Spotlight

Facilitating Workplace Emergency Savings Programs through Payroll Cards

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Introduction

Even before the COVID-19 pandemic, a significant share of US households were worried about their finances. A top concern was not having enough money saved to cover common emergencies like an unexpected car repair or a medical copay.¹ Payroll cards (also known as paycards) are an existing means of paying employees that could also be a simple and effective way to help workers to save for emergencies using regular deductions each pay period.

The savings plight among households is clearly documented. A 2019 survey by AARP found that 53 percent of households have no emergency savings account.² For the past six years, the Federal Reserve Board has found that the share of households that say they would struggle to cover a $400 unexpected expense has hovered at about 40 percent.³ A lack of emergency savings can put individuals at risk of material hardship, high-cost debt, and possibly long-term financial insecurity.⁴

In response, a growing number of employers, financial services providers, savings advocates, and others are designing workplace benefits to help employees build emergency savings through payroll deduction. With the potential to reach 93 percent of the US workforce—the share of employees paid by direct deposit—this approach incorporates principles of behavioral economics that have been shown to help people adhere to their savings goals.⁵

The concept of a payroll deduction emergency savings program is popular with employees; another national survey by AARP found that 71 percent of working adults ages 25 to 64 said they would likely participate in such a program.⁶

Payroll deduction emergency savings programs are the most practical next step for the growing number of employers seeking to address the financial needs of their workforces.⁷ Approximately 43 percent of employers currently offer or plan to offer a workplace initiative to help employees prepare for financial emergencies.⁸ This aligns with a broader movement by employers to take an active role in improving employees’ financial wellness as employees’ financial stress costs businesses

Employees’ financial stress costs businesses hundreds of thousands, if not millions, of dollars in lost productivity and absenteeism annually.
While various models for workplace emergency savings programs are still in their infancy, it is already clear that, to be most effective, employers should use automatic enrollment.

How Paycards Work
Paycards are an increasingly popular method for US businesses to pay their employees. By 2022, a projected 8.4 million paycards will be active, compared with the 2.2 million people who were paid by paper checks in 2019. Paycards are a version of prepaid cards in which the funds come from employer-paid wages. The card has no value until funds are loaded, and paycards are regulated as a type of prepaid card.

An alternative to direct deposit into a checking or savings account, paycards offer employers the ability to transfer employee compensation electronically to a card that employees can use to pay for goods and services, build balances, access cash, or transfer funds to another account or individual. Once paid, employees have immediate access to their wages. Employers typically use paycards because they can cost less and have fewer delays than issuing paper checks. This is especially valuable to employers with a high-turnover or geographically dispersed workforce. Although originally designed to pay employees who do not have a bank account, today more than 70 percent of workers paid through a paycard also have a traditional checking or savings account.

Employers contract with a paycard provider, such as a bank or credit union, payroll company, or dedicated paycard company. The employer typically maintains an omnibus account with the provider that may be managed by a third-party payroll

Automatic Enrollment Makes Emergency Savings Programs Even More Effective
While various models for workplace emergency savings programs are still in their infancy, it is already clear that, to be most effective, employers should use automatic enrollment. With automatic enrollment, an account is opened for each employee and regular payroll deductions into the account are initiated unless the individual decides not to participate. Employees can opt out, including leaving the program, or change the amount they save at any time.

By making participation in a savings program the default, rather than asking employees to proactively sign up to save, employers could expect to see increases in program participation similar to 401(k) programs that use automatic enrollment. In 401(k) programs, automatic enrollment has proved very popular with employees, nearly doubling the participation rate in retirement plans to almost 93 percent among new hires, and dramatically increasing participation among younger, lower-income, and female employees.
company, with subaccounts that are owned by individual employees. Employee funds on their individual payroll cards are FDIC or NCUA insured, up to the same levels as a typical bank account, although the omnibus account used by the employer to make those payments may or may not be a bank account itself. Employees who elect to be paid on a paycard access their funds directly by using the physical card or indirectly through electronic transactions. Most paycard accounts can be managed online, via phone, or with a mobile app. Paycards operate similarly to a debit card, with the same liability protections against unauthorized transactions. Users can make purchases both in person and online using a signature or PIN. Users can also get cash back at the point of a transaction or through an ATM. They may also withdraw their balance in full for free through a teller transaction. Many paycards also offer online bill pay, peer-to-peer payments, and the ability to transfer funds to a bank account. Employees may also choose to load their own funds onto the card, a feature that requires registering the card with the provider.

