Saving at Work for a Rainy Day

Results from a National Survey of Employees

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The Importance of Emergency Savings

Modest savings of a few thousand dollars or even a few hundred is a crucial determinant of financial security. Liquid savings that can be accessed quickly can prevent a common unexpected financial setback, such as a flat tire or fewer hours at work, from turning into a crisis. Such savings may also keep families on track to meet their long-term financial goals by reducing the need to tap into college and retirement accounts for small emergencies.

Today, a significant share of American households lack the financial resources to weather a modest financial setback. According to the Federal Reserve, four in ten American households could not come up with $400 in a financial emergency.

The Role of Employers

Employer-based solutions have great potential to help people save for the unexpected. The ideal program would automatically enroll employees into a payroll-deduction rainy day savings account. The money could be used for anything from sudden health costs or unplanned car repairs to fixing a roof or traveling to visit a sick relative.

This approach leverages behavioral economics “nudges” to encourage employees to save. Another advantage of an employer-delivered approach is that existing payroll technology can facilitate contributions to a savings account.

About the Survey

More than half of employers that do not offer an employee financial wellness program say that uncertainty about the value of the program to their employees is a reason for their reluctance to offer one. The AARP Public Policy Institute commissioned a national survey of working adults ages 25–64 in the summer of 2018 to shed light on employee demand for a rainy day savings program, which could be a component of an employee financial wellness program.

Objectives

- Understand the characteristics and motivations of employees who are likely to participate in a payroll-deduction rainy day savings program
- Identify the program design features likely to generate widest participation
- Validate the most effective language to overcome barriers to participation

Methodology

AARP and Boston Research Technologies designed an online survey that was fielded in English through the probability-based NORC Amerispeak Panel® from July 12–August 6, 2018 among a nationally representative sample of 2,603 adults ages 25-64 who were employed by someone other than themselves, paid by direct deposit, and expected to remain with their current employer for at least one more year. Cognitive pre-testing of the questionnaire was conducted to discern respondents' interpretation of the questions.

The data are weighted by age, gender, education, race, Hispanic ethnicity, housing tenure, telephone status, and census division, to benchmarks from the Current Population Survey (CPS) for persons ages 25-64.

The margin of error is +/- 2.9 percentage points at the 95% confidence level.

Sample sizes may vary from question to question because not all respondents qualified for every question. Also, a small number of respondents chose to skip certain questions.

Description of the Rainy Day Savings Program

Survey respondents were asked about their reactions to this hypothetical employer-based program:

“To help you be prepared for emergencies or unexpected expenses, an amount of money you specify will be deducted from each of your paychecks and deposited into a special savings account set up for you at a bank or other financial institution. These transfers from your paychecks to the savings account will continue for as long as you would like and you can stop them at any time.

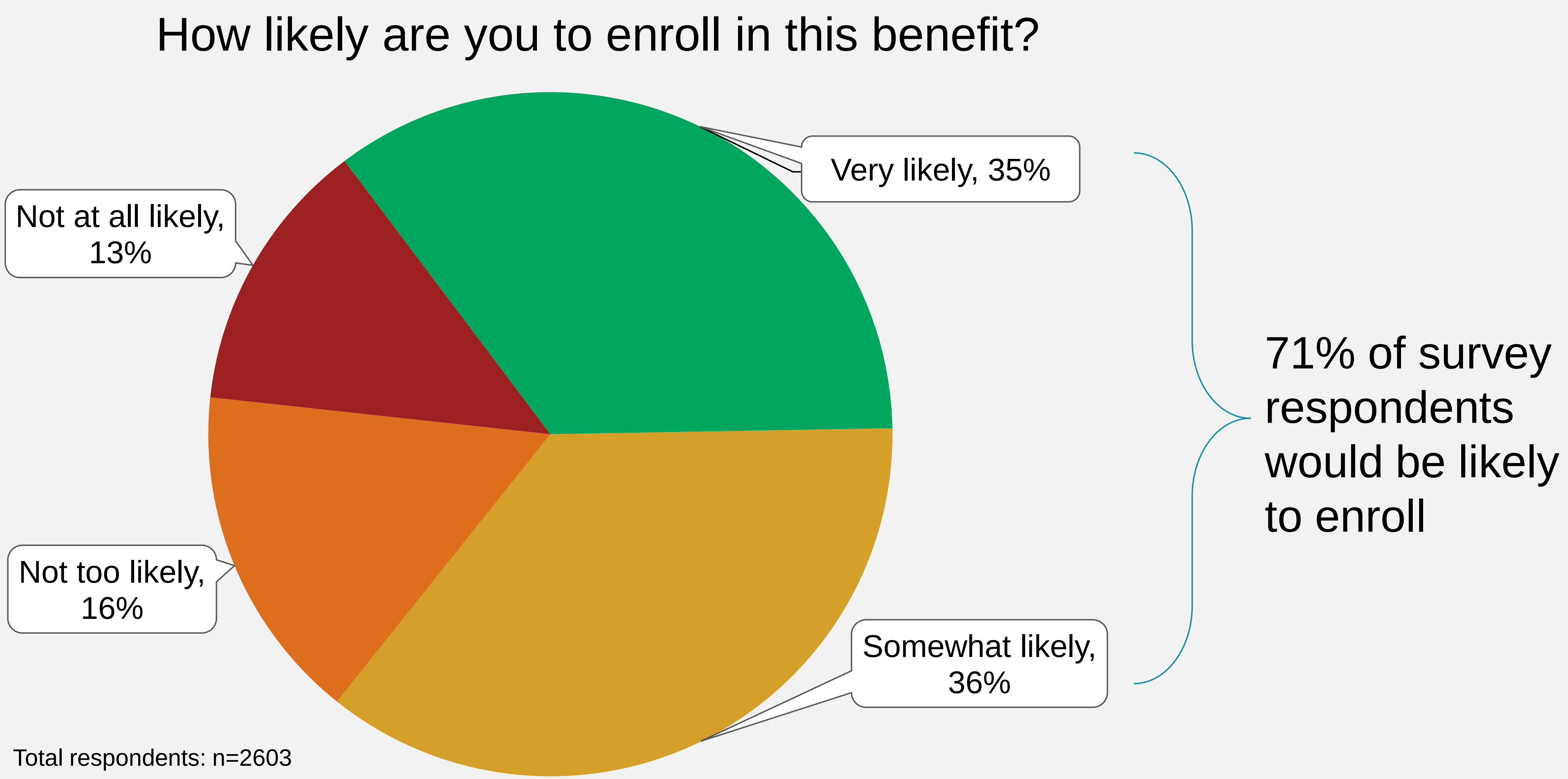
You are free to take the money out of the savings account at any time without paying a penalty. There are no fees on this account. At no time is your account information shared with a third party.”

Key Findings

- More than seven in ten employees (71%) said they would be **likely to participate in a payroll-deduction rainy day savings program** if their employer offered one.
- The main reasons employees say they would participate are to **save more and to reduce stress.**
- The primary drivers of program participation are **savings outside of retirement accounts, overall stress about finances, and trust in employers.**
- **Income does not significantly influence** employees’ interest in the program.
- **An employer match** on payroll contributions would make 87% of employees more likely to participate.
- Employees want to be able **to access their money immediately, start or stop contributing, keep the account if they leave their job, and maintain privacy**.
- The most effective messages about the program speak to **control, peace of mind, and ease of saving.**

