



Leveraging
Financial Empowerment
to Support Employee-Owned Businesses

Lessons for Cooperative Developers

November 2016



Consumer
Affairs



Acknowledgments

This report and the innovative project that it describes were made possible through the collaboration of many partners.

First, we would like to thank Citi Community Development for their support, which allowed Make the Road New York and the Department of Consumer Affairs (DCA) Office of Financial Empowerment to undertake this project. Special thanks to Gregory Schiefelbein, Senior Vice President, Citi Community Development, for his thought partnership and for reviewing drafts of this report.

We also thank Jennifer Schuberth and David Hammer of The ICA Group and Joyce Moy of the City University of New York for their support in the foundational research for this project and for creating the curriculum and tools for this project.

We thank the NYC worker cooperative community, in particular the Center for Family Life and The Working World, for supporting dissemination of the worker-owner survey. Special thanks to the worker-owners who shared their financial health information with us through the survey. Special thanks, as well, to the practitioners who participated in interviews and generously shared their time and ideas.

Finally, we would like to recognize DCA staff members for their contributions to this report and related materials, including Debra-Ellen Glickstein, Executive Director; Nicole Smith, Executive Deputy Director; Joe Rinehart, Senior Program Officer; Kimberly Goulart, Senior Program Officer; Abigail Lootens, Associate Commissioner of Communications & Marketing; Debra Halpin, Assistant Commissioner for Creative Services; and Hsiu Mei Cheung, Senior Graphic Designer.

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Message from the Partners

The Department of Consumer Affairs (DCA), Make the Road New York, and Citi Community Development are pleased to share this report: *Leveraging Financial Empowerment to Support Employee-Owned Businesses*.

DCA's Office of Financial Empowerment and Make the Road New York, with support from Citi Community Development, partnered with The ICA Group and Dr. Joyce Moy of the City University of New York to explore how employee ownership models can best support worker-owners to improve their financial health and build assets. This report documents what we learned from dozens of worker-owner members, cooperative business development professionals, and financial empowerment practitioners, and provides some actionable next steps to further improve financial health for worker-owners.

To create a more inclusive city, it is critical to expand access to quality jobs and to support the ability to build economic and social capital. Increasingly, research suggests that workplaces can be critical to helping employees build financial health. As you will read in the report, worker cooperative businesses are structured differently than traditional business and offer unique opportunities to support the financial health and resilience of their worker-owners.

We are pleased to share the findings of this project, and we are continuing to work together to develop tools that can help cooperative developers and others integrate financial empowerment for the benefit of worker-owners. We look forward to collaborating with the broader worker cooperative community to continue to improve the financial health of current and future worker-owners.



Debra-Ellen Glickstein
Executive Director
Department of
Consumer Affairs
Office of Financial
Empowerment



Theo Oshiro
Deputy Director
Make the Road New York



Eileen Auld
Director
Citi Community
Development

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Introduction

Since the New York City Department of Consumer Affairs Office of Financial Empowerment (DCA OFE, hereafter OFE) was launched in 2006, the field of municipal financial empowerment has grown. More than 15 cities, as well as the federal government, use financial empowerment strategies to support individuals with low to moderate incomes achieve financial health and build assets.

Financial coaching and counseling remain foundational. Integrating financial empowerment at the delivery point of other programs—entrepreneurship support, social services, workforce development—has proven to be a particularly fruitful strategy¹. New York City’s municipal financial empowerment efforts continue to evolve with current work exploring the impact of neighborhoods and workplaces on individual financial health.

It was in support of this current work that Citi Community Development connected OFE and Make the Road New York (MRNY) to explore how to maximize the financial empowerment opportunity presented by the growing worker cooperative community in New York City. Worker cooperatives are recognized for raising the wages of worker-owners. However, anecdotal evidence in the community indicated that as workers transitioned to owners, their financial lives became more complex even as they continued to struggle with the financial challenges faced by many working families.

To better understand how employee-owned businesses can fulfill their promise of financial health and asset building, OFE and MRNY, supported by Citi Community Development, have worked together over the last year and a half to gain insights from two key constituencies—worker-owners and cooperative developers—about the need for financial stability and resilience and the opportunities and challenges of incorporating financial empowerment into the worker cooperative model. We gained additional insights from a one-year pilot program to integrate financial empowerment services into a cooperative developer’s work with three employee-owned businesses.

OFE and MRNY partnered with The ICA Group, a long-standing business and employee ownership developer, and Joyce Moy, a professor at the City University of New York (CUNY) and a financial empowerment educator and curriculum developer, on this project, which included:

- Conducting a series of stakeholder interviews with cooperative developers and alternative employment organizations.
- Surveying New York City worker-owners about their financial health and financial empowerment needs.
- Providing financial empowerment services to worker-owners, including:
 - Training worker-owners through a series of on-site financial education workshops in English and Spanish.
 - One-on-one financial counseling for worker-owners at MRNY through an NYC Financial Empowerment Center.
 - Enrolling MRNY staff in OFE’s financial counselor training program at CUNY to build internal capacity.

¹ (NYC Department of Consumer Affairs)

The new information from these sources is reflected in the Insights sections of this report and provides the basis for our recommendations to guide employee-owned businesses on integrating financial empowerment into the worker cooperative model and maximizing its impact.

More about NYC Department of Consumer Affairs Office of Financial Empowerment (OFE)

Over the past decade, OFE has pioneered the field of municipal financial empowerment through a wide variety of programs that increase access to free, professional, one-on-one financial counseling; connect individuals and communities to safe and affordable financial products and services; improve access to income-boosting tax credits, savings, and other asset building opportunities; and enforce and improve consumer financial protections to safeguard financial stability. OFE's current work includes:

- Operating a network of more than 20 Financial Empowerment Centers to provide free financial counseling to New Yorkers in all five boroughs.
- Running the City's Annual Tax Season Initiative. In addition to coordinating a public education and outreach campaign, OFE manages the NYC Tax Coalition, which includes partners who run NYC Free Tax Prep sites that provide free online and in-person filing for eligible New Yorkers. In 2015 and 2016, the Coalition prepared more than 150,000 tax returns.
- Working to give all New Yorkers access to affordable transaction accounts, including working to increase acceptance of IDNYC, a municipal ID card, as primary identification at local banks and credit unions.

More about Make the Road New York (MRNY)

MRNY builds the power of Latino and working-class communities to achieve dignity and justice through organizing, policy innovation, transformative education, and survival services.

In 2013, MRNY developed its first worker cooperative, Pa'lante Green Cleaning. In 2015, MRNY supported the launch of ACTO Occupational Safety Trainers Cooperative to provide Occupational Safety and Health trainings in Spanish and English. MRNY is currently working with a group of transgender Latinas to launch a cosmetology cooperative. MRNY is transitioning its cooperative development and support work to other nonprofits as part of a strategic shift away from workforce development.

