Employer emergency savings accounts:

Why employers are helping employees save for emergencies

The upcoming employee benefit that reduces financial stress and increases productivity by automating savings

Executive summary

The state of emergency savings in America is an ongoing pandemic in and of itself. Far too many Americans deal with staggering financial stress due to lack of savings every day, and that anxiety has been amplified with COVID-19. This stress can have devastating effects on individuals, but it also impacts the companies they work for in a surprisingly significant way.

The simple answer? Help employees save more, and that's exactly the aim of a transformative employee benefit called employer emergency savings accounts (ESAs). These employer-sponsored accounts automate savings by allowing employees to deduct a portion of every after-tax paycheck into a savings account designed specifically for emergency funds.

This whitepapaer is dedicated to providing more information on employer ESAs, how they work, and why they're primed to be the most influential employee benefit in the near future.

Read on to learn:

- What the latest research has to say about financial stress in America and the staggering impact of COVID-19.
- How employer ESAs work to reduce financial anxiety by offering an innovative solution to automate saving.
- Other financial wellness benefits in the market and why they miss the mark on reducing financial stress for employees.
- What the ideal ESA platform looks like for both employers and their team.

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Letter from the CEO

Why employers are turning to emergency savings in 2020 & beyond

Stress from financial uncertainty and unexpected expenses has a crushing effect on millions every year. The unfortunate statistics around savings in the U.S. and the related negative impacts on American health and wellbeing are long known. COVID-19 and the ups and downs of 2020 have made the problem more pronounced, and for millions of people, the situation has clearly gotten worse.

Our team at Secure knows what this financial stress looks and feels like. We have lived the experience of not having even a few hundred dollars to cover unexpected expenses like a broken dishwasher or a higher-than-average power bill. For millions of Americans, these types of micro life events have been the source of sleepless nights and stressful conversations for years, and the statistics are only getting worse. That is why at Secure, we've set our mission to help people save for the unexpected and better navigate financial hardships.

The concept of employer emergency savings accounts (ESAs) has been gaining traction quietly over the last few years. But in 2020, COVID delivered an inflection point that has brought dedicated emergency savings accounts, particularly as an employer benefit, to the mainstream.

We are on the bleeding edge of this concept at Secure, and our team spends the majority of our waking hours developing emergency savings accounts, thinking about how to make them work better, and talking to employees, employers, researchers, advocacy groups, and distributors about the future of the concept. Emergency savings is seeing an acceleration of innovation and learning in 2020, and the need for Americans could not be more pronounced. This is an important and highly impactful problem to solve, and we feel a responsibility to make emergency savings accounts a mainstay amongst employers and employees.

We wanted to share our learnings and research into this rapidly developing field and help explain why employers are looking to emergency savings as the next major category of benefits. We'll share why employees we interview are highly interested in the concept of an employer ESA, with near unanimous support in the concept, and how an effective ESA program can drive high engagement rates and return on investment for employers.

This journey towards building ESAs is still in the early innings, but a tremendous amount of data and research already exists. We are excited to add to this body of work, and will regularly share what we are seeing as we develop solutions to help solve this important problem.

Sincerely,

Devin Miller

Devin Miller
CEO & Co-Founder of Secure Inc.

A worsening crisis: Financial health in America

Having a well-funded emergency savings account is at the heart of financial wellness. The ability to cover a financial setback or temporarily lapse in pay without having to borrow money or get a loan can reduce feelings of financial stress and even make people happier. According to a study from Northwestern Mutual, 92 percent of Americans said nothing makes them happier than having their finances in order.[1]