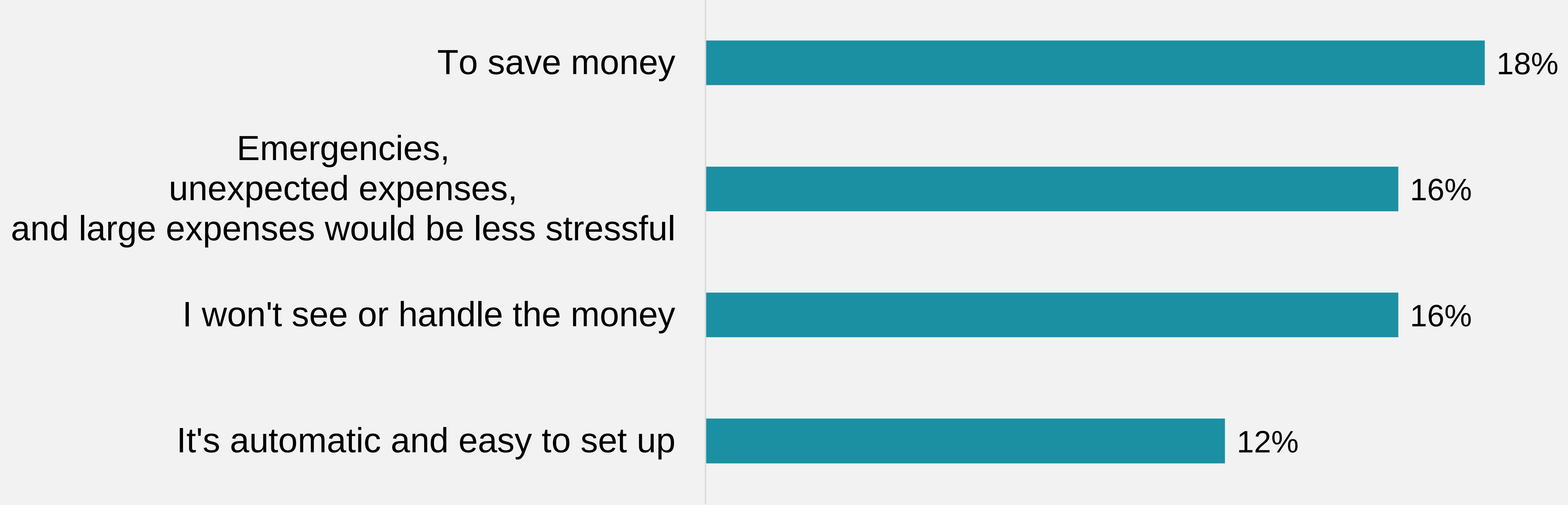
Employee receptiveness to payroll-deduction rainy day savings programs

Seven in ten employees would likely participate in an employer-based rainy day savings program



Saving more and reducing financial stress are the top reasons employees would participate

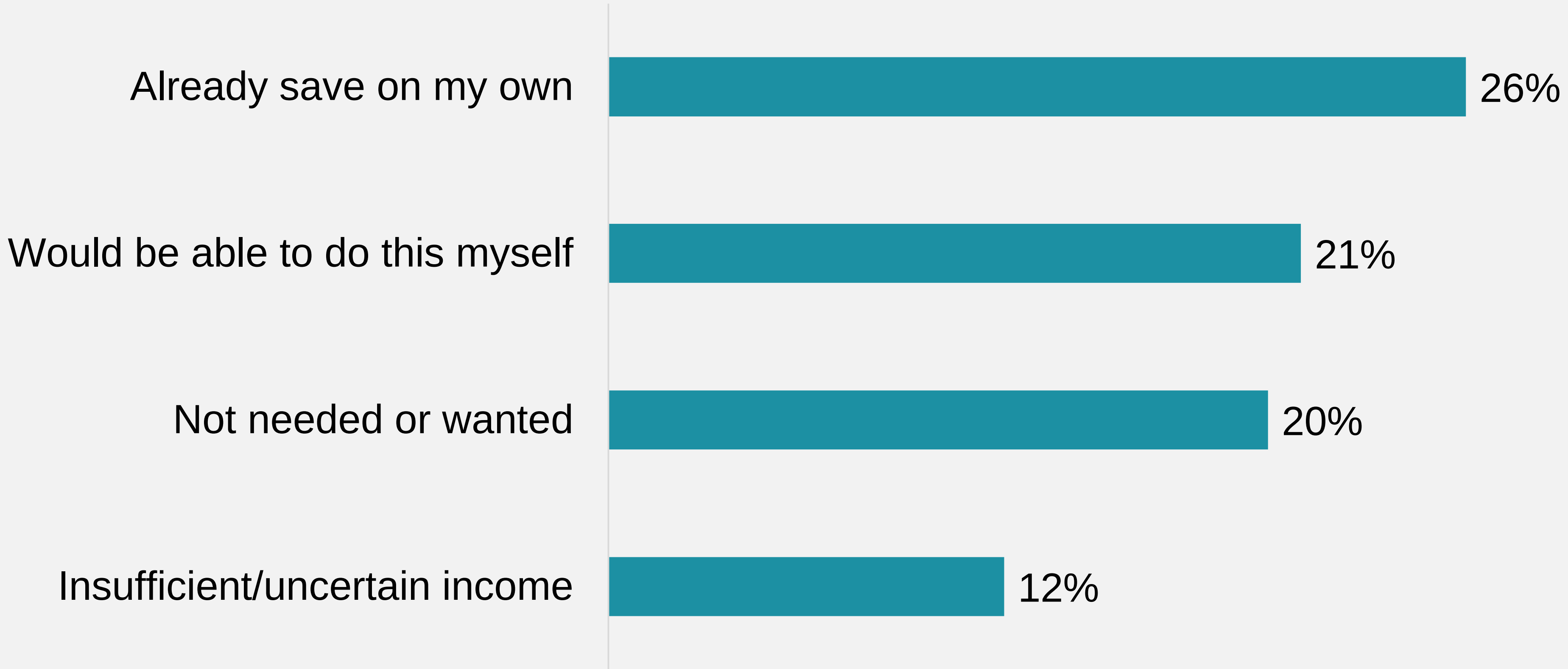
Please explain why you would be **likely** to enroll in the benefit (open-ended).



Total respondents very likely or somewhat likely to enroll: n=1856

The most common reason for not participating is that employees already save on their own

Please explain why you would be **unlikely** to enroll in the benefit (open-ended).



Total respondents somewhat unlikely or very unlikely to enroll: n=740

Drivers of employee participation in a payroll-deduction rainy day savings program

AARP Real Possibilities

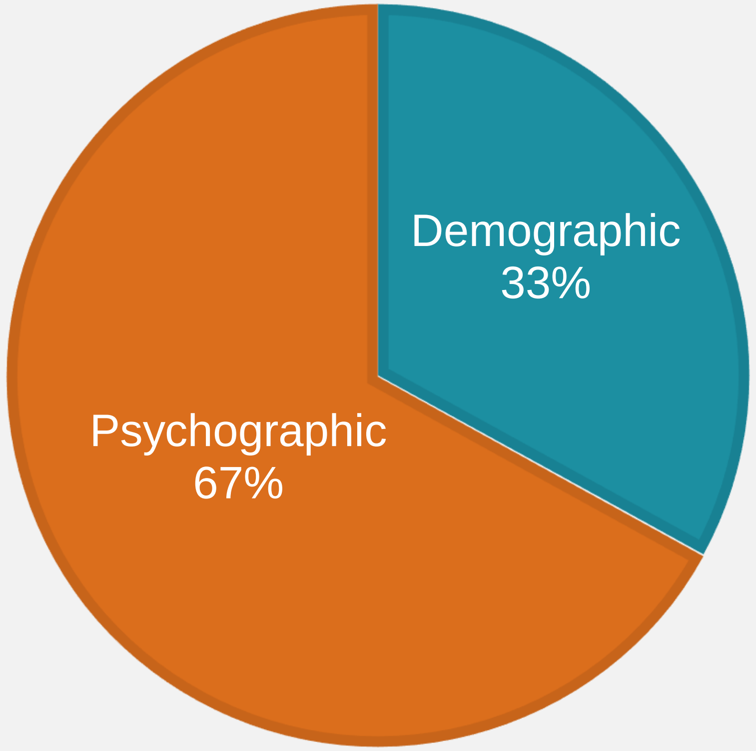
Individuals' attitudes and opinions are more important drivers of participation than demographic factors

Regression analysis showed that, overall, likelihood of enrolling in the rainy day savings program is driven primarily by psychographic factors as opposed to demographic factors.

Effect of factors on likelihood to enroll

Examples

- Stress over financial situation
- Trust in employer
- Confidence in ability to pay for a $2,000 unexpected expense



