



AUTOSAVE:

A PILOT TO TEST WORKPLACE-FACILITATED EMPLOYEE EMERGENCY SAVING

AutoSave is a unique savings plan that automatically diverts through payroll deduction a small amount of post-tax wages into a non-tax-advantaged savings account. AutoSave's design incorporates key factors that encourage saving, such as facilitation of automatic transfers to a savings account through an existing system (payroll deduction), and the use of strategies to make putting money into a savings account—rather than not saving—the preferred option. To participate, employers direct deposit a small amount of wages each pay period into individual savings accounts on behalf of participating employees. Workers have control of their funds and are able to withdraw funds at any time without financial penalty. A simple enrollment process assumes the individual worker will participate, and requires only a single step to initiate the savings process—which thereafter will continue automatically, with no additional action required by the employee.

THE NEED FOR A SIMPLE, AUTOMATIC AND ACCESSIBLE SAVING PLAN

In recent decades, families have shown a steady decline in their ability to weather a financial emergency. Compared to 2000, when nearly 40 percent of families held three months worth of income in financial wealth resources, only 29 percent were financially prepared for an unspecified emergency expense in 2007. Rising levels of credit card defaults and home foreclosures indicate households are facing financial stress and rapid depletion of their personal wealth. The ongoing credit crisis and economic downturn will put further strain on households. For households with fewer resources, flexible savings can be especially powerful as a lifeline to weather financial downturns or as the initial building blocks of asset accumulation.

Research shows that consumers, particularly lower-wage workers, understand the importance of saving for emergency expenses. However, many lack access to savings plans or structures to enable them to build those savings—or simply fail to make use of existing opportunities to save using direct deposit or similarly automated approaches (such as scheduled transfers from checking). Though federal and state governments support a variety of programs and policies to encourage saving, most are focused on long-term goals such as retirement, and have consequent restrictions on use and penalties on withdrawals. Most are also tax-incented; lower-wage workers receive little or no benefit from such incentives. Currently no systematic saving program exists to intentionally encourage non-restricted saving that is not oriented toward specific long-term goals.

THE AUTOSAVE PILOT

The AutoSave approach offers a potential means to increase savings behavior and create access to financial services that support savings for versatile uses. A 2009 pilot is exploring AutoSave's feasibility: employers' willingness and ability to offer a simple enrollment process; financial institutions' willingness and ability in this context to furnish banking products with suitable terms; workers' take-up and sustained contributions to their unrestricted savings; and the costs associated with implementing the auto-savings mechanism. The pilot will also illuminate the operational and policy implications for government, employers and other stakeholders, and inform the proposed strategies and policies needed to implement automatic savings more widely.

THE ROLE OF THE EMPLOYER

AutoSave leverages the existing direct deposit capacity of employers, minimizing the work needed to automatically deduct savings contributions. The employer presents the employee with a simple enrollment form and suggested savings contribution level appropriate to the employee's wage or salary grade. Ideally, this opportunity will be presented as part of the new hire payroll set up and benefits orientation process. A fixed dollar contribution amount will be deposited into the AutoSave account at each pay period. Importantly, this approach is consistent with many common payroll practices, yet is underutilized.

An employer who chooses to implement AutoSave may benefit from several cost and non-cost related outcomes. AutoSave is inexpensive and simple to administer, enabling employers to add a useful benefit for very little effort and expense for employees who are already using direct deposit. Designing a savings structure so that the first choice presented to the individual is to directly deposit earnings and to put a portion of the money into a saving account may help close the gap between access and actual take-up of the direct deposit option. As the percentage of employees on direct deposit increases, the cost, effort and risk of payroll administration decreases.

Potential non-cost related benefits may include enhancing an employer's appeal to potential employees, enriching an employer's benefit package, enabling an employer to address issues of financial insecurity that may result in absences or reduced productivity, and reducing employee requests for advance payment of wages.

THE AUTOSAVE ACCOUNT

AutoSave accounts will be individually-owned, FDIC or NCUA-insured, and structured to both encourage saving and not penalize a saver who needs access to funds. Employees have the choice to designate their own existing savings accounts as the destination for their AutoSave deposits, or to create new accounts for this purpose. For new accounts, employers can choose either to (1) work with a financial institution that is familiar with AutoSave and offers a turn-key AutoSave program, or (2) select a financial institution of the employer's own choice. We are also exploring account options for employees who have lost their eligibility for mainstream banking products due to a history of mismanaging transaction accounts or who are otherwise considered "unbankable."

ABOUT US

The New America Foundation is a non-partisan, non-governmental policy institute based in Washington DC. The Asset Building Program of the New America Foundation develops policy and best practice ideas to support long-term asset accumulation, flexible savings and asset-building financial services. With MDRC, a nonprofit, nonpartisan education and social policy research organization, we conducted extensive planning in 2008 to develop a pilot to that would explore utilizing the workplace to increase personal saving.

We seek for-profit employers, government agencies, and non-profit organizations to participate in the 2009 pilot, as well as financial institution partners. For more information, please contact:

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