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Emergency Savings & Retirement

Two-Year Research Project Yields Insights for Employers & Recordkeepers

Workers earning low to moderate incomes (LMI) regularly experience financial insecurity. The COVID-19 pandemic exacerbated vulnerabilities, and recovery from the economic disruption has been challenging, uneven, and unpredictable. We are seeing over time the crucial role of emergency savings in building economic security.

Unfortunately, millions of people lack access to high-quality, low-cost tools to save for the unexpected. Providing an emergency savings account through the workplace is foundational to increasing financial security and ultimately building wealth for workers earning LMI. The employer sponsors and recordkeepers of defined contribution workplace retirement plans are uniquely positioned to provide quality emergency savings products to plan participants.

Effective workplace emergency savings solutions require an understanding of both the financial needs, actions, and sentiments of workers and the perspectives of retirement plan sponsors and plan recordkeepers on offering emergency savings products, particularly for workers earning LMI. Through BlackRock's Emergency Savings Initiative, Commonwealth and the Defined Contribution Institutional Investment Association (DCIIA) Retirement Research Center (RRC) have partnered to further this understanding.

Commonwealth and DCIIA RRC recognized the COVID-19 pandemic as a unique window for exploring the relationship between retirement savings and emergency savings, and initiated a two-phase research project. We conducted five waves of surveys of participants in defined contribution workplace retirement plans and interviewed nine of the largest plan recordkeepers and seven plan sponsors. The second phase involved an additional survey plus focus groups to discern how emergency savings solutions could best meet the needs and interests of workers earning LMI.

Our research demonstrates the significant benefits employees can gain when companies and retirement savings providers partner to offer emergency savings opportunities, and provides insights into steps employers and recordkeepers can take now and going forward.

Insights for Employers

Companies sponsoring retirement plans can build on existing relationships to create effective emergency savings opportunities.

CRAFT EMERGENCY SAVINGS SOLUTIONS WITH ESTABLISHED PARTNERS

There is growing momentum among employers providing retirement plans to offer workplace emergency savings. Employers are trying to figure out whether to do so through their retirement plan recordkeeper or another vendor (such as a credit union), and they are split about solutions that are in-plan versus out-of-plan. Employers value limiting the number of vendors they engage to offer employee benefits. They are also concerned about cost and the dimensions of their fiduciary responsibilities. Plan sponsors can move forward with pre-existing partners to craft accessible, engaging, and affordable emergency savings solutions.

ENGAGE CREATIVELY WITH EMPLOYEES REGARDING FINANCIAL BENEFITS

Employers recognize the challenge of effectively communicating with their workers to encourage utilization and awareness of emergency savings solutions. Our research with retirement plan participants demonstrated the need for multiple approaches to communications and engagement. Workers are overwhelmingly interested in incentives—whether for opening, sustaining, or building savings—to motivate active participation. Companies need to prioritize outreach to Black and Latinx workers living on LMI, who are disproportionately less likely to participate in workplace retirement plans. In sum, employers need to engage their workforce continuously and dynamically about their financial benefits.

Insights for Recordkeepers

Plan providers can enhance their retirement offerings by incorporating worker-friendly emergency savings tools.

STRENGTHEN RETIREMENT PLAN PARTICIPATION THROUGH SHORT-TERM LIQUID SAVINGS OPTIONS

The pandemic experiences of plan participants show how having little or no liquid savings increases the likelihood of pausing or reducing retirement contributions and of taking a 401(k) loan or hardship withdrawal. Survey respondents with less than \$2,000 in liquid savings were twice as likely to have tapped into their retirement plan accounts. This was also true of the 34% of respondents who did not save for emergencies once the pandemic started.

Plan participants who had emergency savings prior to the pandemic were better off than those with just retirement savings, regardless of whether they suffered pandemic-related income loss. Our research confirmed the importance of having a separate account for emergency savings, which 38% of respondents did not have. Over half of respondents scoring below the median on a financial well-being scale said they were very or extremely interested in a workplace emergency savings program. Recordkeepers can boost retirement plan participation and protect retirement assets by addressing this demand for liquid savings options.

ENSURE DESIGN OF EMERGENCY SAVINGS TOOLS REFLECTS WORKER NEEDS AND PREFERENCES TO INCREASE PARTICIPATION

Our research identified the emergency savings features that work for employees earning LMI. These workers need to be able to access their emergency savings quickly and without penalty. They also are looking for barrier-free solutions; this includes not requiring a minimum account balance and not assessing account fees. As noted above, workers in retirement plans are strongly interested in incentives that motivate engagement with emergency savings options.

Recordkeepers need to ensure that the emergency savings tools they develop for retirement plan participants address the needs and concerns of those who are most in need of liquid savings as a building block for financial security.

Looking Ahead

Through BlackRock's Emergency Savings Initiative, Commonwealth and DCIA RRC have identified tangible opportunities by seeking out and listening to participants earning LMI enrolled in workplace retirement plans, plan sponsors, and recordkeepers. The COVID-19 pandemic's roiling of the economy and the slow and uneven recovery provided fertile ground for a deeper understanding of not only the critical role of emergency savings but also the real interest in solutions among those who would directly benefit and those who can bring innovative approaches to market.