Examples

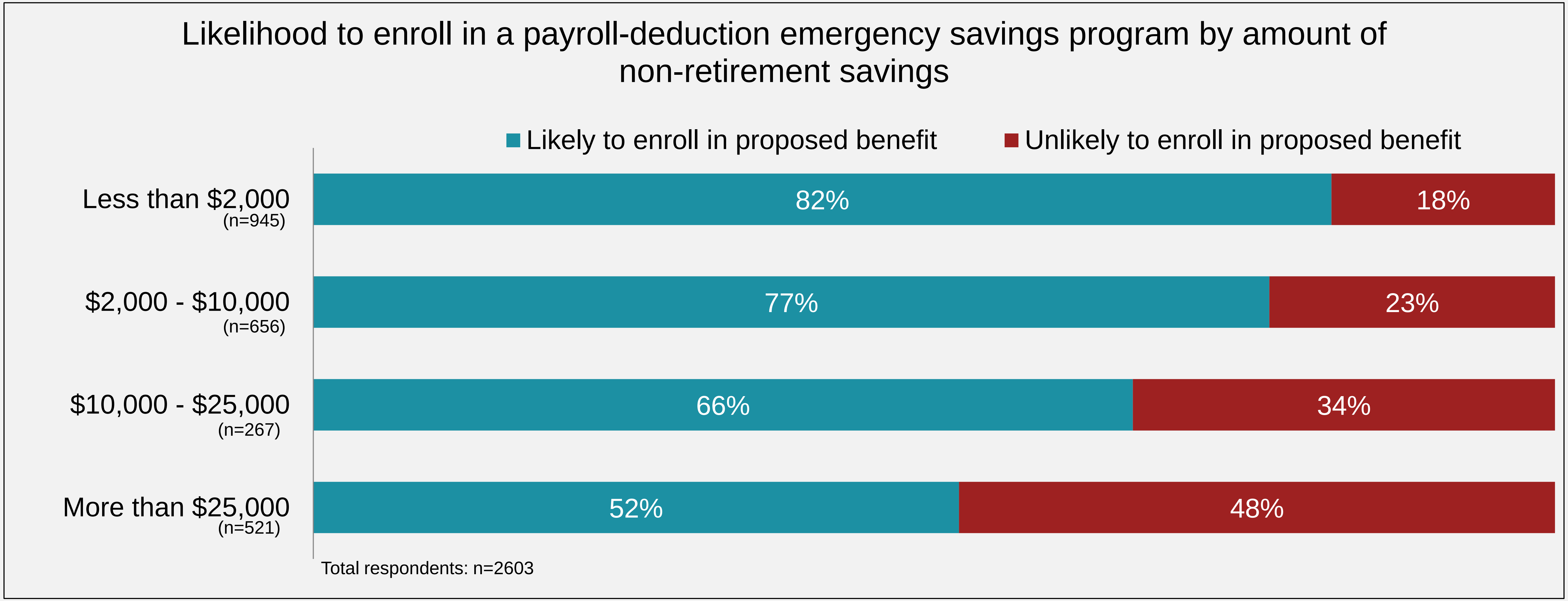
- Household income
- Gender
- Age

The most powerful drivers* of likelihood to participate in an employer-based rainy day savings program:

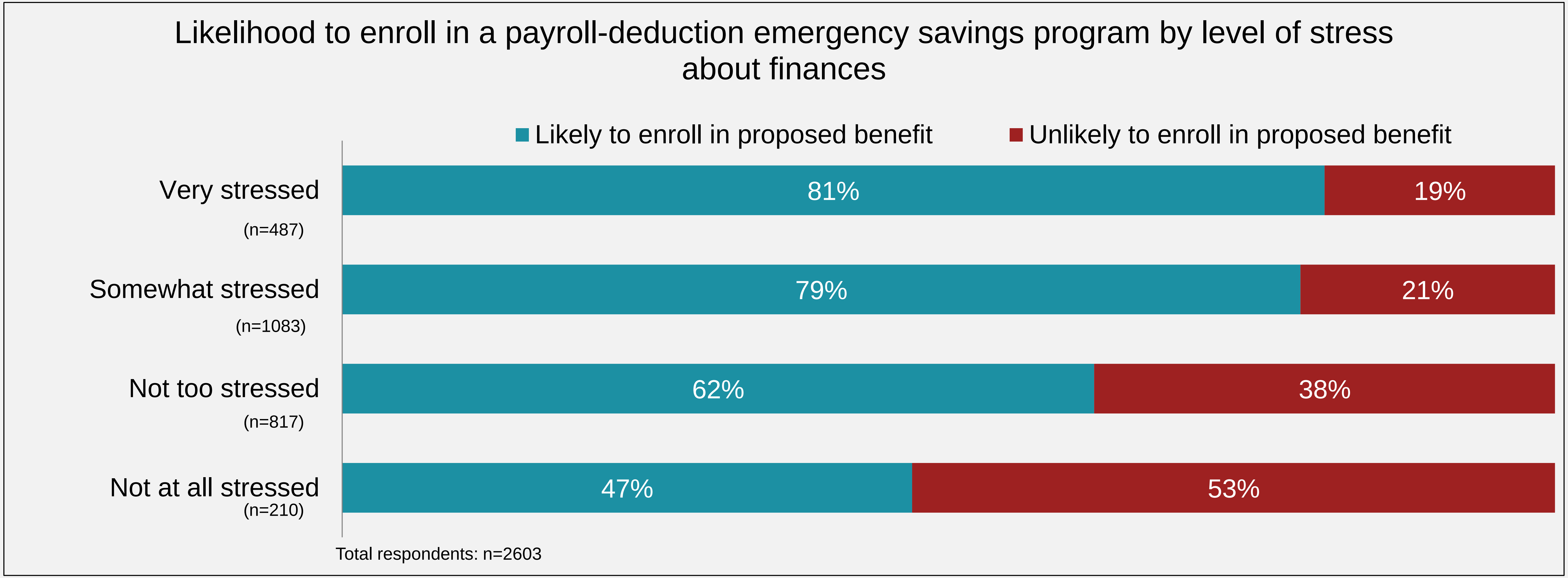
1. **Non-retirement savings.** Employees with lower balances in non-retirement accounts are more likely to say they would enroll in a payroll-deduction rainy day savings program.
2. **Stress about overall financial situation.** Employees with higher levels of self-reported stress about their finances are more likely to participate.
3. **Trust in primary employer.** The more employees trust their employer, the more likely they are to participate.
4. **Ability to pay for an unexpected expense costing one month of household income.** Employees that considered this a major problem are more likely to participate.

*Based on regression analysis. Factors are listed in order of the degree to which they appear to impact likelihood to enroll in the program.