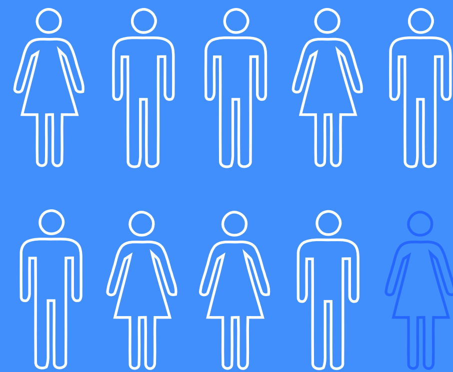
But for too many, having a well-stocked emergency savings account can seem like a pipedream. A survey from Varo Money found that two-thirds of their clients 'sometimes' or 'constantly' feel stressed because they do not have a three-month emergency fund.[2] Even those with a savings account usually don't have enough to cover most emergencies. A Federal Reserve survey found that almost 40 percent of participants wouldn't be able to cover an unexpected $400 expense using cash.[3] A Bankrate poll found another 40 percent of Americans would need to borrow money to cover a $1,000 emergency.[4] There are even more dismal findings in John Hancock's 2019 Financial Stress Survey. They find that one quarter of Americans have no savings whatsoever, including 16 percent of baby boomers and 31 percent of Generations X, Y, and Z.[5]

44% of Americans reported that money was cause for "high" or "moderate" levels of anxiety

— Northwestern Mutual

Not surprisingly, money is the dominant source of stress for 44 percent of Americans, causing “high” or “moderate” levels of anxiety, according to Northwestern Mutual.[6] The National Endowment for Financial Education has also reported that 30 percent of U.S. adults are “constantly” worried about their financial situation.[7] Fast forward two years to 2020 in the midst of a worldwide pandemic, and those levels have worsened. Almost 9 in 10 Americans said COVID-19 has caused stress on their personal finances.[8]

If the majority of this financial anxiety stems from lack of savings, why aren’t Americans saving more? It’s not that they don’t know the actions that can calm their concerns. The John Hancock survey found that most people knew taking steps such as setting financial goals (33 percent) or learning to live on less (31 percent) could reduce their financial concerns. But there was a notable gap between knowing the actions and taking action. Only 21 percent had actually set any financial goals, and a meager 20 percent had taken steps to live on less money. The answer, then, may lie in making saving money easier, which is what employer emergency savings accounts (ESAs) do by allowing workers to set aside a portion of every paycheck into a rainy day fund through automatic payroll deductions.



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Americans said COVID-19 has caused stress on their personal finances

79%

of Americans don’t set any financial goals

COVID-19 and emergency savings: An inflection point

Like many things in 2020, the COVID-19 pandemic caught the world off guard and created an especially devastating experience for those in an already precarious financial situation. According to a survey by the National Endowment for Financial Education, 41 percent cited concerns over emergency savings as their top worry since the onset of the pandemic. Job security came in a close second at 39 percent.[9]

With more than 14 million Americans losing their jobs within the first three months of the pandemic,[10] and countless more furloughed, many were forced to rely on whatever savings they had to make ends meet. As of September 2020, 14 percent of Americans -- up to 46 million people -- had wiped out their entire emergency savings fund, and another 11 percent had to borrow money to keep up with living expenses.[11] This financial strain has created a lifelong psychological scar for many individuals and seared the importance of having a stocked emergency savings into their minds.

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41%

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39%

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The toll of financial stress on health

All of this stress and worry over finances can have significant health impacts. Dealing with constant financial stress can present itself in physical ways, from sleepless nights to distractions at work to illness. When suffering from financial anxiety, it elicits the “fight or flight” response in our bodies, which releases stress hormones such as adrenaline and cortisol. This can cause headaches and stomachaches, tense muscles to the point of pain, and impair the immune system, making us more susceptible to illness, such as heart disease, diabetes, and chronic sleep issues.[12]

What’s more, financial anxiety can affect the ability to make sound decisions. When under stress, blood flow and electrical activity to the frontal and prefrontal lobes of the brain is reduced. Since this part of the brain is responsible for concentration, planning, and problem-solving, it’s no wonder those under stress are more likely to make impulse decisions, which can have negative consequences.

A Princeton University study even found that money problems monopolized thinking to the point of disrupting the decision-making process.[13] Those with bigger financial burdens performed as much as 40 percent lower on a general IQ test, proving just how wide-reaching the effects of financial insecurity can be.

And let’s not forget the impact on mental health. Constant anxiety about finances can lead to depression, low-self esteem, and anxiety disorders. It’s even been shown to lead to suicidal thoughts in some.

Money problems monopolized thinking to the point of disrupting the decision-making process. Those with bigger financial burdens performed as much as 40 percent lower on a general IQ test.