Insights from Worker-Owners

In order to better understand the barriers that worker-owners experience in building assets and financial stability in New York City, OFE and MRNY collaborated with The ICA Group to administer a survey to worker-owners about their financial health.

Between October 19 and November 12, 2015, The ICA Group collected 67 surveys from members of 10 different worker cooperatives in New York City with the cooperation of a number of cooperative developers. Survey respondents could remain anonymous. They submitted responses using paper and online surveys in both English and Spanish. Overall, respondents were 86 percent Latino/a, and 65 percent were women. Eighty (80) percent had been in the United States for more than 10 years.

Overall, respondents had similar demographic and financial health profiles to clients who regularly use the City's Financial Empowerment Centers. However, respondents differed in three ways:

1. They were significantly more likely to be unbanked than Center clients (34 percent of worker-owners were unbanked compared to 17 percent of Center clients).
2. They had a significantly higher rate of not graduating from high school (44 percent of worker-owners had no high school degree compared to 10 percent of Center clients) and not earning a college degree (59 percent of worker-owners had no college degree compared to 40 percent of Center clients).
3. They had higher average incomes than Center clients, likely because 18 percent of Center clients in 2015 were unemployed.

Despite their steady employment, many worker-owners worry about their finances, with 53 percent agreeing or strongly agreeing with the statement, "I'm worried about my finances." Additionally, many lacked emergency savings (65 percent had less than \$1,000 in savings) and health insurance (56 percent had no health insurance). However, these numbers are not out of step with other similar populations. For example, in New York City, nearly 60 percent of residents have inadequate emergency savings². Thirty-five (35) percent of all non-citizens lack health insurance, while nearly 64 percent of the undocumented population lacks emergency savings³.

Many worker-owners responded that they had not had financial education and did not have access to such services. Most worker-owners (74 percent) had never received financial counseling or financial education, and 72 percent did not know their credit score. For worker-owners without a bank account, 38 percent cited inability to maintain a minimum balance as a key barrier, with significant percentages also citing a lack of documentation and negative experiences or perception of banks as barriers.

Finally, most worker-owners were focused on improving their financial health. Seventy-eight (78) percent reported being interested in receiving free tax preparation assistance. Almost all were interested in receiving financial counseling, with savings being a top area for support (18 percent), followed by budgeting and credit score improvement (13 percent and 12 percent, respectively). See Appendix A for Key Questions and Responses from Worker Cooperative Financial Empowerment Survey.

² (Ratcliffe, McKernan, Kalish, & Martin, 2015)

³ (The Mayor's Task Force on Immigrant Health Care Access, 2015)

Insights from Worker Cooperative Developers

To better understand how current worker cooperative development practitioners, especially those working in low- and moderate-income communities, currently use financial empowerment in their work and the opportunities and limitations to improve worker-owner financial health, The ICA Group conducted six interviews with worker cooperative development organizations and practitioners in the United States and Canada.

Interviewees cited three traits of employee-owned businesses that have the potential to strengthen the financial health of worker-owners:

- Profit sharing
- Participatory management
- Focus on job quality

According to interviewees, because profits are usually distributed as a lump sum payment annually or at the end of a worker-owner's tenure with the company, profit sharing not only can increase income but also can enable long-term savings for worker-owners. In addition, since many employee-owned businesses work with their worker-owners to create or monitor company budgets and finances on a regular basis, worker-owners build financial skills that are transferable to their personal lives. Interviewees also noted that employee-owned businesses often create higher quality jobs (e.g., jobs with fixed schedules among worker-owners and full-time employment) and higher paying jobs in industries with low wages like home care and home cleaning.

However, interviewees identified several challenges to realizing financial empowerment benefits for worker-owners. They include:

- **Finances:** The tenuous finances of many start-up businesses, including employee-owned ones, can push profit sharing out several years from business inception.
- **Capacity:** Some employee-owned businesses may lack the capacity to focus on worker-owner financial empowerment, including limited time for financial education and limited budget to secure trainers with the necessary professional skills to provide financial counseling and education.
- **Professional skill:** Interviewees noted that financial education should be taught by trainers with both adult education and financial services backgrounds, using a curriculum that is culturally appropriate. Ideally, the curriculum would engage multiple learning styles through individual and small group work and discussion, as well as lecture formats. Interviewees further noted that financial education alone is not adequate to create behavioral change; rather, professional financial coaching or counseling is necessary to support worker-owners in exercising and solidifying their financial skills.

Interviewees also identified key financial empowerment resources and products that were successful or especially relevant to employee-owned businesses:

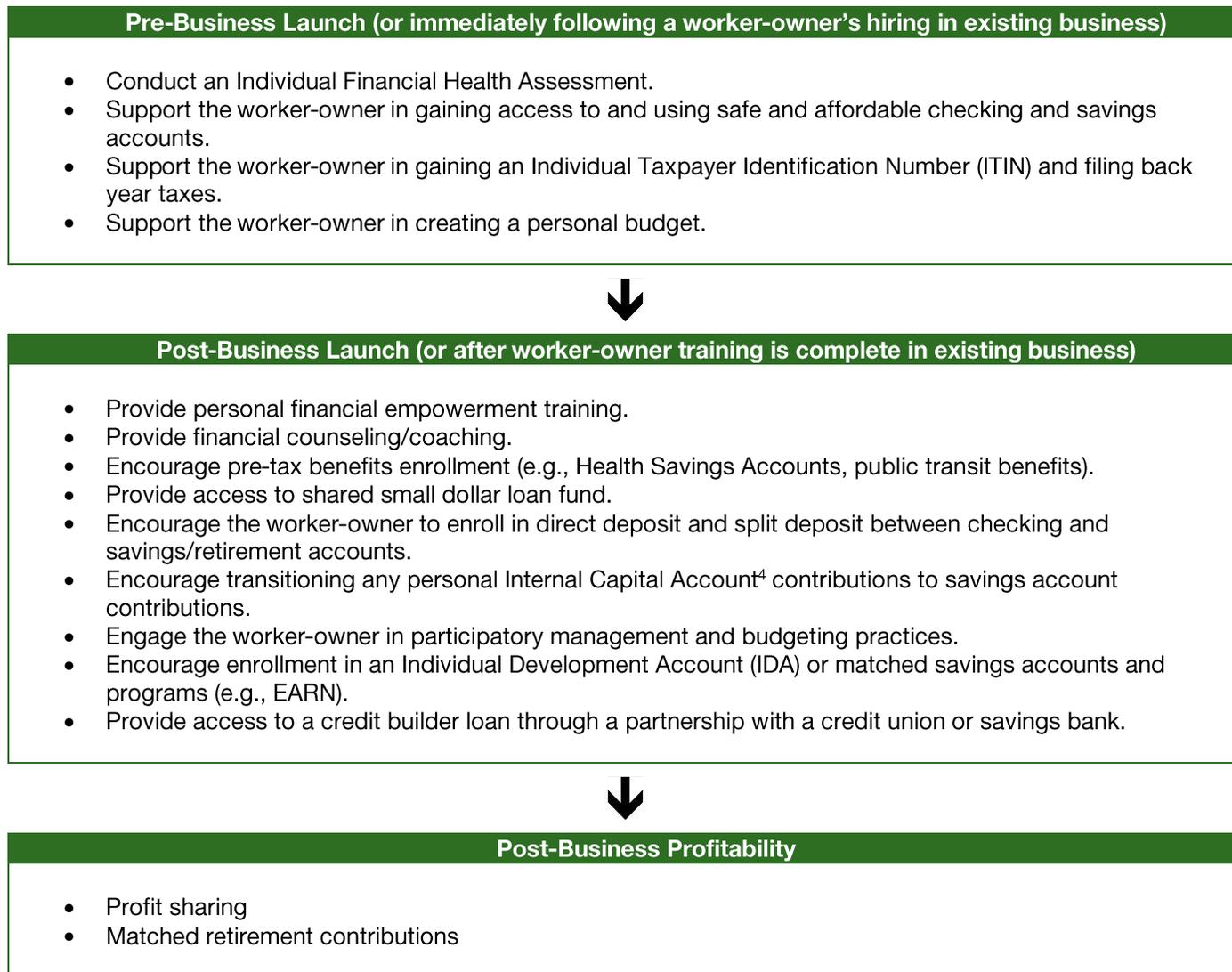
- Most interviewees emphasized the importance of making some form of retirement savings easily accessible to worker-owners. Retirement savings was the benefit most often requested (along with health care) by worker-owners. Interviewees noted the need to provide support navigating the complicated world of retirement savings vehicles and to make deposits into retirement accounts easy or automatic.