Employees with lower non-retirement savings are more likely to participate

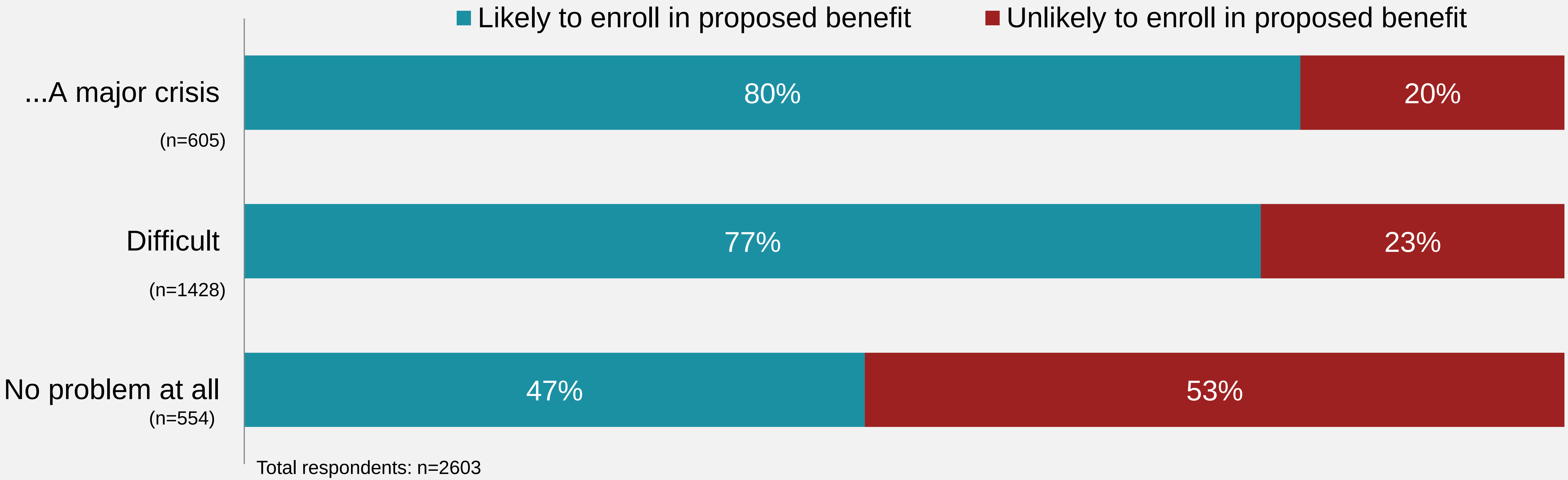


Stress about finances makes employees more likely to participate

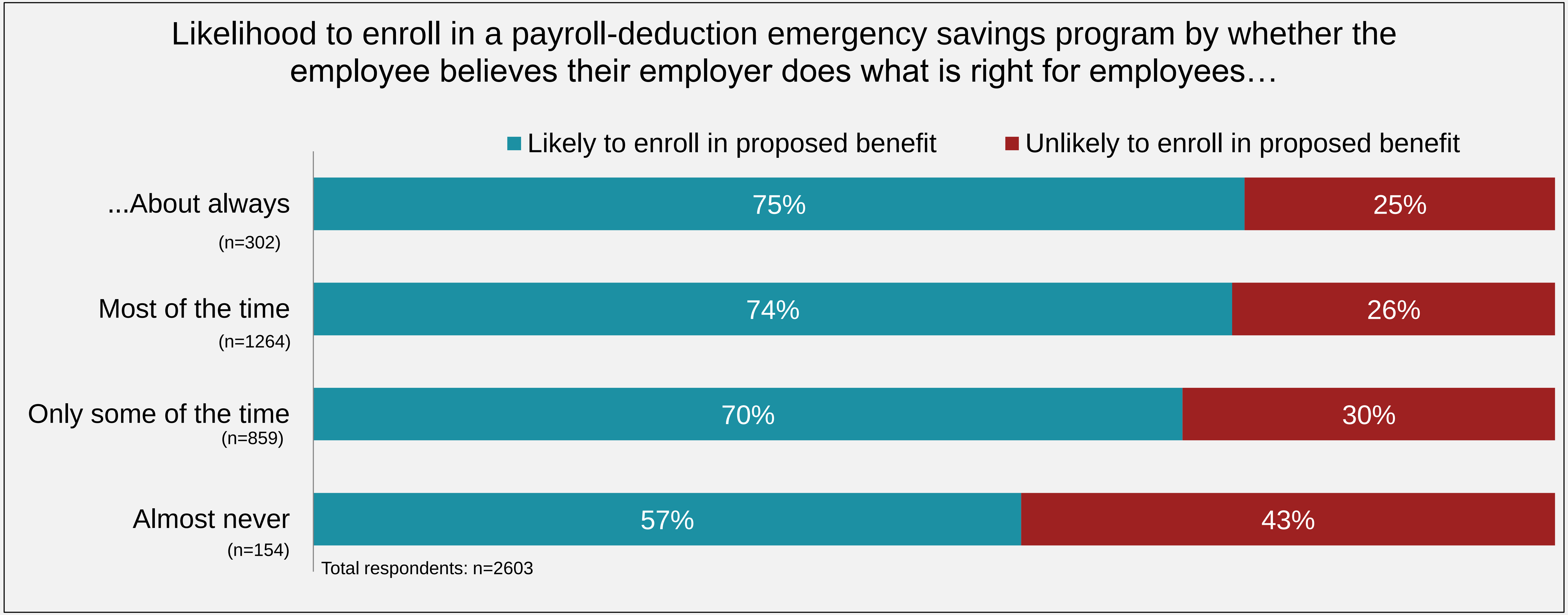


Difficulty covering an expense equal to one month's pay makes employees more likely to participate

Likelihood to enroll in a payroll-deduction emergency savings program by response to question: "If you needed to pay for an unexpected expense costing one month of your household income, would it be…?"



Greater trust in their employer makes employees more likely to participate

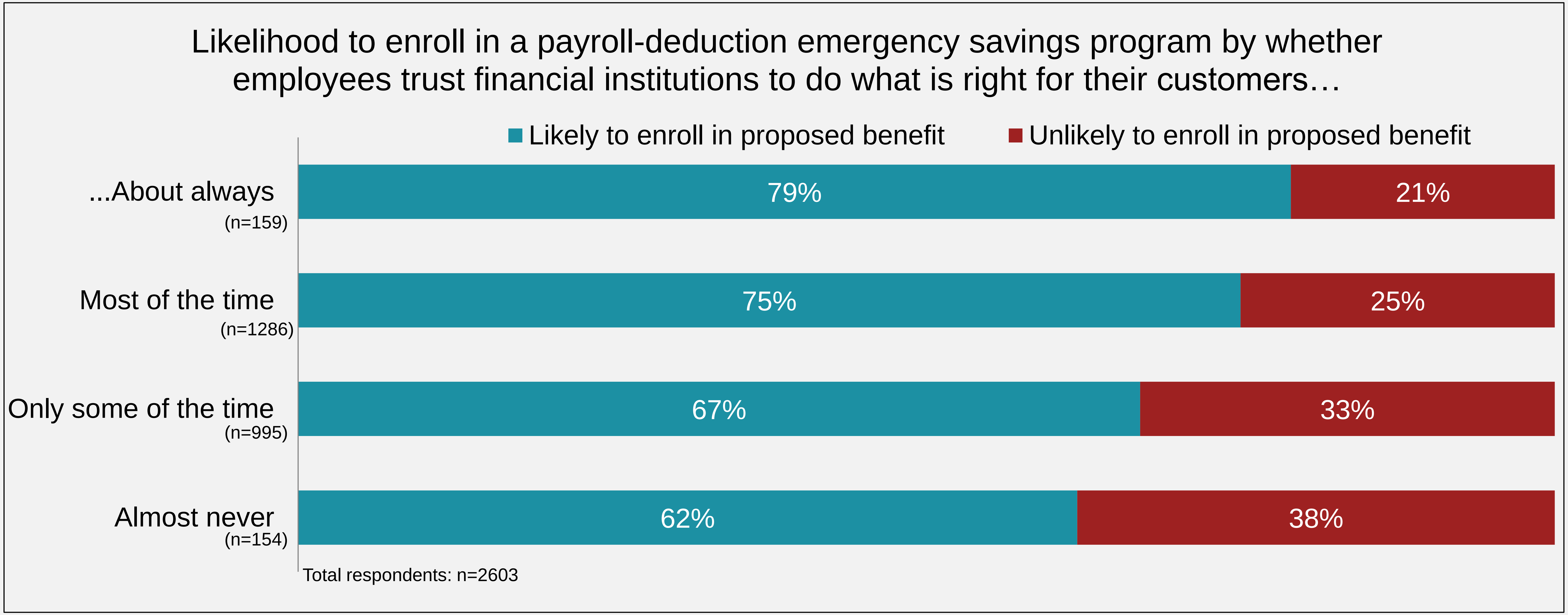


Moderately powerful drivers* of likelihood to participate in an employer-based rainy day savings program:

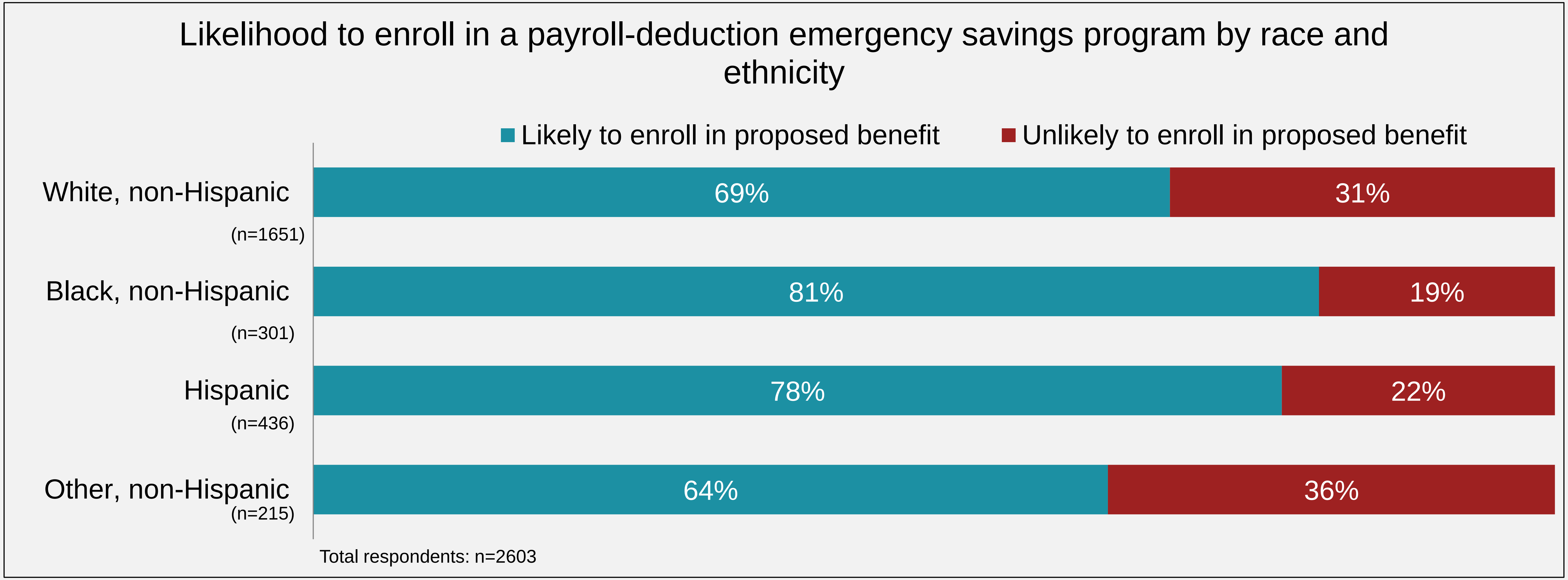
1. **Trust in financial institutions.** Employees with more trust of financial institutions are somewhat more likely to say they would enroll in a payroll-deduction rainy day savings program.
2. **Race.** Black employees are somewhat more likely to participate than White employees.
3. **Ability to pay for an unexpected expense of $2,000.** Employees with lower confidence in their ability to pay for a $2,000 expense without tapping their retirement accounts are somewhat more likely to participate.