— Princeton University

Financial burdens lead to less productive workers

Employee financial anxiety results in approximately

11-14%

of annual payroll costs in lost productivity and increased turnover

Workers who are financially stressed are:

6X more likely to experience anxiety and panic attacks

10X more likely to not finish daily tasks at work

11X more likely to have sleepless nights

9X more likely to submit lower quality work

9X more likely to have poor relationships with colleagues

7X more likely to be depressed.

2X more likely to be looking for a new job

49%

of financially stressed employees spend three or more hours each week dealing with their money at work

The consequences of financial stress can wreak havoc on an employee's focus and productivity. According to the John Hancock study, almost half of employees said they'd be more productive at work if they weren't stressed about finances, and another half said they spent time managing personal finances while on the clock. In fact, a Morgan & Stanley study found that 78 percent of employees dealing with financial stress spent three or more hours each week dealing with financial issues at work. PwC's 2019 Employee Financial Wellness Survey also found that 49 percent of financially stressed employees spend three or more hours each week dealing with their money at work. What's more, 5 percent of participants said they missed a day or more of work due to financial stress.[14] This distraction can cost a company up to 10 times more than absenteeism.

Salary Finance's 2020 annual survey revealed that 42 percent of workers who are financially stressed are 11 times more likely to have sleepless nights, 10 times more likely to not finish daily tasks at work, 9 times more likely to have poor relationships with colleagues, and 2 times more likely to be looking for a new job. What's more, they are 9 times more likely to submit lower quality work, 6 times more likely to experience anxiety and panic attacks, and 7 times more likely to be depressed.[15]

As a whole, this financial stress results in 29 - 39 days of productivity lost annually (more than a full month of work), and it's costing employers big-time. Employee financial anxiety results in approximately 11 - 14 percent of annual payroll costs in lost productivity and increased turnover, according to The Employer's Guide to Financial Wellness. What's more, the Salary Finance survey found that American businesses lose $500 billion annually due to employees' personal financial strains. Another four out of five employers say their employee's financial stress impacts job performance.[16]

How employer emergency savings accounts automated savings to reduce financial strain

The answer to the problems caused by financial stress seems easy: save more. But saving can be a highly manual process that involves setting up a new account, and either linking it to another account for direct deposits or remembering to make regular contributions, all of which can be hindrances. But what if there was a way to automate the savings process and cease the need for manual intervention? It's possible with employer-sponsored emergency savings account (ESAs), which allow employees to deduct a portion of every paycheck into a savings account without lifting a finger.

Employer ESAs enable employees to easily and automatically set aside funds in a savings account that's specifically designed for emergencies. At the time of setup, the employee designates a certain portion of their after-tax paycheck to be transferred into an emergency savings account. This 'set it and forget it' mindset removes the burden of remembering to save money each month, and with time, can significantly reduce concerns over financial security. Unlike retirement contributions, which often have penalties attached for early withdrawals, employees can access funds in their emergency savings account at any time, for any reason, without penalty. And if they leave their employer, they simply take their savings with them.

What is an employer ESA?

An emergency savings account sponsored by an employer that enables automatic deposits to be made directly from an employee's after-tax paycheck. The funds are then immediately available for employee use with no withdrawal penalties or approvals necessary, and can be used for any purpose.

A Bank of America Merrill Lynch report estimates that 90% of large firms will offer financial wellness programs[17] as part of their normal benefits package within the next decade. But the employer ESA takes businesses from just educating their employees about financial wellness to actually giving them the tools they need to start saving immediately. It's the ideal solution to help employees reduce concerns over finances, while also decreasing the negative impact financial stress can have on employee productivity and engagement at work. Employers are also able to offer participation incentives by matching a percentage of ESA contributions, similar to what many companies do with retirement accounts.

How do employer emergency savings accounts (ESAs) work?

Much like a 401(k) allows employees to make automatic payroll deductions into an employer-sponsored retirement fund, an employer ESA also enables workers to automatically have after-tax funds from each paycheck deposited into a savings account their employer sets up on their behalf at a bank or other financial institution. The employee chooses how much of each paycheck to save, and the automatic deduction takes place each month. Employees may choose to start and stop saving at any time, and funds in the savings account are available for immediate withdrawal for any reason with no withdrawal penalties or prior approval necessary. Withdrawals are also kept anonymous from the employer to maintain employee privacy.