- Several interviewees emphasized the importance of offering a shorter-term savings vehicle and cited the successful partnership between the WAGES (now Prospera) cooperative network and a local credit union to offer Individual Development Accounts (IDAs) inside their cooperatives.
- To facilitate both short- and long-term savings, several interviewees had used direct deposit systems for paychecks that allowed worker-owners to make deposits into multiple accounts.
- Interviewees cited offering a small dollar loan fund (with loans ranging from \$300 to \$1,000) through the business as a useful tool to help worker-owners navigate financial emergencies and avoid predatory lending. Interviewees mentioned Cooperative Home Care Associates (CHCA) as an example of a cooperative with an internal loan fund.
- Several interviewees noted that pre-tax benefits offered through third parties, such as tax-deductible transit spending or health savings accounts, were often overlooked by smaller businesses but had the potential to help worker-owners decrease their tax burden and facilitate savings.

Finally, to increase the effective implementation and adoption of financial empowerment services, interviewees cited three key strategies.

1. Seek out concrete partnerships with financial service providers and educators to offer more complex services like retirement savings or to offer financial counseling and education. These partnerships decrease the burden on Human Resources Departments or the cooperative developer and facilitate adoption of services or products through streamlined referrals.
2. Make many services “opt out” rather than “opt in.” This applied to cooperative developers embedding financial empowerment services in new cooperatives (for example, setting up new employees to use direct deposit until they decide otherwise) and onboarding of new worker-owners. Several interviewees cited the CHCA 401(k) program, which increased enrollment dramatically—to a 90 percent enrollment rate—after switching to an opt-out service. All employees at CHCA start with 4 percent of their pay being directed to their 401(k), and they may raise or lower their contribution or opt out entirely.
3. Re-examine financial empowerment services for worker-owners based on changing capacity and the changing needs of employees as the business moves from start-up to profitability. Figure 1 on page 11 represents a potential set of financial empowerment services offered by an employee-owned business over time collated from all interviewees.

Figure 1: Financial Empowerment Services across an Employee-Owned Business Life Cycle



See Appendix B for Key Questions and Themes from Cooperative Developer Interviews.

⁴ In a worker cooperative, “Each member has an individual capital account to keep track of their portion of the firm’s net worth and reflect the value of the member's relative equity in the corporation.” (The ICA Group, 2015)

Insights from the Pilot Program: Integrating Financial Empowerment Services in a Cooperative Development Program

In order to gain firsthand experience integrating financial empowerment services into the worker cooperative model, OFE and MRNY collaborated on a one-year pilot program to provide financial education and counseling to worker-owners in three worker cooperatives.

From July 2015 to June 2016, OFE and MRNY provided current and new worker-owners participating in MRNY's worker cooperative development program with financial empowerment services. Members of Pa'lante Green Cleaning, ACTO Occupational Safety Trainers Cooperative, and a developing cosmetology cooperative led by transgender Latinas were offered the opportunity to enroll in free professional one-on-one financial counseling and/or in a six-session financial education workshop series.

Worker-owners received financial counseling at one of the City's Financial Empowerment Centers in Jackson Heights. Hosted by MRNY, the Center is also where the worker cooperatives are based.

The financial education workshops were based on OFE's *Consumer and Personal Finance: Financial Counselor Training* course and customized for the program by Dr. Joyce Moy of the City University of New York with input from MRNY, The ICA Group, and OFE. The curriculum was adapted to include content on small businesses and worker cooperative taxes and patronage distribution, as well as the social context of MRNY's work.

Overall, 42 MRNY cooperative members and new worker-owners took advantage of financial empowerment activities.

There was a high level of interest in using the free professional one-on-one financial counseling, with approximately 50 percent of total worker-owners signing up for one or more sessions. There was an active and high-touch referral process that allowed cooperative members to sign up for a session at many financial touchpoints, such as orientation and payday. This enrollment process included:

- **On-site engagement:** The counselor was on-site and able to make appointments for worker-owners at cooperative meetings.
- **Relevant and visible collateral materials:** A financial counseling sign-up sheet was available in cooperative offices.
- **Reinforcement of services when appropriate:** The cooperative leadership and MRNY staff reminded worker-owners about financial counseling and the financial education curriculum.

Trust in the utility and independence of financial counseling was another important lesson in encouraging worker-owners to take advantage of services. This trust was built by the cooperative and MRNY because staff was well-informed about the services being offered and was able to clearly communicate information to worker-owners. Staff explained how financial counseling could support individuals in building financial health. The original plan included both sharing member/client information with the financial counselor in order to better support worker-owners in achieving their financial goals and making financial counseling mandatory for cooperative members. However, these efforts created the perception that the service was neither confidential nor independent of the cooperative, and both were revised over the course of the program.