*Based on regression analysis. Factors are listed in order of the degree to which they appear to impact likelihood to enroll in the program.

Greater trust in financial institutions makes employees more likely to participate

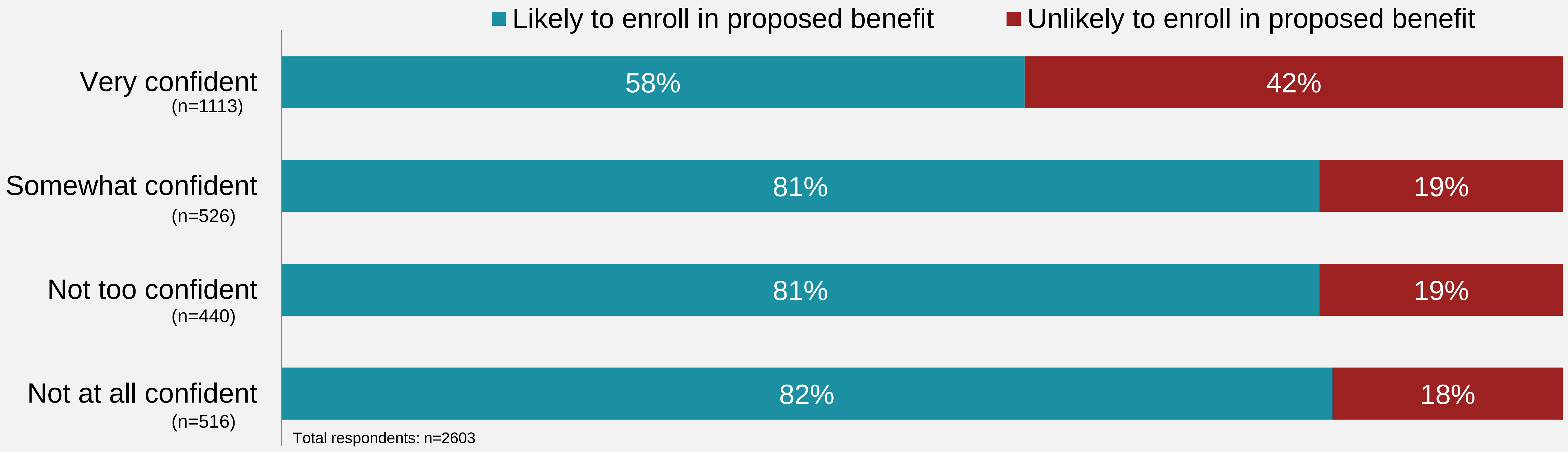


Black and Hispanic employees are somewhat more likely to participate than White employees



Employees with less confidence in their ability to handle a $2,000 expense are more likely to participate

Likelihood to enroll in a payroll-deduction emergency savings program by confidence in ability to pay for an unexpected expense of $2,000 without taking money from retirement accounts



Weak drivers* of likelihood to participate in an employer-based rainy day savings program:

1. **Gender.** Women are slightly more likely than men to say they would be likely to enroll in a payroll-deduction rainy day savings program.
2. **Ethnicity.** Hispanic employees are slightly more likely than non-Hispanic White employees to participate.
3. **Age.** Older workers are slightly more likely to participate than younger employees.
4. **Marital status.** Married employees are slightly more likely participate than unmarried employees.
5. **Years of formal education.** Employees with fewer years of education are slightly more likely to participate.

*Based on regression analysis. Factors are listed in order of the degree to which they appear to impact likelihood to enroll in the program.

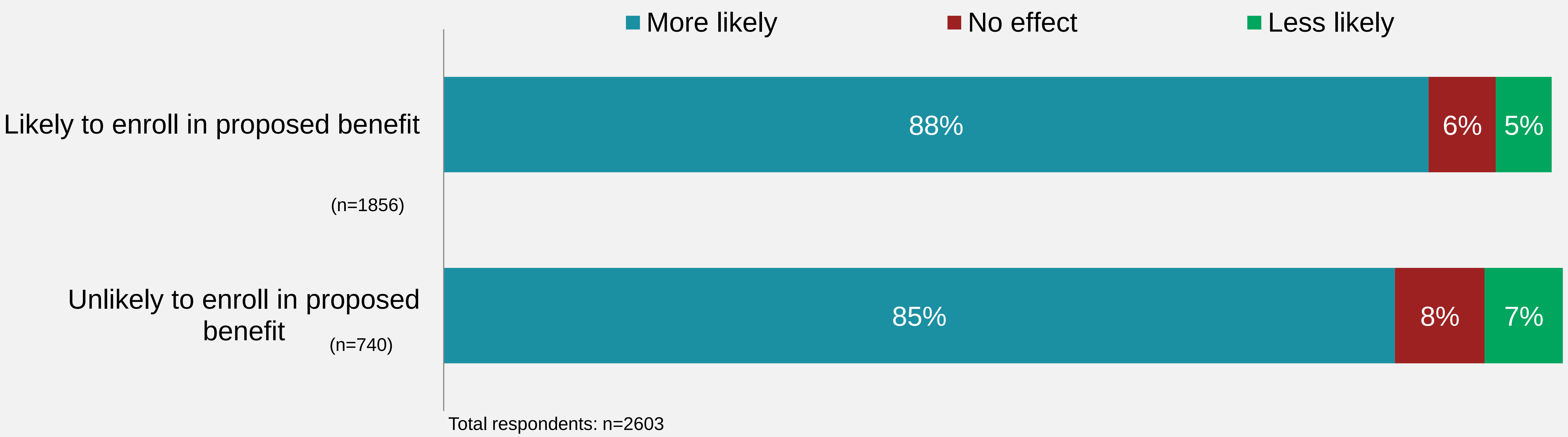
Factors that have **no significant effect** on likelihood to participate in an employer-based rainy day savings program:

- Household income
- Number of months since dealing with a large, unexpected expense
- Proportion of monthly take-home pay to expenses (including loan payments, mortgage and rent, child care, food, transportation, and health care)
- Perceived level of knowledge about financial matters
- Agreement with "I often need to borrow money to make ends meet."
- Agreement with "I feel like I have no control of my financial situation."
- Agreement with "I have an unmanageable amount of debt."
- Regularly putting money into retirement accounts outside of work
- Balances in employer-sponsored retirement plans

Important features of a payroll-deduction rainy day savings program

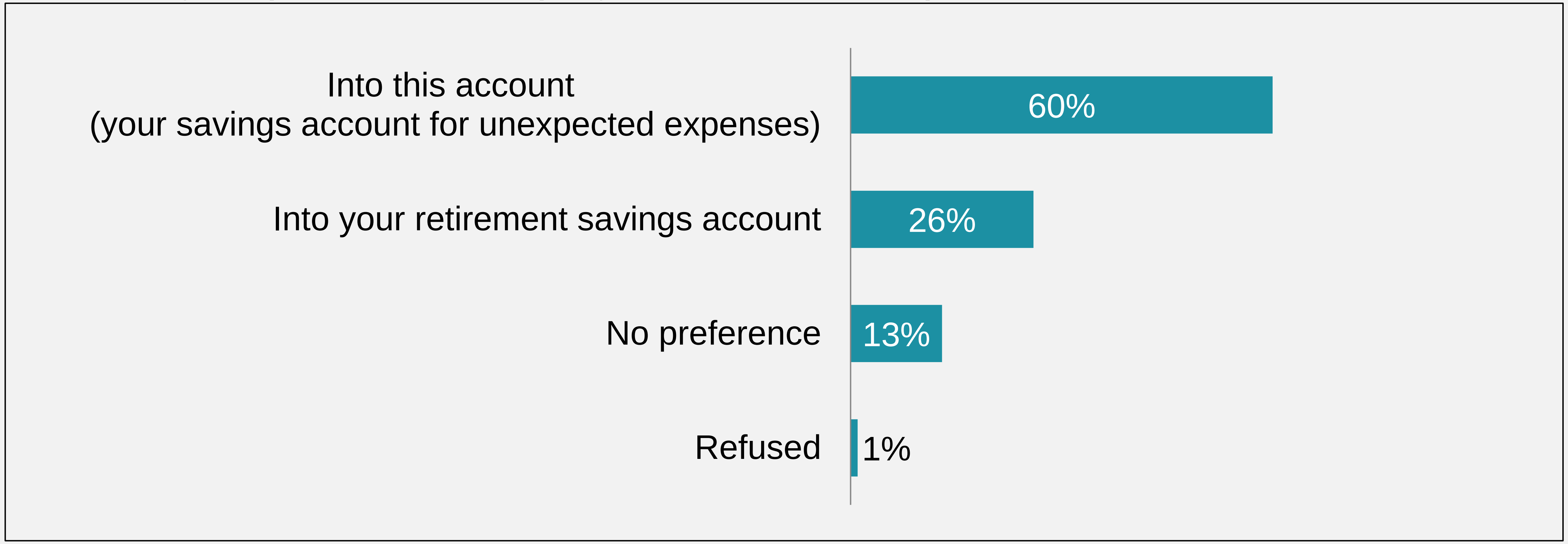
An employer match makes 87% of employees more likely to participate

Suppose your employer decided to match at least some of the amount that you put into this account. How would this affect your likelihood of enrolling in this employee benefit?