Like any other savings account, the ESA collects interest on the balance, and the employer may choose to match a percentage of contributions to further entice saving. What's more, ESA providers can offer personalized encouragement for employees to keep saving until they meet their goal and even reward the employee once they've saved their goal amount. The ESA platform can also provide access to emergency resources when an employee experiences a crisis to help them understand the options available to them.

A 2018 study by AARP found that 71 percent of employees would participate in an emergency savings program if their employer offered one, mainly to help them save more and reduce stress. With an employer-match, participation numbers would increase to 87 percent.[18]
The main interest in the program stemmed from the ability to save outside of retirement accounts, stress about finances and trust in their employer. Participants noted they were most interested in the ability to access their money immediately, easily start or stop saving, keep their savings if they left their job and maintain privacy.

71%

of employees would participate in an emergency savings program if their employer offered one

87%

of employees would participate in an emergency savings program if it included an employer match

Why now: Employer emergency savings accounts are primed for growth

While the COVID-19 pandemic caught many off guard with little to no emergency savings, it has brought the need for an emergency savings account to the limelight. According to Bankrate's 2019 poll, only 18 percent of participants said they had saved enough to live off for six months. That's the lowest percentage of people with an adequate savings cushion in nine years of conducting the poll.

The good news is, it seems Americans are being proactive about finances and savings since the onset of the pandemic: 75 percent said they've taken steps to adjust personal finances since the outbreak, and another 22 percent noted they have upped savings contributions.[19]

"About a year ago, the conversations were more about 'How can we set aside money for retirement?', 'How can we set aside money for college?' But I would say 50 percent or 60 percent of the conversations right now are about 'How can we set aside more money for emergencies?'"

— Juan G. Hernandez Ariano, Director of WealthCreate Financial in Spring, Texas

Juan G. Hernandez Ariano, director of WealthCreate Financial in Spring, Texas, told *Financial Advisor* in August 2020, "About a year ago, the conversations were more about 'How can we set aside money for retirement?', 'How can we set aside money for college?' But I would say 50 percent or 60 percent of the conversations right now are about 'How can we set aside more money for emergencies?'"[20]

Tools that facilitate savings and make it easier for employees to set aside funds will become an increasingly popular benefit. In fact, in a survey by SoFi, employees said employer contributions to an emergency fund would have the most significant impact on their personal finance.[21] And don't forget the AARP study that found 71 percent of employees would participate in an ESA if their employer offered it, even without a match. That number jumped to almost 90 percent if the employer offered a match to contributions.[22]

For employers: The benefit of sponsoring emergency savings accounts

The reasons companies should consider adding emergency savings account to their repertoire of employee benefits are many, including:

Reduce distractions and increase productivity. As discussed earlier, financially stressed workers can cost companies in terms of dollars and hours of productivity lost. By enabling employees to create financial security through saving, employees are more likely to be productive at work and make better decisions, and less likely to look for jobs elsewhere.

Better recruit and retain top talent. Employer emergency savings are not yet a widely adopted employee benefit, but are becoming more popular, especially now that COVID-19 has highlighted the need for savings. Companies that offer ESAs prove their intent on helping employees thrive personally and professionally, and set themselves apart as an early adopter of employee-focused benefits. This can come in especially handy when recruiting new talent.

Companion to retirement savings. Even for companies that already offer a retirement plan for employees, an employer ESA can be a great companion as a vehicle to promote short-term savings. Unlike retirement funds, money put into an employer ESA is available for immediate use, with no withdrawal penalties or approvals needed. This easy and quick access to funds is a major draw for employees, and can even decrease the need to take 401(k) loans or hardship withdrawals, both of which can be complex for employers to manage.

Significant impact at low cost. The cost of offering an employer ESA is relatively low (around 10 percent of the cost of a 401(k) plan), and there is little maintenance to be done once the account is created. For such a low-cost benefit, it can have a significant impact on employees and change the trajectory of their financial future. A social media poll by the Secure team even found that if forced to choose, 50 percent of employees would prefer an employer-matched ESA instead of a 401(k).