More than 20 members of the cooperatives participated in the financial education workshops. Scheduling workshops for a critical mass of worker-owners and providing ongoing reminders proved to be complicated and somewhat labor-intensive. The most well-established cooperative, Pa'lante Green Cleaning, exhibited the highest level of interest and attendance. Additionally, its worker-owners voted to make the training mandatory for all members but with no penalty for not attending. Members of ACTO, the second-longest running cooperative in MRNY's cooperative development program, also saw significant levels of participation in the workshops, though participation was limited to the cooperative's leadership, and their interest was more focused on improving the cooperative's financial operations. Worker-owners in the developing cosmetology cooperative had the lowest rate of workshop participation. Members attributed their lack of participation to their full-time cosmetology training, which consumed a large part of their time.

As part of this project, MRNY also sought to increase the use of affordable and appropriate checking and/or savings accounts among cooperative worker-owners. Pursuing this goal resulted in a number of challenges that underscored the importance of local financial institutions in supporting individual financial empowerment. For example, shortly after the project start date, the local bank branch in Jackson Heights, which accepted IDNYC as a primary form of identification to open an account, closed. MRNY staff learned through conversations with the unbanked worker-owners that many were unwilling to travel the more than 30 minutes to a bank branch that would accept IDNYC or other alternative forms of identification, such as a machine-readable foreign passport. These worker-owners also felt their current financial services options, such as local check cashers, adequately met their needs.

Overall, however, worker-owners felt that they gained great value from the addition of financial empowerment programs at their worker cooperatives. Most worker-owners who participated in financial counseling achieved several financial health milestones and provided positive evaluations for the financial education workshops.

Recommendations for Employee-Owned Businesses to Maximize the Impact of Financial Empowerment

From the surveys, interviews, and pilot program with worker-owners, we identified four opportunities for cooperative developers and the broader worker cooperative community to leverage financial empowerment strategies to strengthen the financial stability and resilience of worker-owners.

Recommendation 1: Leverage profits and membership fees inside of Internal Capital Accounts as savings and asset building mechanisms.

Human Resources staff at cooperatives is well-positioned to support worker-owners in forming and following through on good financial habits. By using direct deposit enrollment and making sure that worker-owners have access to checking, savings, and retirement accounts, the business can support its worker-owners in meeting their short, medium, and long-term financial goals.

Examples of effective practices include:

- Withhold retirement or savings contributions from every paycheck.
- Redirect automated payroll deductions into worker-owner savings accounts once members complete purchasing their membership share.
- Withhold income tax for members in worker cooperatives operating as an LLC.
- Make the decision to reinvest moderate or high levels of profit into worker-owner Internal Capital Accounts rather than dispersing profits before profits are generated by the business.

In many cases, it may be more effective for cooperative developers to structure their savings and asset building practices and policies using automatic enrollment, if possible. This requires employees to “opt out” rather than “opt in,” which can increase participation.

Recommendation 2: Coordinate collective action across cooperatives, aggregating demand for programs and services that strengthen the financial stability and resilience of worker-owners.

To maximize the impact of worker ownership on individual financial health, smaller cooperatives need access to a suite of services that is more complex than many small businesses can offer their employees.

Tightly linked, multibusiness support organizations and networks can aggregate purchasing power, lower administrative cost, and pool risk in order to offer a more robust suite of financial empowerment services to employee-owned businesses, such as:

- Managing retirement savings accounts, paid sick leave, transit benefits, and health savings accounts.
- Health insurance.
- Small dollar loan funds.
- Managing Internal Capital Accounts and other bookkeeping supports.

In some cases, cooperatives may want to become business members in larger associations to lower the cost of health insurance or other benefits.

Recommendation 3: Implement participatory management strategies that build financial literacy skills and habits.

Worker cooperatives provide a unique opportunity to build on the collaborative nature of the business by leveraging participatory management and employee engagement in reviewing financials and budgeting to enable worker-owners to enhance their financial skills.

Recommendation 4: Organize access to safe and affordable financial products and financial education and counseling customized for employee-owned businesses.

Cooperative developers are well-positioned to connect with financial empowerment providers to ensure all members have access to financial education and safe, affordable financial products and services (e.g., checking and savings accounts and retirement savings accounts).

Lessons from the pilot program include:

- Financial empowerment training and counseling should be delivered in person using methods appropriate for adult learners.
- Financial counseling and education are most effective when they relate to individual circumstances and aspirations, as well as business goals.

Where possible, cooperative developers and Human Resources Departments should offer financial empowerment programs and financial products through strategic partnerships rather than using internal resources. Financial empowerment providers have specialized knowledge in adult education and counseling, as well as a broad understanding of appropriate financial products and services for worker-owners.

Next Steps

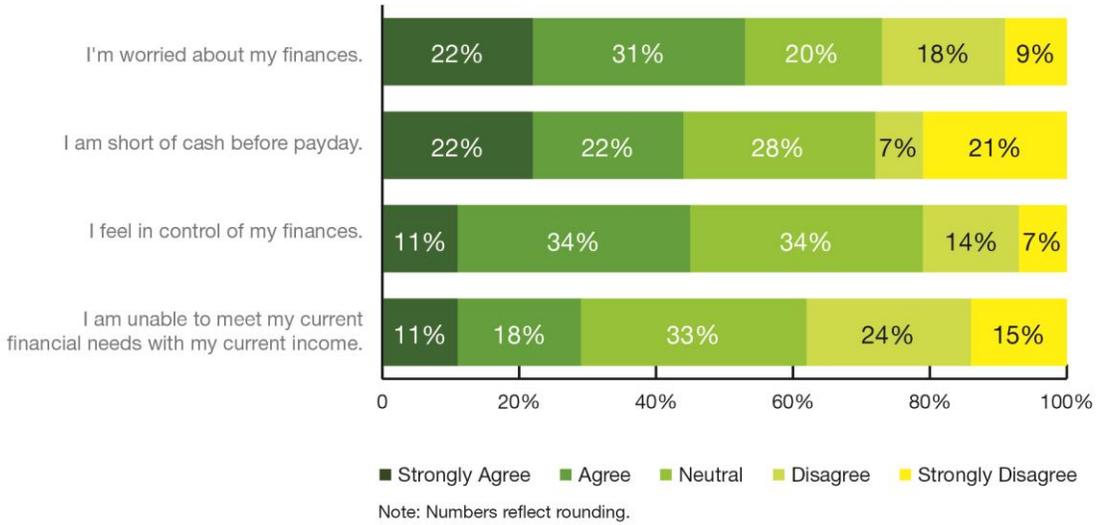
Each of the recommendations is an opportunity for cooperative developers and the broader worker cooperative community to explore and design solutions that build on the ownership experience to strengthen the financial stability and resilience of worker-owners. The second recommendation in particular may require a broad set of partners, including municipal government.