Most would prefer that the match be deposited into the emergency savings account rather than into a retirement account

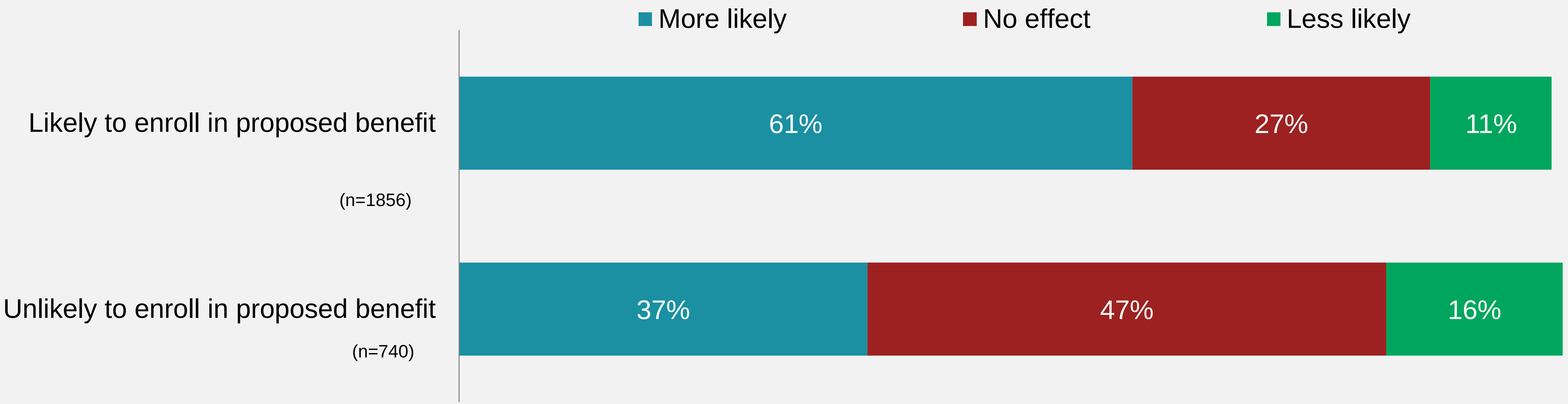
If your employer decided to match at least some of the amount that you put into this account, where would you prefer the employer match be deposited?



Respondents whose employer offers a retirement savings plan at work that allows employees to make contributions from their paychecks: n=2216

The ability to direct payroll contributions to an existing account makes half of employees more likely to participate

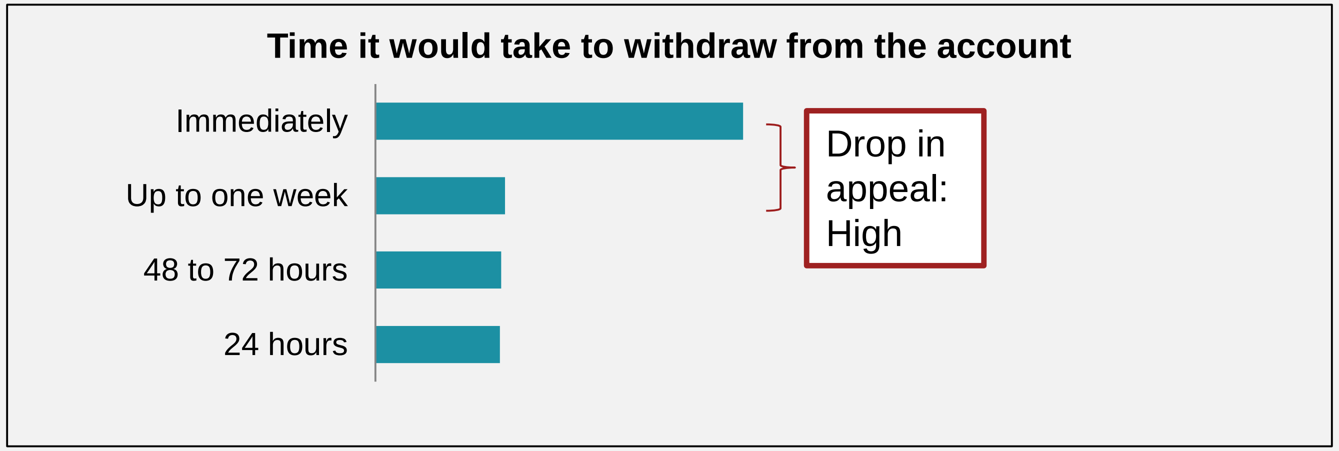
Suppose you could direct your savings contributions to a savings account you already have at a bank or financial institution. How would this affect your likelihood of enrolling in this employee benefit?