Be responsive during uncertain times. 2020 has been a year of great uncertainty and unexpected strain. This year has brought new stress and expenses to employees, and they are looking for support from their employer, now more than ever. ESAs are a great way to show your employees that you recognize the strain and are looking for new ways to support them.

What employers can benefit the most from sponsoring emergency savings accounts?

So why should companies go the extra mile to offer emergency savings accounts to their employees? The answer is simple if you take into account the $500 billion that American businesses lose annually due to employee personal financial strains.[23] Almost any employer can benefit from offering an emergency savings account to their employees, from well-established businesses with strong retirement plan matches to newer startups that are just getting their benefits programs off the ground:

Companies looking for a short-term savings option to accompany their retirement plan benefits: Even if a company already sponsors a retirement plan for its employees with a strong match, an emergency savings account can offer unique, short-term advantages to employees. Retirement accounts focus on long-term savings and offer little help to employees that need immediate access to funds in case of emergency. If an employee were to withdraw retirement funds before reaching age 59 and ½, it can trigger a 10 percent early withdrawal fee on the amount removed. Meanwhile, taking a loan from a 401(k) requires interest to be paid upon repayment, both of which can add even more financial stress to employee and employer.

Since the onset of COVID, 401(k) loans and withdrawals have increased as families look for ways to cope with unemployment and furloughs. In the first half of 2020, 2.8 percent of retirement savers made withdrawals from their retirement plan, a 27 percent increase from the 2.2 percent average over the last three years.[24] This can create added complexity and cost to companies as they must take steps to keep the 401(k) in compliance throughout the withdrawal process. But employer emergency savings accounts are the perfect vehicle to help employees with short-term financial concerns so they can cover life's unexpected expenses without having to borrow money. In fact, a social media poll by the Secure team found that 50 percent of employees would prefer an employer-matched ESA over matched 401(k) with matched contributions.

Companies with a retirement plan benefit, but no match: Similar to companies that offer a match on 401(k) contributions, employers that offer a retirement plan without a match will likely see increased participation in an emergency savings account. Withdrawing funds from a 401(k) can trigger penalties and taxes upon removing funds, which may hinder employees from participating if they see a more immediate need for the money. However, since funds in an ESA can be withdrawn at any time for any reason, employees will be more likely to take advantage of the benefit. More than 71 percent of employees said they would be likely to participate in an employer ESA,[25] much higher than the 56 percent retirement plan participation rate for workers in 2019.[26]

Companies with no retirement plan benefit: Studies have shown that contributions to retirement funds have all but halted with the coronavirus pandemic as workers don't want to tie up any leftover money in long-term investments.[27] However, interest in emergency savings has grown as employees see the need for having cash on-hand, making emergency savings accounts a great option for the 35 percent of companies that don't sponsor a retirement plan but want to offer employees a broader savings option. The cost of creating and maintaining an employer ESA is just a fraction of what it takes to sponsor a 401(k) plan, and our research has shown that even minimal matches can increase employee participation rates. Eighty-seven percent of employees said they'd participate in an employer ESA program if it offered an employer match.[28]

Employers looking to make a big impact on financial wellness for a low comparable cost. Employer emergency savings accounts have the power to change the way your employees face finances by giving them the tools they need to create financial peace of mind. This benefit is a low-cost, easy-to-maintain program that will have a big impact on your employees so they can focus their efforts on doing their jobs well.

For employees: The benefit of contributing to employer emergency savings accounts

Those who are stressed about their finances know that saving money could solve many of their problems, but are often hindered by the manual process of setting up a savings account and learning to set aside hard-earned money each month. Taking part in an emergency savings account offered by their employer can solve many of those problems, including:

Automated savings. People are more likely to save money and stick to a regular savings schedule when the money is automatically deducted from their paycheck.

Less stress over financial security. Once employees have been consistently saving, they'll start to notice their rainy day fund has a sizable amount and will feel more secure over their financial future and the ability to cover unexpected expenses that may rise.

Easy one-time set up. Unlike opening a savings account with a bank, setting up an employer emergency fund is easy. Whether it's a new hire going through orientation or an existing employee opting in, setting up contributions to an ESA is as simple as selecting the amount you want to save and signing on the dotted line.