As part of this project, OFE and MRNY have collaborated on tools that address two of the recommendations above: leveraging the participatory management process and developing financial empowerment materials customized for employee-owned businesses. In the coming months, we look forward to engaging the NYC worker cooperative community to refine these tools and make them available for use by employee-owned businesses.

Appendix A: Key Questions and Responses from Worker Cooperative Financial Empowerment Survey

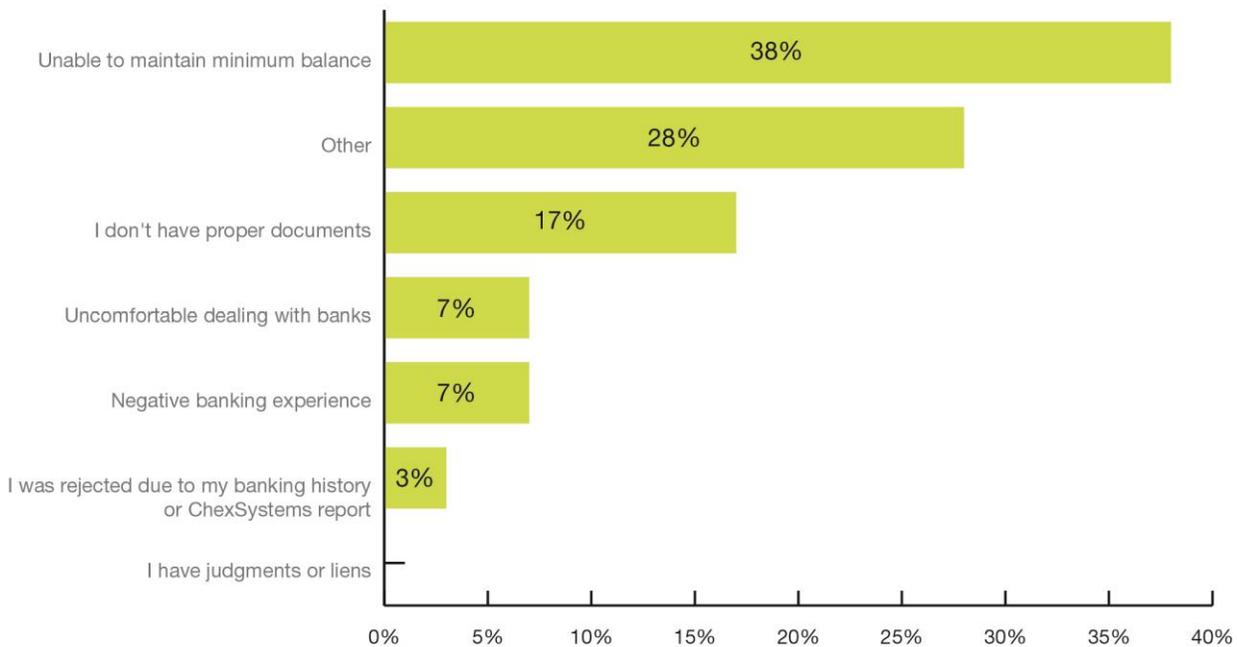
Please indicate your agreement with the following statements.

N=58



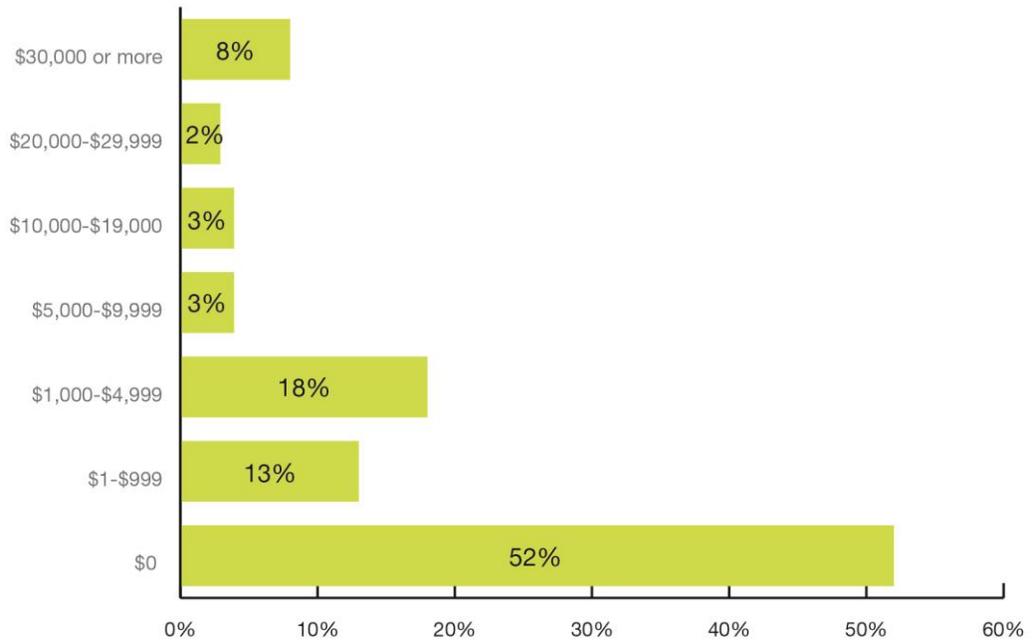
If you DO NOT have an account at a bank, why not?

N=29



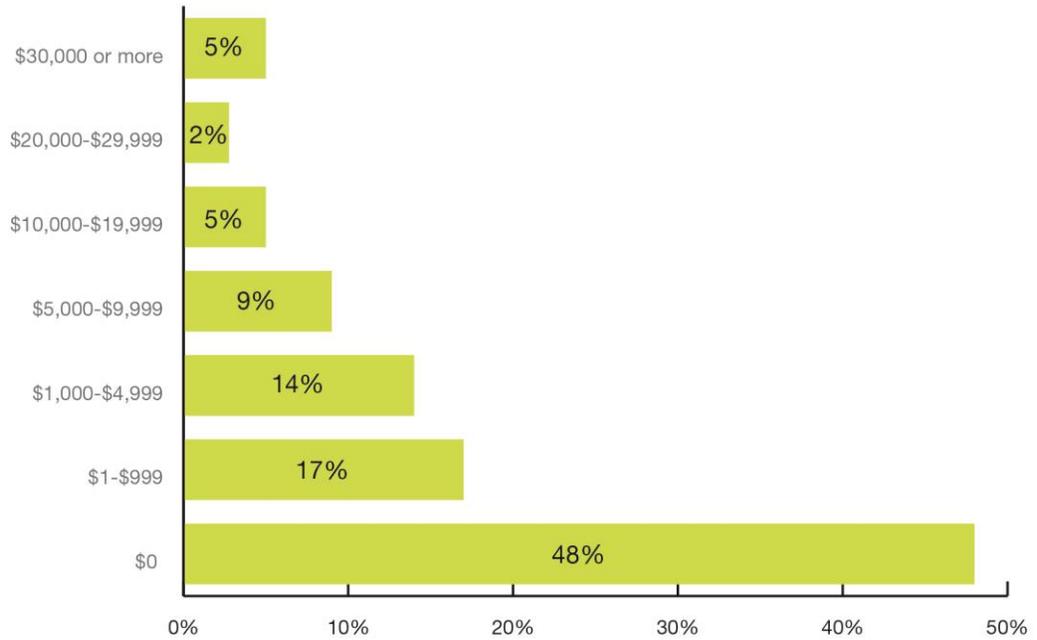
How much do you have in total savings?