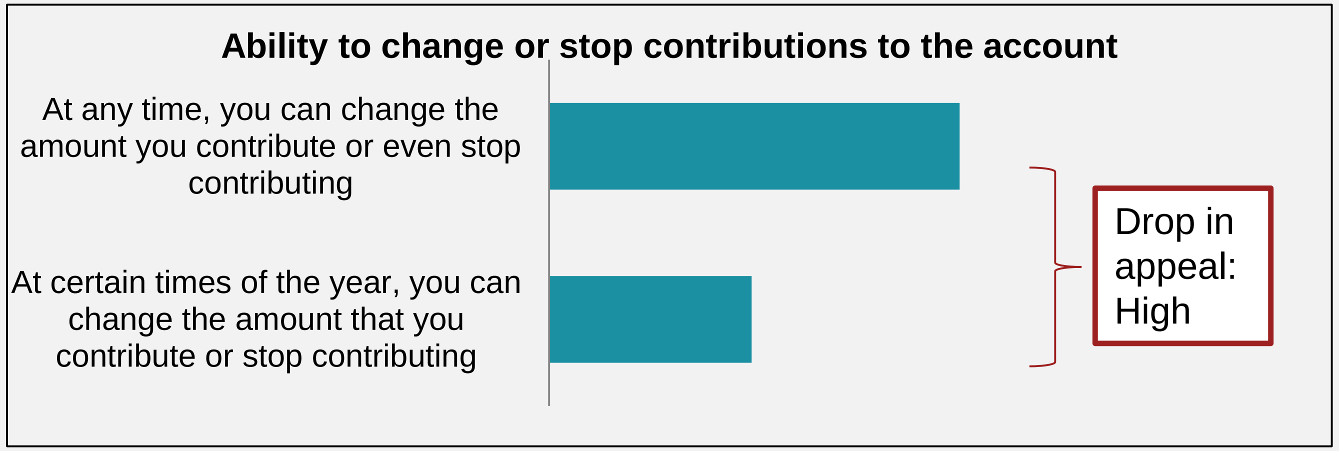


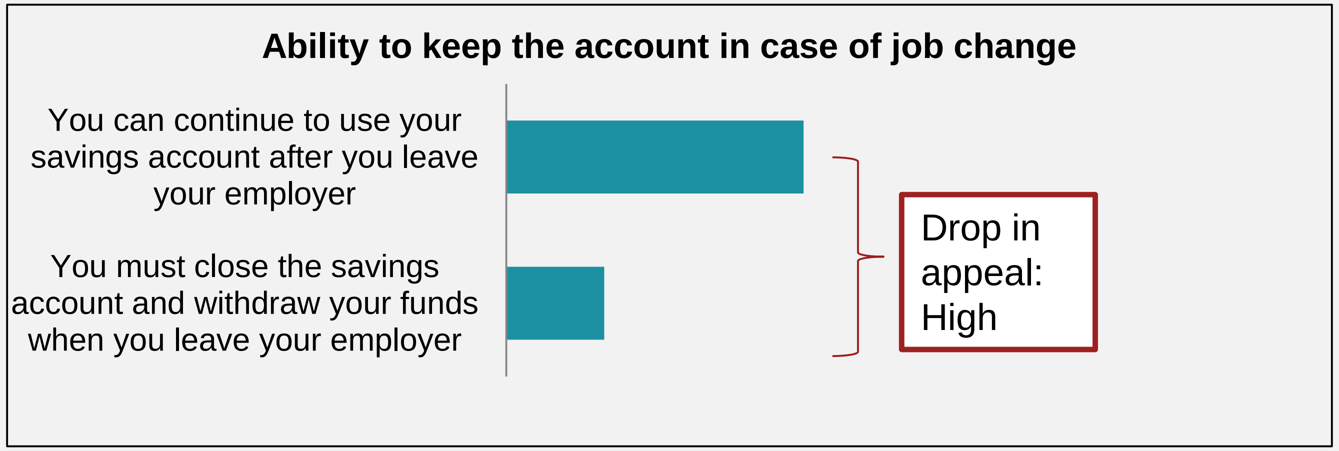
Total respondents: n=2603

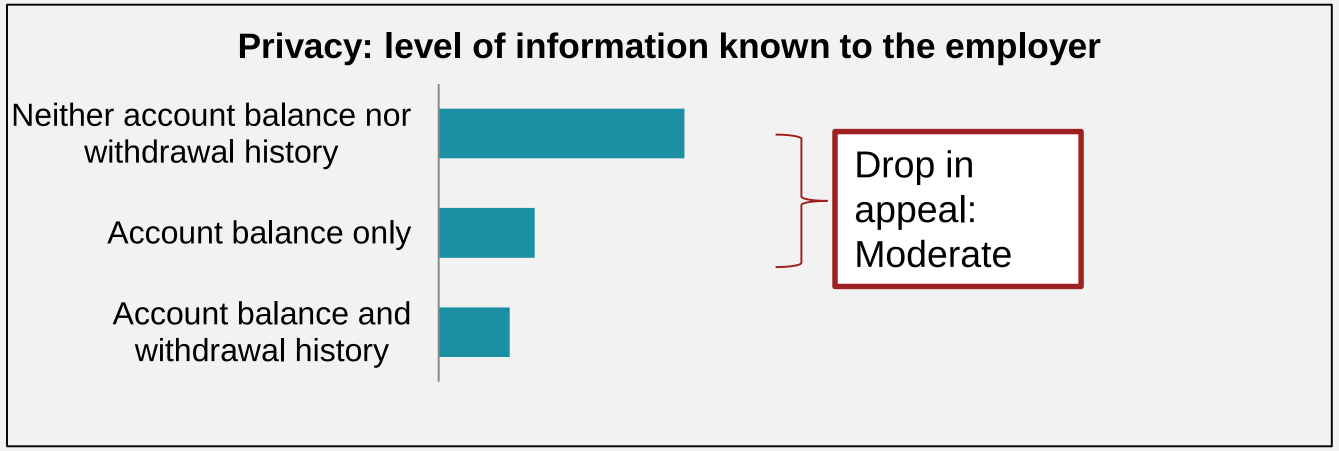
Program feature tradeoffs: control, convenience, and privacy are essential

Employees are least willing to compromise on the ability to access their money immediately, start or stop contributing, keep the account if they leave their job, and maintain privacy



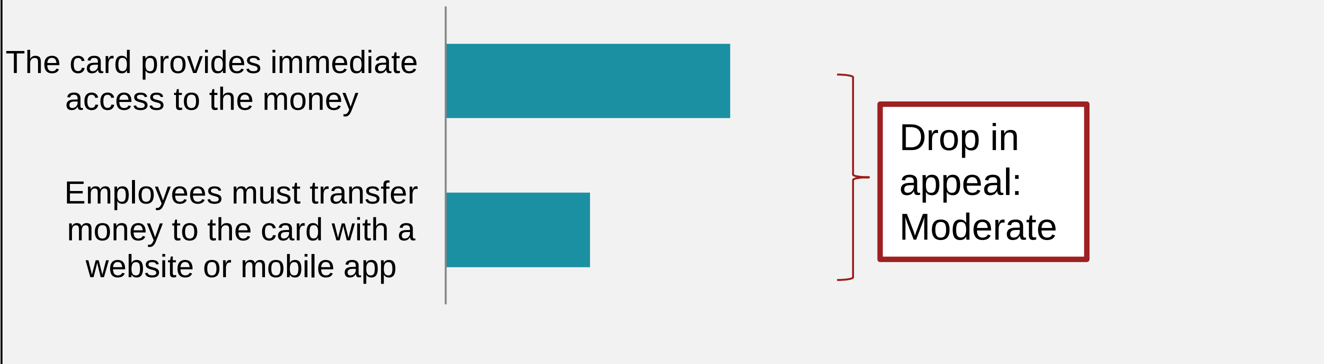




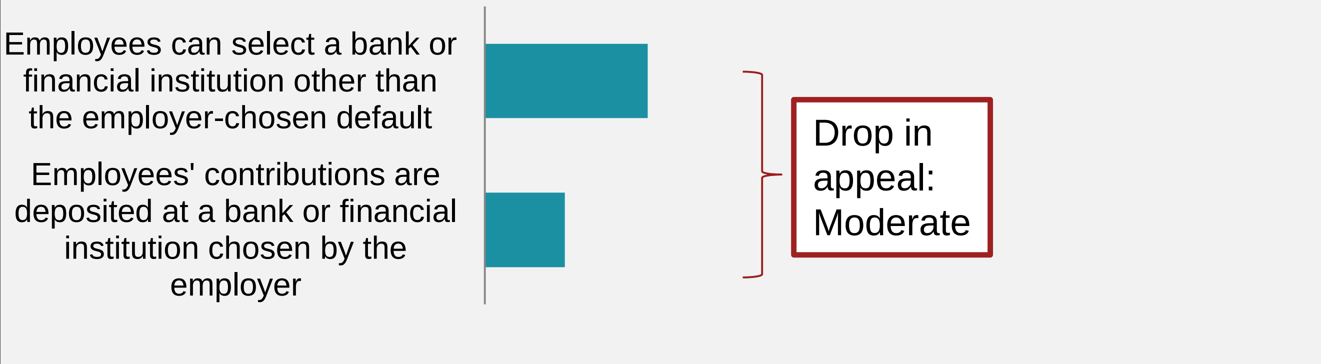


Program feature tradeoffs (continued)

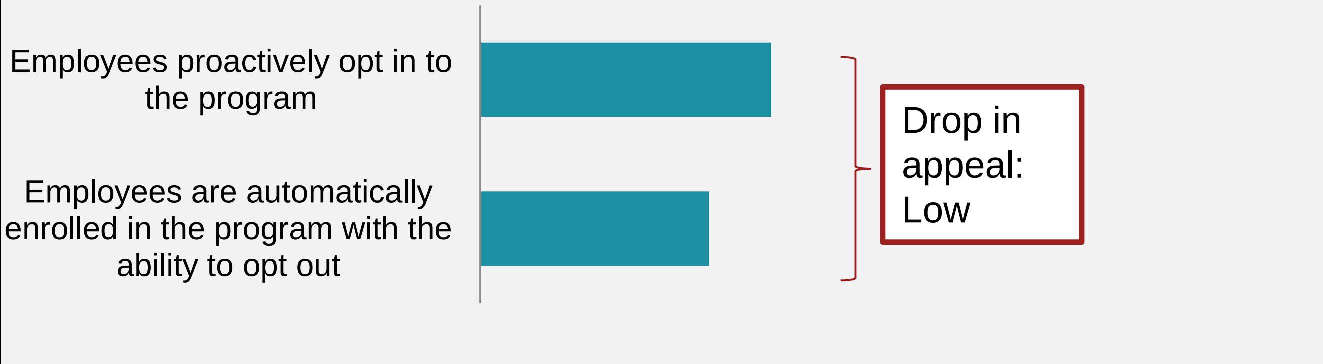
Use of a prepaid card for withdrawals and transactions