No maintenance fees. Unlike traditional banks, which often charge maintenance fees for savings accounts that don't meet certain criteria, there are no monthly fees involved in an employer ESA.

It's liquid cash available at any time. Employees simply 'claim' the funds in their account, and the money's immediately available for use for any reason with a debit card or automatic transfer (similar to a Health Savings Account). They can then rebuild their savings as needed.

Get rewarded for meeting savings goals. Employers can partner with emergency savings account providers to offer rewards and incentives for employees that meet their savings goals. The most common are sign-up bonuses to kick off the habit of savings and regular rewards as an employee maintains the habit of saving.

Recent legislation around emergency savings

Saving for emergencies is now in the forefront of everyone's minds, and it's even been the topic of some recent legislation. Let's review some of these policies and what they might mean for the future of employer ESAs

Consumer Financial Protection Bureau's Autosave Program

In June 2020, the Consumer Financial Protection Bureau announced new policy guidance that would allow employers to automatically enroll employees in a short-term emergency savings account called Autosave.[29] The Autosave program works the same as an employer ESA in that it allows employees to direct a portion of each paycheck into a savings account at a financial institution. But with auto-entroll, employees would be opted in to ESA contributions at a default rate and would need to take action to opt out.

This new guidance streamlines emergency savings for employees and paves the way for future policies that will further advance employer ESAs. In fact, some ESA proponents are now trying to convince policy-makers that contributions into a qualified emergency savings account should qualify as tax-deferred until funds are withdrawn. And even then, if withdrawals are made during qualified national or local economic emergencies, such as pandemics, hurricanes, etc., the withdrawal would be tax-free.[30] It remains to be seen if or when any such policies will be enacted.

CARES Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed into law in March 2020 to provide relief to those significantly affected by the pandemic. Part of the CARES Act allows individuals to withdraw up to $100,000 from their tax-deferred retirement accounts (401(k)s, traditional IRAs, etc.) without the 10 percent early withdrawal fee that usually accompanies such withdrawals. This relief effort is only available to those who have been diagnosed with COVID-19 or who have experienced financial hardships due to the pandemic (job loss, reduced hours, lack of child care, etc.) and is available through the end of 2020.

While the CARES Act can and will provide temporary relief for many Americans, what happens 10 years from now when these individuals are ready to retire but don't have ample retirement funds to get by because they already used it? This brings us back to the importance of prioritizing emergency savings, and the need for policies that protect and reward those who are saving.

Other types of employee financial wellness programs and why they miss the mark

Employers have realized the importance of providing financial wellness benefits in recent years, and there are several programs that exist to help employees better manage finances and reduce stress. However, many miss the mark on providing a scalable way to help employees reduce financial stress and offer immediate access to funds in case of emergency.

Employee Hardship Funds (EHF)

This type of account is funded both by employees and the sponsoring company and is meant to offer financial assistance to help workers weather a financial crisis. The employee in need fills out an application, and if approved, will receive a one-time grant to support them, usually ranging from $500 - $5,000. While these funds have been shown to help employees feel more financially secure,[31] they are not a scalable solution as contributions to the fund may not be able to support every employee that experiences a crisis. Especially during the COVID-19 pandemic and economic downturn, many companies have seen an influx in EHF applicants but are unable to approve each as funds dwindle. What's more, EHFs have a very high cost to set up and administer for the sponsoring company, especially since they must review each application. They can work well for large employers, but still create an administrative burden that most small businesses couldn't afford.

Disadvantages of employee hardship funds

- × While employer contributions to EHFs are tax-deductible, there's a high admin burden and limited use.
- × EHFs require a lot of special setup and oversight by the employer.
- × The ongoing reporting and compliance work make them feasible only for larger companies.
- × Funds can only be used upon request (which can take several days) and for certain scenarios.
- × The funds are not portable if the employee leaves, and do not allow for regular saving.

401(k) sidecar accounts

In realizing the need for a tool that allows employees to save for rainy days, some companies have created after-tax emergency savings accounts that use the same features as their retirement plans (known as 401(k) sidecar accounts). The sidecar account uses the infrastructure of a company's existing retirement plan to allow employees to make contributions into a separate savings account through payroll deductions. In an attempt to encourage long-term saving, many companies that offer sidecar accounts put penalties in place for withdrawing funds from the savings account, including a 10 percent penalty if withdrawn before age 59 and ½. What's more, withdrawal requests can take a few days to process.