N=60

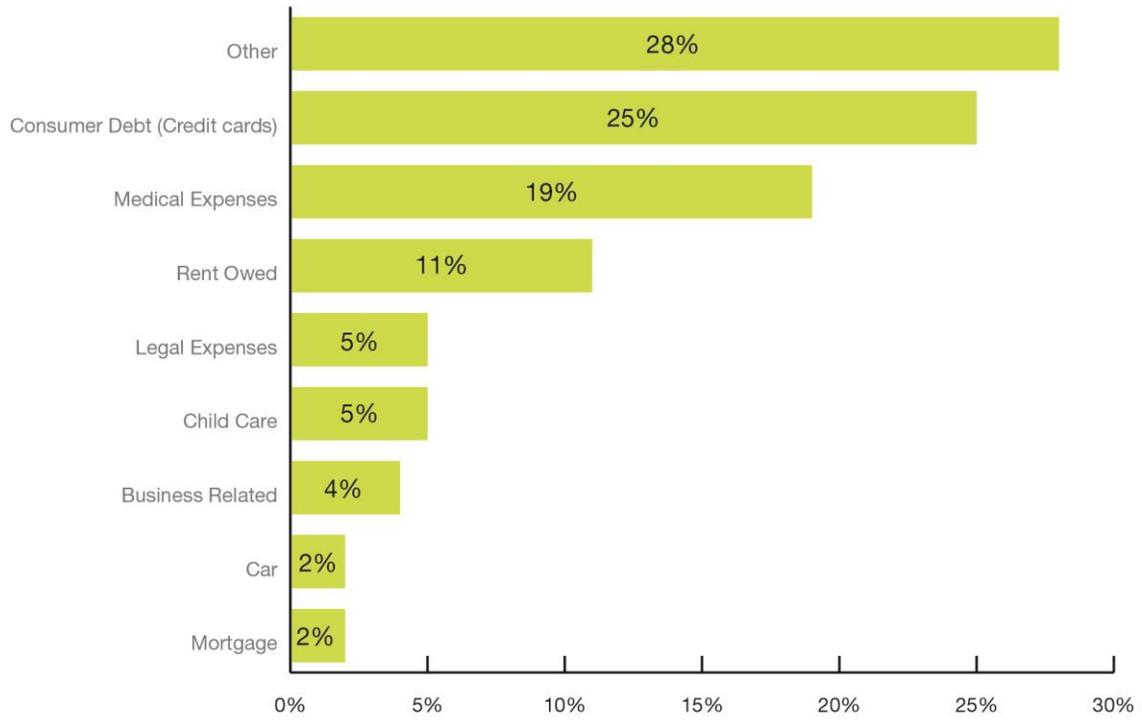


How much do you have in total debt?