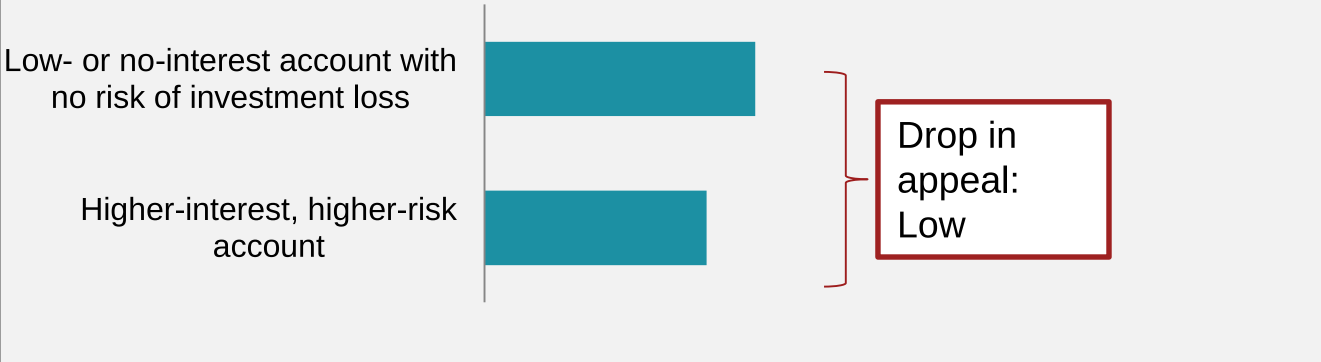
The bank or financial institution where the account resides



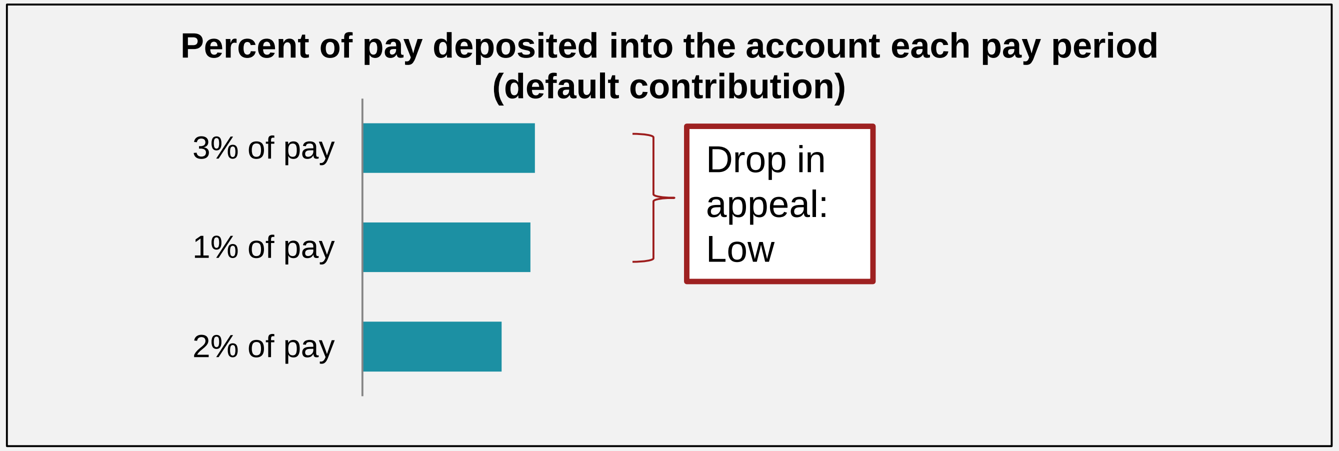
How employees are enrolled in the program



Account risk and return



Program feature tradeoffs (continued)



Program feature tradeoffs: details affect likelihood to participate

Severe tradeoff. Employee likelihood to participate in savings program increases greatly if the following features have the preferred option.	
Feature	**Preferred option**
Time it would take to withdraw from the account	Immediately
Ability to change or stop contributions to the account	Anytime
Ability to keep the account in case of job change	Keep the account if you leave your employer
Moderate tradeoff. Employee likelihood to participate increases moderately if the following features have the preferred option.	
Privacy	Employer would not know account history or balance
Use of a prepaid card	Card provides immediate access to the funds
Where the account resides	Employees can select financial institution
Low tradeoff. Employee likelihood to participate increases slightly if the following features have the preferred option.	
How employees are enrolled in the program	Employees opt in
Account risk and return	No investment risk, low or no interest
Percent of pay deposited into the account	3% of pay

Effectively communicating with employees about a payroll-deduction rainy day savings program

The most effective ways to talk to employees about a payroll-deduction rainy day savings program

The top five messages that resonate with employees speak to control, peace of mind, and ease of saving

- "Easily start saving through an account that you control"
- "Having money tucked away out of every paycheck for emergencies will relieve some stress"
- "Routinely set aside money for unexpected events"
- "Access your savings quickly and easily whenever you need to"
- "Automatically deposit money from each paycheck into a separate account in your name"

The least effective ways to talk to employees about a payroll-deduction rainy day savings program

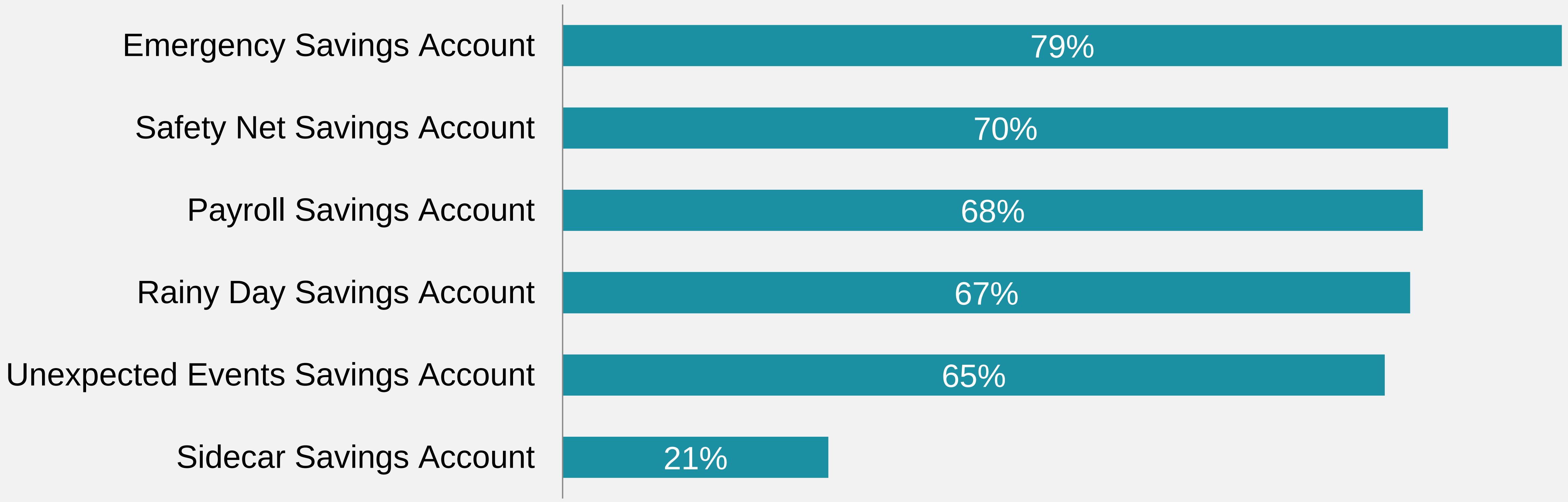
Emphasizing the employer’s involvement in the program does not resonate with most employees

- “Easily start saving through an account that your employer sets up for you”
- “This account will help employees to be more productive at work”
- “This is a way for a company to do right by its employees”

What to call the program

Nearly eight in ten respondents say that “emergency savings account” describes the program well

Share of respondents that say the name describes the program “very well” or “somewhat well”



Total respondents: n=2603

Appendix

Analytical Techniques

Analysis of the data was conducted by AARP and Boston Research Technologies.

Analysis of Variance (ANOVA)

- Using cross-tabulation, tests for significant differences between subpopulations were conducted at a 95% confidence interval.

Regression Analysis

- Regression analysis is a statistical process used to explain why people have certain attitudes or exhibit certain behaviors. In this study it was used to estimate how much specific demographics and past behaviors individually impact one's intention to participate in the rainy day savings program.

MaxDiff (Maximum Difference/"Best-Worst" Scaling)

- MaxDiff is an approach to understanding people's relative preference for various product features, brand preferences, positioning statements, etc. In this study it was used in two ways: to understand how much each product feature of the saving program contributes (relatively) to the overall perceived usefulness of the program, and, the relative impact of various statements about the account on likelihood of participating in the program.

About AARP

AARP is the nation's largest nonprofit, nonpartisan organization dedicated to empowering Americans 50 and older to choose how they live as they age. With nearly 38 million members and offices in every state, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, AARP works to strengthen communities and advocate for what matters most to families with a focus on health security, financial stability and personal fulfillment. AARP also works for individuals in the marketplace by sparking new solutions and allowing carefully chosen, high-quality products and services to carry the AARP name. As a trusted source for news and information, AARP produces the nation's largest circulation publications, AARP The Magazine and AARP Bulletin. To learn more, visit www.aarp.org or follow @AARP and @AARPadvocates on social media.

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