While 401(k) sidecar accounts certainly offer the automation to make savings and matching contributions easy, it doesn't meet the need of employees who may need access to their funds quickly. The added withdrawal penalties can also add insult to injury, making employees even more stressed about their finances.

Disadvantages of 401(k) sidecar accounts

- × Consumers have a negative view of the 401(k) when it comes to short-term savings, making participation in such an account less likely.
- × The sidecar account can add even more complexity and compliance risk to the existing 401(k).
- × Withdrawals may still have a penalty attached to them, which can also hinder participation rates.
- × The user still needs to setup a seperate account in their 401(k), which is a high barrier to entry.
- × The sidecar account has no special features to encourage savings; it is just a standard savings account.
- × The employee may still have to request access to funds and face a delay in receiving them.

Simple depository accounts

Some companies have opted to offer simple savings accounts for their employees to make payroll contributions to. In this case, the employer sets up an individual depository account for each employee and works to help the worker set up deposits into the account.

While these depository accounts are a good first step into encouraging emergency savings, they don't offer much in the way of incentives. Interest rates are usually low for such accounts, and there are no automation or personalization features to help the employee with contributions or the employer with any matching. This is where true employer emergency saving accounts shine.

Disadvantages of depository accounts

- × This is the hardest type of account for employees to set up as they must initiate deposits. This creates the largest barrier to overcome for setup and hinders participation.
- × The account is not a purpose-built ESA, just a standard checking or savings product.
- × This is by far the highest admin burden on the employer since they must manually create accounts for each employee, and thus highly unlikely to scale.

Student loan repayment programs

Student loan debt is a problem faced by many Americans, and can partly be to blame for lack of savings. According to Forbes, there are 45 million borrowers who collectively owe nearly $1.6 trillion in student loan debt in the U.S.[32] Because of this, some employers have chosen to offer student loan repayment as a benefit to workers. Staples, for example, offers $100/month toward employee student loan debt for a maximum of 36 months.[33] This is a great way to help employees pay their student loans off faster, but it does little to offer the financial security workers are looking for.

Disadvantages of student loan repayment programs

- × Not all employees have student loans, so this benefit may not apply to everyone.
- × There is no option for employees to save money with this program; it pays off their debt faster in hopes that they will take the initiative to save what they would have used as payments.
- × Student loan repayment does little to help employees who are stressed over the thought of not having enough money in savings, and it does not offer access to funds in case of emergency.

Each of these programs offer some features that are beneficial to workers experiencing financial anxiety, but they all have generally high barriers to sign up and participate. What's more, they lack the automation that makes saving seamless, and some make it difficult for employees to immediately access funds, both of which are drivers for employee participation. The AARP study found that 12 percent of participants would contribute to an employer emergency savings account because "it's automatic and easy to set up." Those same participants also reported they are unwilling to compromise on the ability to access money from their savings immediately. Employees also noted that privacy and the ability to take savings with them when they leave jobs were highly attractive features.[34]

What the ideal ESA platform looks like

In our research, we've found there are key components that an employer ESA provider must feature to be beneficial for both employers and employees.

For employers:

- **Ease of use:** Human resources and benefits teams are already busy, so any new benefits program to support emergency savings has to be easy to deploy and maintain.

- **Minimal administration:** The platform must offer digital automation and self-service for employees so little administration duties fall on the employer.

- **Low cost of ownership:** First, the ESA platform itself must be a manageable expense, and secondly, for employers that want to incentivize emergency savings, the cost of the match must be bearable. With emergency savings accounts, savings (and matches) will cap once the employee reaches their goal amount, unlike retirement contributions, which endure indefinitely. Furthermore, the match by the employer is meant to drive a behavior, and the dollars required to achieve this are low. This leads to low cost of ownership.