N=58

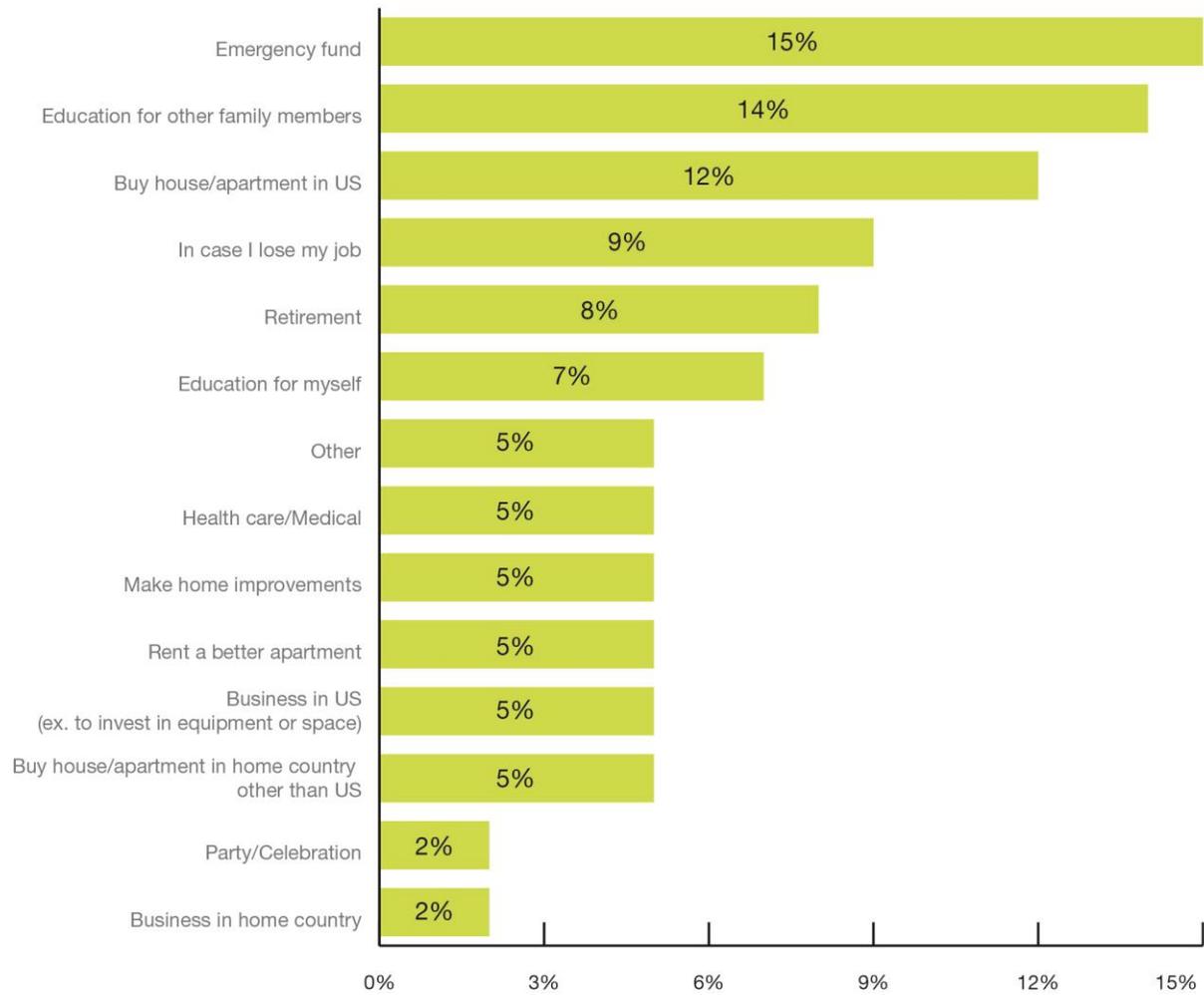


What are the sources of your debt?
N=57



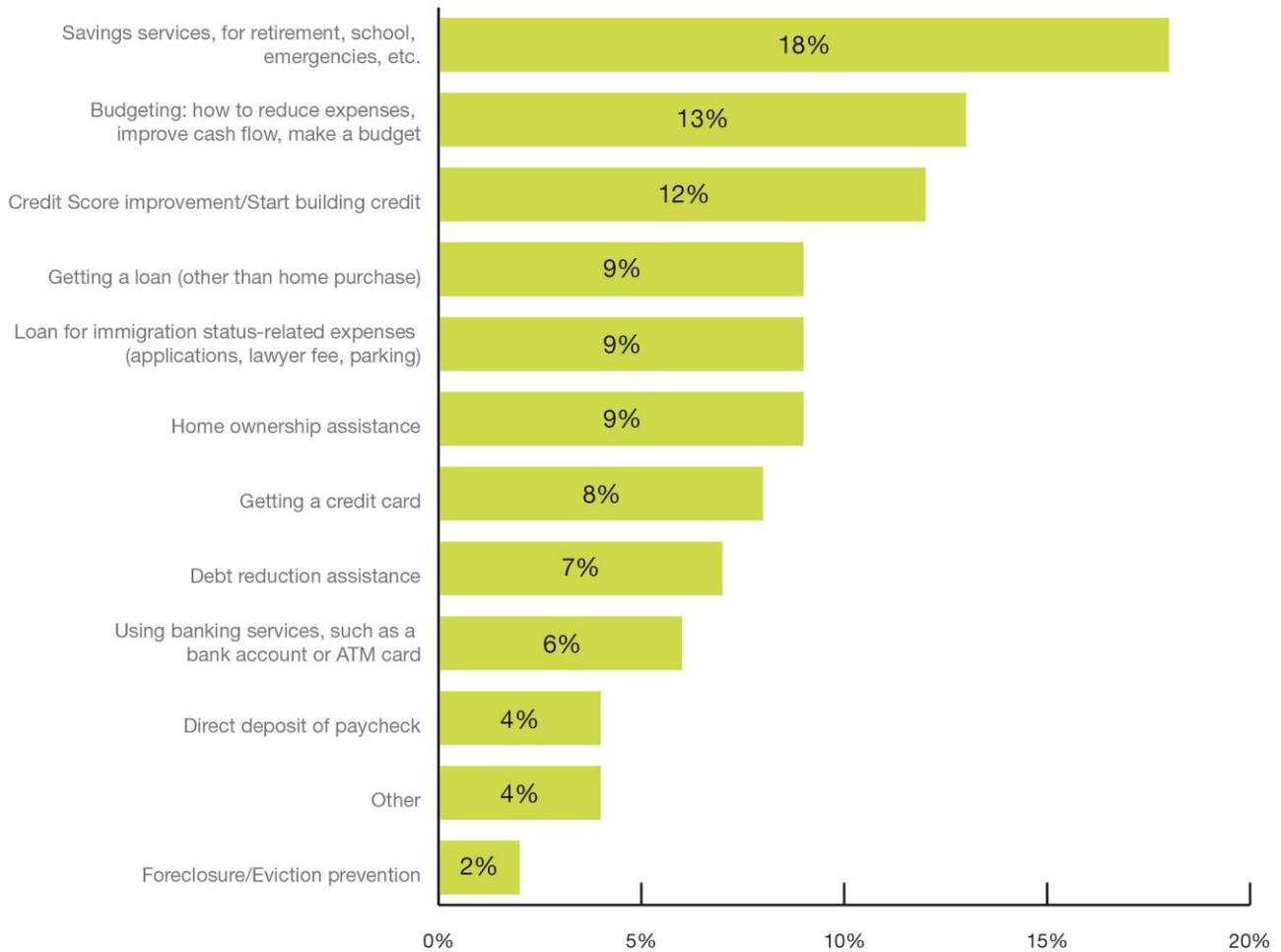
Is there anything you are saving for RIGHT NOW?

N=110



What kinds of personal financial assistance would you be interested in?

N=140



Appendix B: Key Questions and Themes from Cooperative Developer Interviews

Question: What are the major advantages of employee ownership for the financial empowerment of employees?

Theme 1: Employee ownership represents a key asset building opportunity.

If profits are paid out, worker-owners receive dividends. Membership investment and retained earnings that are returned to worker-owners when they leave the business can be viewed as a form of savings.

Theme 2: Ownership can build worker-owner's sense of personal worth and critical financial skills.

Worker-owners who are involved at the board level or who review company finances gain knowledge and skills about business and finance that they can use to make personal financial decisions.

Additionally, employee ownership supports the development of decision-making skills through participatory management, which can improve personal financial decision-making skills. Worker-owners' willingness to learn about both business and personal finances may increase because they are part owners.

Theme 3: Worker cooperative business priorities are set by worker-owners for worker-owner benefit.

Worker-owners can prioritize the financial health of members, which is often not a consideration in a traditional business.

Theme 4: Employee-owned businesses can support low-income workers in aggregating economic power.

Having a business environment oriented toward business and worker-owner success creates a space in which members can discuss individual needs and potential programs the business might offer to members to address those needs. For example, a group of worker-owners can provide the foundation for saving circles and other peer interactions. Or, based on worker-owner feedback about the need for small dollar loans, an employee-owned business might offer these loans to its members.

Question: What are the common barriers to achieving these advantages?

Theme 1: The financial instability of a business may not provide the time needed to focus on personal financial empowerment for workers.

Many small businesses, including worker cooperatives, do not have the time or resources to offer financial or business training to worker-owners, develop or support a loan program, or pay out dividends/patronage. Unless the underlying business is profitable, it is difficult to prioritize personal financial empowerment initiatives.

Theme 2: Low-wage worker-owners may still have difficulty building assets.

Worker-owners with low incomes may find it difficult to save or reduce debt if they lack the resources to adequately cover their expenses.

