibility is associated with a 2.3-point higher financial well-being score, and having job security is associated with a 1.8-point greater financial well-being score. The number of benefits has a more modest effect; each additional benefit that a worker has is associated with a 0.9-point increase in the financial well-being score. However, including race and gender does not substantially change the relationships between financial well-being and the aspects of employment capital. (See detailed regression findings in Table 1 (Model B) in the Appendix). Additionally, neither race nor gender is significant in the final model, suggesting that the racial and gender differences in financial well-being observed in the bivariate analyses were due in part other factors.

Figure 4: Regression coefficients for employment capital, financial planning, and demographic characteristics



* Difference is statistically significant at p≤0.05 level; ***p≤0.001

4. Conclusion

This study examined the effect of employment capital, an under-studied potential source of financial well-being (Thomas et al., 2013). We studied three aspects of employment capital: benefits, flexibility, and job security. All three appear to contribute to financial well-being for our employed subsample. Although the predicted impact of each element of employment capital is fairly modest (0.9 to 2.3 points on the financial well-being scale), for some families, it could be enough to make the difference between having difficulty making ends meet and achieving financial sufficiency. Although this study does not examine the specific mechanisms of this relationship, other research has noted that benefits (e.g., health insurance and paid leave), job security, and flexibility can defray unexpected costs, facilitate wealth building, and foster greater economic security over the long term (Thomas et al., 2013).

This study is subject to some limitations, which future research should address. For instance, due to constraints of the data, our subsample of employed people excludes those who reported being self-employed, working as a partner in a partnership, or being temporarily laid off. Future research should examine how employment capital relates to financial well-being for these workers and others excluded from this sample. Additionally, the survey questions used to operationalize the specific characteristics of employment capital have not yet been validated. Our treatment of race, ethnicity, and gender may have missed nuance by combining all non-white respondents into one category and by not examining the intersection of race and gender. Future research should more closely examine the relationships among demographic characteristics, employment capital, and financial well-being. Finally, this study is based on cross-sectional data and thus limited in its ability to draw causal conclusions. The central questions could be taken up by a longitudinal study using an experimental design, to assess changes in financial well-being as employees move through their careers or as employers adjust their benefit packages.

Despite these limitations, these findings suggest that access to employment capital is associated

with greater financial well-being. As such, employment capital should be included in discussions of financial security for workers and families. Moving beyond a focus on income and placing greater emphasis on employment capital may allow researchers and advocates to envision a more realistic and robust pathway to financial well-being for workers and their families.

Appendix: Detailed regression table

Table 1: Regression results for financial well-being, employment capital, financial behaviors, and individual characteristics (Financial well-being, dependent variable)

Concept	Variable	Model A Beta	Model A Standard Error	Model A Significance	Model B Beta	Model B Standard Error	Model B Significance
Employment capital	Number of benefits	0.89	-0.21	***	0.86	-0.21	***
Employment capital	Flexibility	2.31	-0.46	***	2.29	-0.46	***
Employment capital	Job security	1.8	-0.64	**	1.81	-0.64	**
Financial planning	Financial planning behaviors (count)	0.08	-0.12		0.08	-0.12	
Demographic characteristics	Nonwhite		0		0.33	-0.48	
Demographic characteristics	Female		0		-0.8	-0.42	
Controls	Education (Less than high school omitted)		2.04			2.2	
Controls	High school	2.04	-1.6		2.2	-1.6	
Controls	Some college	1.56	-1.57		1.78	-1.57	
Controls	Bachelors or higher	4.79	-1.58	**	5.06	-1.58	**
Controls	Below median income	-5.77	-0.52	***	-5.77	-0.53	***
Controls	Own home	4.54	-0.55	***	4.57	-0.55	***
Controls	Married/partnered	-0.59	-0.51		-0.58	-0.51	
Controls	Age	-0.99	-0.1	***	-1	-0.09	***
Controls	Age2	0.01	0	***	0.01	0	***
Model information	Constant	62.13	-2.48	***	62.49	-2.53	***
Model information	R-squared	0.186	-	-	0.187	-	-
Model information	No. observations	12,187	-	-	12,187	-	-
Model information	Subpopulation no. observations	5,498	-	-	5,498	-	-

* Difference is statistically significant at p≤0.05 level; **p≤0.01; ***p≤0.001

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