

ASSET BUILDING PROGRAM

AUTO SAVE OVERVIEW

A Pilot to Test Workplace-Facilitated Employee Emergency Saving

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AutoSave is a unique savings plan that automatically diverts through payroll deduction a small amount of post-tax wages into an individual savings account. This new infrastructure nearly seamlessly enables individuals to contribute small amounts of their wages into an accessible, non tax-advantaged savings account. It will be especially valuable for individuals who have limited liquid assets, and who may otherwise be forced to meet emergency needs with high-cost emergency loans. Savings that are fully under an individual's control are valued as a form of self-insurance, are a key ingredient in one's sense of security, and are a personal safety net that can be tapped in the event of unanticipated expense. These are "flexible savings," in contrast to restricted savings, such as those for retirement or medical expenses. No systematic savings program presently exists to intentionally encourage short-term flexible savings.

The Need for Non-Restricted Savings

Savings behavior is associated with positive asset-building behavior, increased asset holdings, and a lower overall use of non-traditional and personal network sources of credit. For households with fewer resources, non-restricted savings can be especially powerful as a lifeline to weather financial downturns, or as the initial building blocks of asset accumulation.

Nationally representative surveys estimate that as few as 40 percent of Americans set aside funds for emergencies, with only half doing so through automatic and regular transfers from a checking account to a savings account. Recent survey research by the Center for Financial Services Innovation and the New York City Department of Consumer Affairs confirm that the underbanked consider saving for unexpected emergencies as the most important saving purpose or goal. A Consumer Federation of America survey suggests that the average low-income family incurs approximately \$2,000 in emergency expenses annually. Middle-income workers, much like lower-income workers, also lack sufficient personal savings to weather major income disruption (i.e. being unable to withstand a personal crisis, such as job loss or major illness), without a decline in standard of living.

The AutoSave Pilot

AutoSave applies the most promising behavioral economics research to overcome psychological and practical impediments to saving. The pilot, launched in the fall of 2009, is examining varied approaches to enrollment that leverage the power of suggested choices — simplified options with certain decisions already made on behalf of the employee, such as the type of account product and the suggested saving level. Importantly, the pilot is exploring (and will possibly test) the feasibility of

implementing a truly automatic enrollment design, in addition to the streamlined enrollment model currently being used.

The initial pilot seeks to examine: (1) the feasibility of employers to implement an easy-enrollment, automatic deduction savings plan; (2) whether financial institutions are able to offer a remote (workplace-based) account opening process with simpler account opening forms; (3) whether employees choose to enroll, and what factors influence their decision.

AutoSave streamlines account opening, minimizing the need for consumer decision-making or paperwork. Once initiated, savings deposits are made automatically by the employer each pay period, until the employee decides to stop, or separates from the employer. Contributions are made with direct deposit transfers, from take-home pay into AutoSave accounts. The federally-insured, low- or no-cost accounts will be structured to both encourage saving and not restrict access to funds. Workers have control of their savings, and are able to withdraw money at any time without penalty. The entire enrollment process is designed to minimize or eliminate common barriers to participation — including inertia, indecision about how and how much to save, concerns about the safety or accessibility of funds, and time-consuming enrollment steps.

Employers are uniquely positioned to facilitate a savings mechanism. The workplace is a promising asset-building delivery channel that has been underutilized in facilitating saving for non-restricted, emergency use. The AutoSave model has the potential to change this. AutoSave leverages existing infrastructure— payment mechanisms that automatically divert earnings to functions such as health insurance or retirement saving. In each AutoSave pilot site, an employer is collaborating with bank or credit union to design and implement an AutoSave plan. The five initial pilot employers include: a Southern California distribution warehouse for a national drugstore chain; a small nonprofit provider of vocational training and computer refurbishing; a for-profit school meal catering enterprise, recently expanded to four cities nationwide; and two large municipal employers, located on the East and West Coasts.

The initial 2009 pilot phase will offer AutoSave to between 70 and 2,100 employees in each of these workplaces. In addition, several more sites may be added to the pilot in late 2009. The project will make a determination whether to expand to a full-scale demonstration and experimental evaluation in early 2010.

About Us

The New America Foundation is a non-partisan, non-governmental policy institute based in Washington DC. New America's Asset Building Program is partnering with MDRC, a nonprofit, nonpartisan education and social policy research organization, to design and implement the AutoSave pilot. Generous funding is provided by The Rockefeller Foundation and The Charles Stewart Mott Foundation. To learn more about the AutoSave concept and pilot, please contact Alejandra Lopez-Fernandini, lopez@newamerica.net or Caroline Schultz, caroline.schultz@mdrc.org.



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