- **Ability for high adoption.** The enrollment experience for emergency savings accounts must be scalable, with minimal paperwork and onboarding steps for employers to manage. The Consumer Financial Protection Bureau has even outlined a way in which employers may be able to automatically enroll employees, which AARP research has shown employees would support.[35]

- **High potential impact.** Not having enough emergency savings for unexpected expenses is the top financial concern for Millenials and Gen X, and number two for Boomers. When combined with a low cost of ownership, this creates a high potential impact for an employer. Unlike student loan repayment or Health Savings Accounts, there is no limitation for who can use an ESA, and research has found employees say they would participate if their employer offered such a benefit.

- **Data to help inform other benefit decisions.** When an employee uses emergency savings, it is usually because some micro life event has occurred: a medical emergency, unexpected travel, theft, car repair, broken appliances, etc. While individual transactions are private from employers, most ESA providers can provide aggregate, anonymous data on transactions to help employers understand how employees are struggling outside of work, which can offer insight into gaps in benefits.

- **Identity benefits to help at critical micro life events.** Financial stress can monopolize a person's thinking and lower their IQ score by 40 percent. Having the data available to understand the life events that led to use of emergency funds allows business to identify other ways they can support employees through crises with recommendations, options, and alternatives.

- **Variety of matching strategies.** For employers who wish to offer a match to incentivise savings, there's no need to overcomplicate it. The simpler the match, the better, and large dollar amounts are not required. Secure found in our research that employees were highly motivated at amounts as low as $50 - $200 per year (that's only a $4-16 match per month).

- **Supports the broader 401(k) strategy.** Employers ESAs are not meant to take the place of contributing to a retirement plan, but rather supplement it. Once employees have their ESA fully funded and can see first-hand the benefits of saving, they'll be more likely to contribute to their retirement account.

For employees:

- **Low friction on-boarding.** Enrolling in automatic savings should be easy, with minimal steps and low complexity. It should be as simple as choosing how much to save per paycheck (percentage or dollar amount) and signing on the dotted line.

- **Automatic, easy savings.** Upon enrollment, the ESA platform should automatically transfer funds from payroll. This eliminates the need to remember to save money each month, and sets employees up for savings success.

- **Incentives to save that are equal to or better than the current market.** Typical savings accounts accrue interest each month. The ESA should offer similar, if not better interest rates, plus employers may choose to match contributions to further incentivize savings. Rewards for meeting savings goals may also be available.

- **Tailor-made product for emergency savings.** An ESA should be able to support employees on their savings journey, from offering the ability to set savings targets, provide encouragement to keep saving, as well as support during hardships in the form of recommendations and alternative options for funds.

- **Funds move with the employee.** If an employee leaves their current employer, they can simply take their savings with them.

- **No use requirements.** Employees can use funds in their savings account at any time for any reason with the swipe of a debit card or a bank transfer. The money is available immediately without third-party approval, and transactions are kept anonymous to protect the employee.

- **Employer match.** Employers may choose to offer matches of 10-25 percent, with the expectation that there will be a match ceiling, similar to what's typically done with 401(k) matches.

- **Low to no cost.** In most cases, there is no cost for participating in an ESA.

In conclusion : The future of ESAs

Being financially stressed to the point of physical ailment and muddled thinking is no way to live. But for many Americans, this is the problem they face everyday, and the COVID-19 pandemic has only made it worse. But by simply offering employees the tools needed to save, it can drastically impact not only employee's lives, but the lives of their families, as well as reflect on the business. Happier, more engaged employees do better work and make greater contributions in their roles, which can add to a business's bottom line.

While saving for emergencies has always been part of a strong financial footing, there has been little movement over the past two-three years in offering employees simpler, automated ways to save. However, the COVID pandemic has highlighted the need for emergency savings, and by 2028, we at Secure believe emergency savings are poised to be one of the most crucial benefit programs offered by employers.

We expect the ESA will be to savings what an HSA is to medical benefits, allowing employees an automatic way to set aside funds and easily access that money in times of need. This benefit has the potential to reduce the need for retirement fund hardship withdrawals and other loans and can even help lift retirement fund contributions as it supports the creation of a habit for long-term saving. In fact, we believe ESAs will be the number one requested benefit outside of medical coverage for younger workers for the next five years.

Will your company be part of the movement to get Secure?

Schedule a demo, and get in line with other forward-thinking employers who are rolling out the Secure ESA program today.

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