According to the government regulations of these cards, employees must be given adequate information to make an informed choice about whether to accept a paycard. Some paycards charge a monthly maintenance fee as well as transaction fees when the card is used in certain ways. Others have no maintenance fees and very few other costs. The 2019 Consumer Financial Protection Bureau regulation of prepaid cards, including paycards, provides a model for clear disclosures about fees so that employees can make informed choices before accepting their wages on a paycard. Some employers have come under scrutiny for pressuring their workforce to receive their wages on paycards. The regulation also reiterates that employers must clearly communicate to employees that they have the right to an alternative method of receiving their pay. Eleven states have laws that go beyond the federal baseline consumer protections, typically with added restrictions on fees, expanded free ATM access, and mandatory deposit insurance.

Using Paycards for Emergency Savings
While a paycard is usually the means by which employees receive all of their compensation, employers could also use the cards to supplement their usual payment method as a way to enable employees to save for the unexpected. If the card is used only for emergency savings, only a small portion of pay, such as between 1 percent and 3 percent, would be directly deposited onto the card. The remainder of an employee’s pay would be deposited as before into a checking or savings account or another destination designated by the employee. The card could be marketed as an emergency savings card, including potentially branding the physical card to reflect that purpose. The employee would have immediate access to the paycard funds and could decide when and how to spend the money, ideally for unexpected expenses. Because the employee controls his or her emergency savings, only the employee would know how the money is spent; the employer would not have access to that information or any role in deciding how the money could be used.

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employer would deposit almost all of employee pay onto the transaction side of the card, with a small proportion going directly to the savings wallet for emergencies. Currently, few employers are using the savings wallet feature on paycards due to a lack of advertising and incentives. There is evidence that more than half of paycard users save money on their cards, although it is not clear how many use the formal savings wallet features.  

A key advantage of the emergency savings card program versus most other models is that current regulations appear to permit the use of automatic enrollment. This is further discussed in the policy section.

**Emergency Savings Models: Paycards versus a Bank or Credit Union Account**

Many of the features of a paycard are similar to those of a traditional checking or savings account.

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### Optimal Features of a Workplace Emergency Savings Card Program

- **Automatic enrollment.** Similar to the popular enrollment method for retirement accounts, employees would be issued a paycard and enrolled into the program unless they decide not to participate. Although enrollment is automatic, employees retain full control over their savings and could choose to increase or decrease their savings rate or opt out of the program at any time. They would also have immediate access to emergency savings stored on their card. For paycards used only used for emergency saving, the rest of the employee’s compensation would continue to go to a bank account or other payment method selected by the employee.

- **Regular payroll deductions onto the card.** Each pay period, a small portion of each employee's paycheck is deposited onto the card. The initial contribution rate is set by the employer but may be changed at any time by the employee.

- **Employees own and manage their card accounts.** Employees decide how and when to use their savings. The employer receives no information about amounts on the cards or when they are used. If an employee leaves a job, he or she retains the card.

- **Advance employee education.** Before the program formally rolls out, the employer should launch an extensive information campaign about the importance of saving for emergencies and how the benefit will work. Messages that emphasize control, convenience, and privacy resonate best, according to consumer research by AARP.  

- **Low fees.** Employers have the responsibility to negotiate the best deal for their employees. They should select a card that avoids fees that could erode the value of savings or prevent users from treating their balance as an emergency savings fund. Such fees include those for overdrafts, inactivity and low balances, for paying bills, and using for the card at point of sale purchases. Employers should also seek providers with a large no-fee in-network ATM system and deposit insurance.

- **Employee choice.** Federal regulation requires employers to make clear to their employees that they do not need to accept a paycard and may select an alternate method of payment. For an emergency savings card program, employers should provide the same notice up front and encourage employees who choose not to participate to save through direct deposit into an account of their choice.
at a bank or credit union. A paycard, however, has several advantages over using a bank or credit union account when setting up an automatic enrollment payroll deduction emergency savings program. In addition to the lower regulatory barrier to automatic enrollment, paycards are convenient and inexpensive to maintain.