Theme 3: The worker cooperative culture may not support personal financial empowerment as a priority.

Worker cooperatives may be unwilling to put in the time needed for training on business practices and decision-making that can develop a culture that leads to financial empowerment.

Additionally, management has to constantly demonstrate that making mistakes is part of the process of running a business; however, this requires that a reflective process be in place so that learning from mistakes becomes empowering.

Theme 4: Financial empowerment education is difficult to get right.

Often, financial education is presented at the wrong educational level or in a format that does not engage adult learners and, therefore, fails to engage them in the process of financial empowerment even if information is conveyed. Using a curriculum that is appropriate for adult learners is critical to ensure worker-owners build financial capability and adopt better financial health practices.

Education is about empowerment, not just information. Empowerment is about hope, and this element needs to be part of how financial education is taught. Interviewees emphasized that just telling people to save is not enough. Education should help individuals identify their financial goals and articulate their financial stresses.

Finally, ensuring that all materials are adequately translated is critical to creating culturally relevant materials.

Question: How can worker cooperative developers support the employee-owned businesses they work with by implementing financial empowerment at the beginning of business development?

Theme 1: The business needs to promote financial education and an organizational culture that reinforces it from the beginning of business development and when hiring a new employee.

Financial education must be built into the business's operational schedule so that it is prioritized from the beginning. Many worker cooperatives aim to incorporate financial education; however, if time is not allocated for financial education from an early stage, it is very difficult to create the time later. During the early stages of a business, the time can be used for teaching business development, with personal financial education introduced later.

Problem-solving and conflict resolution skills are important financial empowerment skills and must be part of financial education. These skills are essential for the success of the worker cooperative business, but they are also skills that can help people in their personal financial lives. One of the best ways to develop these skills is to have members work in committees on policies. For example, working with members to think through issues, such as salary scales or when to pay out dividends, strengthens members' understanding of the business and of the consequences of different decisions on finances.

Theme 2: Cooperative developers and worker-owners must begin discussing financial issues from the onset so that members become comfortable with making financial decisions in the business or at home.

Types of decisions for discussion include:

- How to establish a reserve that must be met before profits are paid out. Discussing this issue and deciding on an amount *before* profits are realized is essential.
- How to account for costs the business will incur when a cooperative developer no longer provides ongoing support. These costs can be quite high and include defining how the worker-owners will replace and pay for the management role played by the cooperative developer.

Cooperative developers should engage worker-owners in budgeting and thinking about their own personal financial needs as part of the planning process for starting any business.

Question: Beyond financial education, what are financial empowerment services or programs that employee-owned businesses have successfully offered to their employees?

Interviewees stressed that no business can offer all of the benefits outlined below to worker-owners, but cooperative developers can help members think about what they want to offer and what they may want to offer in the future.

Theme 1: On-site financial counseling may be an option for larger businesses or for a network of businesses.

Offering services on-site makes worker-owners feel that there is a real connection to the organization. People often don't use programs or seek services if they are simply referred to a program.

As an example of on-site service, on Fridays, many employees of Cooperative Home Care Associates (CHCA) pick up their checks. On Fridays, CHCA has financial counselors on-site. CHCA also offers a "fair" with other financial services several times a year.

Theme 2: An internal small dollar loan fund can help employees avoid payday lenders.

Cooperatives have developed different policies around the use of these funds, but all interviewees mentioned that they work best when there are very clear policies around the use and repayment of funds. Interviewees identified effective practices as:

- Automatically deducting payments from paychecks.
- Requiring financial counseling to access the loan fund more than once.
- Setting policies for the maximum amount to borrow and placing conditions on the use of funds.

Theme 3: Automatic enrollment into emergency savings or retirement savings, such as a 401(k) plan.

CHCA automatically enrolls all employees in a 401(k) plan and sets a default contribution at 4 percent of gross pay. Employees may opt out, but the plan has a 90 percent participation rate.

Theme 4: Pre-tax transit benefits administered through a third-party provider (e.g., WageWorks or TransitChek).

Theme 5: Home purchasing assistance where practical.

Evergreen Cooperatives in Cleveland offers low-interest loans and down payment support to members.

Theme 6: Individual Development Accounts, matched saving programs, or savings reward programs.

These programs reward saving by providing a financial match for every dollar saved, or reward savings habit by providing a bonus in savings each month a person saves.

Many credit unions or nonprofit organizations are eager to partner with businesses on financial empowerment programs.

Question: Is there an ideal order in the development of an employee-owned business to integrate different financial empowerment services?

Theme 1: Financial priorities of employee-owners can vary, which can make it difficult to determine which financial priorities to tackle first.

Interviewees said that, for some businesses, making sure all worker-owners are banked is an essential first step. The following are additional priorities cited by interviewees:

- Focus on direct deposit.
- Offer personal budgeting classes in the early stage of the business because personal cash flow is often a problem during start-up.
- Discuss decision-making processes before profits arrive, because it can be tempting to pay them all out.
- Require new worker-owners to attend financial empowerment workshops as part of onboarding.

Theme 2: Longer term personal financial education has more to do with an individual's needs than where a business is in its life cycle.

Interviewees also emphasized that in financial education, educators often need to repeat basic content and address specific needs while reinforcing those basics.

Theme 3: The capacity to offer services and programs changes dramatically over the life span of a business.

Interviewees suggested re-examining the services offered annually or biannually.

Question: Which organization should implement and deliver financial empowerment programs?

Theme 1: Partnerships are important in integrating financial empowerment programs in a new or existing business.

The role of the cooperative developer or Human Resources Department should be limited to implementing human resources policies and practices, such as 401(k) contributions or splitting direct deposits, and should *not* include delivering financial counseling or education in order to maintain worker-owner trust in the confidentiality of services.

Theme 2: Expertise and experience teaching adult learners are critical for financial educators.

Interviewees said that financial educators needed to have strong adult education skills as well as a financial background.

Theme 3: Service providers should tailor their message to the specific concerns of the employee-owned business.

Many organizations offer financial education programs for adult learners, and cooperative developers should partner with them to identify the specific concerns of worker-owners. The provider can then offer trainings that target specific member needs.

Many financial empowerment issues are not worker cooperative-specific, but interviewees saw a value in having specific training on topics, such as filing taxes as a worker-owner.

Theme 4: Any organization providing financial education should know who can provide financial services, such as credit unions and banks.

Theme 5: Ideally, there would be three layers of support for financial empowerment in employee-owned businesses.

As suggested by one interviewee, these three layers of support would include:

- City program or nonprofit regional groups that work with employee-owned small businesses to tap into already available resources
- Cooperative developers
- Large employee-owned businesses to serve as trainers for some cooperative-specific issues

Appendix C: Works Cited

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