Plan sponsors and recordkeepers are uniquely positioned to offer emergency savings solutions that interest employees earning LMI and that can improve their financial wellbeing. Employees believe employers should be playing a leading role. Providing savings solutions that meet employee needs can benefit employers by increasing retirement plan participation and improving workforce productivity and retention.

Plan sponsors and recordkeepers should tailor solutions with a focus on providing liquidity with no minimum balance requirements, fees, or withdrawal penalties. Employers should encourage take-up through multiple modes of communication (including email updates, benefit workshops, and human resource presentations), and they can use incentives to engage employees and fuel savings. This approach to high-quality, low-cost workplace emergency savings tools will meet the needs and interests of workers earning LMI and will be impactful in growing savings, protecting retirement, and building financial security.

Finally, we are pleased to see emergency savings provisions advanced as part of the passage of the SECURE 2.0 Act of 2022, including the [Emergency Savings Act](#) introduced by Senators Booker and Young and the [Enhancing Emergency and Retirement Savings Act](#) introduced by Senators Lankford and Bennett. With this action, employers can now automatically enroll employees in emergency savings options associated with their 401(k), and employees will have new ways to respond to unexpected expenses without penalty. These provisions are an important step in enhancing emergency savings and financial security for workers. We look forward to continuing this important work to ensure that the millions of U.S. workers who do not currently have access to or participate in a retirement savings plan can also benefit from automatic enrollment through future legislation.

Commonwealth & DCIIA RRC Research Briefs

[Saving Through a Crisis \(1 of 2\): How LMI Retirement Plan Participants Are Weathering COVID-19](#)

Survey of participants in workplace retirement plans living on LMI (those with household incomes between \$20,000 and \$75,000) in the first months of the pandemic to understand how they were handling their retirement savings and the impact on their financial security.

[Saving Through a Crisis \(2 of 2\): LMI Plan Participants' Financial Strategies During COVID-19](#)

Survey fielded in July 2020 to look again at how LMI retirement plan participants were managing the COVID-19 pandemic's impact on their financial security.

[LMI Retirement Plan Participants' COVID-19 Financial Strategies, Six Months In](#)

Survey of LMI retirement plan participants, fielded in September 2020, looking at income and savings activity (both liquid and retirement).

[Losing Income Through a Crisis: Mixed Economic Recovery for LMI Retirement Plan Participants](#)

Survey, in early 2021, comparing LMI workplace retirement plan participants who had struggled with sustained pandemic-related income loss and those who had not.

[Financial Stress Through a Crisis: Supporting LMI Plan Participants to Build Long-Term Financial Security](#)

Survey of LMI plan participants (fielded February through March 2021) assessing role of emergency savings and steps being taken to recover from actions taken during the pandemic that had jeopardized long-term financial security.

[Eye on Systemic Change in the Retirement Industry: How Recordkeepers are Leading the Charge to Address the Emergency Savings Crisis](#)

Interviews with seven retirement plan sponsors and nine of the largest plan recordkeepers, exploring plans or intent to provide workplace emergency savings products, challenges to offering emergency savings products, and impact of COVID-19 on plan participant behavior.

[Emergency Savings Features That Work for Employees Earning Low to Moderate Incomes](#)

Focus groups (December 2021) and survey (February 2022) of workers living on LMI to understand what they are looking for in emergency savings solutions, ascertain the relationship between emergency and retirement savings, and gain insights into effective communications strategies.

Acknowledgements



Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx, and women-led households disproportionately experience financial insecurity due in large part to longstanding, systemic racism and gender discrimination. Addressing these issues is critical to Commonwealth's work of making wealth possible for all. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling over 2 million people to save nearly \$8 billion in savings. Commonwealth understands that broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policymakers, and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them. To learn more, visit us at www.buildcommonwealth.org.



Founded in 2010, the Defined Contribution Institutional Investment Association (DCIIA) is a non-profit association dedicated to enhancing the retirement security of America's workers. DCIIA's diverse group of members include investment managers, consultants and advisors, law firms, recordkeepers, insurance companies, plan sponsors, and other thought leaders who are collectively committed to the best interests of plan participants.

DCIIA's Retirement Research Center conducts rigorous, industry-informed research that is grounded in a practical approach focused on actionable insights. We adhere to a disciplined research methodology, governance and validation process. Our goal is to serve the industry as a reliable, unbiased, and authoritative research resource supporting improved retirement security be it through plan design, institutional practices, investment solutions, or behavioral interventions. To learn more, visit: www.dciia.org/page/RRCHome.

**BlackRock's
Emergency
Savings
Initiative**

BlackRock announced a \$50 million philanthropic commitment to help millions of people living on low to moderate incomes gain access to and increase usage of proven savings strategies and tools – ultimately helping them establish an important safety net. The size and scale of the savings problem requires the knowledge and expertise of established industry experts that are recognized leaders in savings research and interventions on an individual and corporate level. Led by its Social Impact team, BlackRock is partnering with innovative industry experts Common Cents Lab, Commonwealth, and the Financial Health Network to give the initiative a comprehensive and multilayered approach to address the savings crisis. Learn more at www.savingsproject.org.