One reason why paycards are already used by many employers is that they are accessible to workers who don’t have a bank account. In 2017, nearly 27 percent of households were classified as unbanked or underbanked; a full 14.1 million adults did not have a bank account. Paycards could be a convenient emergency savings vehicle for these households.

Another major advantage of an emergency savings card is cost. An emergency savings fund is likely to have a relatively low balance and frequent transactions. Most checking accounts are relatively costly for a financial institution to establish and maintain, and these costs are likely to be passed on to the employer or the employee. With traditional bank and many credit union accounts, fees typically increase if the balance drops below a certain amount. However, paycards do not penalize users for having a small balance. In addition, paycards are relatively low cost for employers to set up and use to compensate their employees.

Generally, paycards function like debit cards, in that users cannot spend more than the amount of money that has been deposited on the card. As a result, most paycard users will not face overdraft fees, whereas many checking or savings accounts have substantial charges, commonly $35 per transaction, for overdrafts.

An emergency savings card has some disadvantages over an emergency savings program linked directly to a bank or credit union account. Balances on a paycard do not earn any interest, while savings accounts typically do. In addition, balances on paycards are not likely to be considered if a consumer applies for a loan. While paycards can easily be replaced—often for a fee—they can be lost or stolen. Finally, some paycard providers may charge the user a fee for checking his or her balance or for other transactions.

**Paycards Have Features Employees Want in an Emergency Savings Program**

Standard features of paycards align with consumers’ top preferences for a payroll deduction emergency savings program. A national survey found that employees are most likely to participate in an emergency savings program that gives employees immediate access to their savings, control and ownership of their account, and privacy. A program using paycards allows employees to:

- **Access emergency savings immediately.** The law requires paycards to allow employees to access their compensation immediately and without cost. Convenience—funds that are available when needed—is a core feature of paycards.

- **Change or pause saving at any time.** Employees who want to increase or decrease the percentage of pay deposited on their card can do so in the same way they would change their direct deposit preferences with their employer. Also, at any time, employees can opt out of the program altogether.

- **Keep the account in case of job change.** A standard feature of paycards is that employees own their paycard accounts. If an employee changes jobs, he or she retains the card and the balance. Employees may also load funds from different sources onto the card if they register it with the card issuer and provide certain additional identifying information.

- **Maintain privacy of transaction history and account balance.** The employer has no access to information about employees’ card accounts, serving only as the source of contributions to the account via payroll deduction. The employer does not know when the card is used or why.

**Consumers Are Already Saving on Cards**

While some might assume that ready access to money on a paycard would tempt the owner to spend frivolously, making it an ineffective savings option, a growing body of evidence points to the opposite. Among paycard holders, 53 percent report using their card for savings, a large share of whom may be doing so informally without using a designated savings wallet. In general,
various forms of reminders and incentives have been shown to increase the take-up of savings features on prepaid cards, with a substantial number of cardholders continuing to save even after promotion ends. In addition, data from a number of savings applications on prepaid cards suggest that employees would likely participate in an employer-based emergency savings card program.

Researchers have found that consumers use prepaid cards sold at retail locations as a means for savings. While there are differences between prepaid cards and paycards, both are used in similar ways, making the savings experience with prepaid cards applicable to emergency savings programs using paycards:

- Over the course of two years, consumers saved $2 billion in the virtual savings wallet of the Walmart MoneyCard prepaid card. Cardholders who use the savings feature were entered into a drawing for cash prizes ranging from $25 to $1,000 every month.28
- A trial program by American Express found increased participation in the savings feature on their prepaid Serve card with various low-cost forms of encouragement and incentives, ranging from email reminders to a $10 incentive to enroll. Even after the 12-week promotion period, participants continued to save on their card and reported a significantly lower use of payday loans 9 months later.29
- Branding the Banking Up Bank Visa Prepaid Card savings wallet as a Rainy Day Reserve resulted in users loading more money onto their card and using it for more transactions compared with users who received the card without being exposed to this marketing campaign. The effort included automated savings transfers, email reminders, and reminders about the purpose of the savings feature.30 This indicates that card users recognized the need to save for emergencies and were willing to use it for this purpose.

Policy Clarity Needed to Confirm Automatic Enrollment Is Allowed

A key piece to the success of various employer-based savings mechanisms is automatic enrollment. Existing policies appear to support automatic enrollment in an emergency savings paycard program, but explicit confirmation from regulators and policymakers would facilitate the adoption of such a program. Specifically, employers and paycard providers would benefit from clarity that Regulation E and the Bank Secrecy Act permit automatic enrollment in a savings card program:

- **Regulation E.** Automatic enrollment appears to be permissible under Regulation E, which implements the Electronic Funds Transfer Act, as long as employees know they have the option not to participate. In 2016 the Consumer Financial Protection Bureau (CFPB) issued a final rule enhancing and amending Regulation E to protect consumers of prepaid financial products. The prepaid rule states that “consumers are sometimes given a choice between two or more payment alternatives, but may fail to indicate their preference. Depending on the facts and circumstances—for example, the date by which the consumer has to be paid her wages under State law—it may be reasonable for a financial institution or other person in this scenario to employ a reasonable default enrollment method” [emphasis added].31

  In fact, CFPB recently made clear that employers could apply for protection from liability under Regulation E through an application to test an automatic enrollment payroll deduction emergency savings program.32 Applicants can use a template application from Commonwealth, Inc. that CFPB has approved for this purpose under CFPB’s Compliance Assistance Sandbox. This action demonstrates CFPB’s support for innovative approaches to help employees build emergency savings.

- **Bank Secrecy Act.** To comply with the federal Bank Secrecy Act and anti–money laundering laws, financial institutions are required to maintain a Customer Identification Program. In the emergency savings card model, the employer is the customer and can furnish the required identity information of its employees to the paycard provider to comply with “Know Your Customer” requirements. This would facilitate
automatic enrollment. Employees would need only to individually verify their identity with the paycard provider if they choose to load their own funds onto the card in addition to the payroll contribution. Receiving this information from the employer both meets the purposes of the law and would be as accurate as if the information came directly from the employee.

**Conclusion**

The economic crisis resulting from the COVID-19 pandemic is a reminder of the importance to households’ financial stability of having even a small amount of emergency savings. An employer-based emergency savings card program offers a simple and low-cost mechanism to facilitate regular savings with features that employees value. A savings card program can be used regardless of whether the employer also offers other types of benefits, such as retirement savings plans. Most important, the recent CFPB invitation to employers to safely test emergency savings programs reinforces that the regulatory structure that governs paycards is the most favorable towards allowing automatic enrollment. As is the case with retirement savings accounts, automatic enrollment is the most effective way for millions of Americans to start saving for unexpected expenses. An emergency savings paycard program would be popular with both workers and employers. For workers it is a convenient and safe way to build their personal emergency savings. Employers would see greater productivity as their workers’ economic stress is reduced. The recent crisis has made the need to build emergency savings greater. A program using paycards is a simple, cost-effective way for consumers, employers, and providers to build savings for the next unexpected financial challenge.

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9. Lost productivity and absenteeism due to stress about personal finances costs employers $190,000 per year for businesses with 100 employees, $1 million per year for those with 600 employees, and $19 million per year for those with 10,000 employees. John Hancock and Greenwald & Associates, “2019 Financial Stress Survey.”


11. For example, the Split to Save program that has been active for several years, and which encourages and simplifies the process of directing a small portion of an employee’s direct deposit into a savings account, has seen only 5 percent take-up among employees. America Saves, Consumer Federation of America, conversation with author, June 15, 2020.


17. Employers who offer payroll cards must also offer employees an alternative way to receive their pay. Prepaid Accounts Under the Electronic Fund Transfer Act (Regulation E), Federal Register 81, no. 225 (2016): 81047.


24. Another feature of paycards, like debit cards, is when a merchant places a hold on funds after a purchase. The hold is usually for a preset amount that is likely to be greater than the purchase amount and prevents that amount from being spent until it is clear that the card holds sufficient funds for the transaction.


