Accounting for Emergencies:
Low- to Moderate-Income Household Perceptions on the Relationship between Emergency Savings and Retirement Savings

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Research Summary: Commonwealth and SaverLife recently conducted a survey of SaverLife members who have access to workplace retirement savings to assess their awareness and perceptions of liquidity options in retirement and the relationship between emergency savings and retirement savings. The survey focused on the perspectives of people with low to moderate incomes (LMI), women, and people of color.

Key Findings:
1. People face multiple emergency expenses in a year and most experience an emergency expense over $1,000 in a year.
2. LMI households want liquidity options within or alongside retirement savings, but preferences vary about how they access funds.

The Role of Workplace Savings on Financial Security
The continued impacts of the pandemic on households’ finances only increases the need and urgency to identify sustainable and targeted bipartisan policy solutions to address financial insecurity, especially as pandemic-era supports have stopped or been paused. While many types of solutions are needed to move the needle, this brief focuses on an area that can be addressed immediately: workplace savings benefits. Given our expertise, we pay particular attention to emergency savings and retirement savings.

The private sector has a critical role to play in advancing household financial security. Through employers, workers receive several benefits in addition to wages and salaries: health insurance, retirement savings, etc. Realizing the important role of emergency savings in financial security, employers have also started offering well-designed savings benefits that allow workers to save for short-term, emergency expenses, and retirement.

Public policy creates the infrastructure for workplace benefits. It enables, incentivizes, clarifies, and inhibits certain practices. It already defines the parameters of retirement savings and health savings accounts, for example.

We want to make it as easy as possible for people to build emergency funds, and those savings should not come at the expense of building savings for retirement. Public policy is essential towards realizing those goals.
SURVEY FINDINGS
This survey was conducted by Commonwealth and SaverLife in December 2021. It had 573 responses, with 441 coming from people from households earning under $75,000 and who had access to workplace-based retirement plans.

The survey, taken together with existing research in the field, reinforces the following takeaways in the discussion of retirement and emergency savings policy.

People face multiple emergency expenses in a year and most experience an emergency expense over $1,000 in a year.
Most survey respondents (66%) faced multiple emergencies in a year, and most (60%) faced at least one emergency over $1,000 in a year. This is consistent with other research showing that families regularly face large emergencies, with research from Pew showing families' most expensive financial shock in a year averaging $2,000.

Despite these large challenges, 36% of families, and an even higher percentage of low-income families, do not have liquid savings of $400.

Workplace savings could address these realities of families’ financial lives head-on by providing liquidity in adequate dollar amounts and frequency of withdrawals so families can cover their expenses. Without addressing the liquidity problem at the core of the emergency savings crisis, solutions are band-aids at best.

LMI workers value liquidity within or alongside retirement savings, but preferences vary about how they access funds
When workers don't have emergency savings, they access funds where they can in an emergency. Occasionally, while not optimal, that means taking money out of retirement savings. We wanted to understand if people with access to workplace retirement savings knew about existing liquidity options and whether those options meet their needs. In general, we found people were satisfied with existing liquidity options within plans once aware of them. We also tested opinions and preferences of different kinds of liquidity, including an out-of-plan option (stand-alone emergency savings), two in-plan options (hardship withdrawals and plan loans), and one theoretical in-plan solution ($1,000 withdrawal once per year). While slight preferences emerged among some groups, no clear overall preference for one option emerged.

SaverLife has more than 600,000 members in all 50 states, earning, on average, $25,000 a year. They are 80% women, 65% single parents, and 60% identify as people of color.
Liquidity Options Assessed

- **Hardship Withdrawal**: Participant takes money out of retirement account with penalties
- **Loan**: Participant borrows from participant's own retirement plan
- **Stand-alone Emergency Savings**: Participant sets aside money outside of retirement plan
- **$1,000 Withdrawal (theoretical)**: Participant accesses up to $1,000, once per year, from their retirement

Awareness of liquidity options varies depending on income

Over half of respondents knew about hardship withdrawals (61%) and loans (62%), but there were stark differences of awareness level by income. Higher income people were more likely to know about liquidity options in retirement than lower income people. The lower someone's income, the less likely they were to be aware of these ways of getting money out of retirement.

Liquidity—the ability to take money out of retirement—makes people more likely to say they will contribute to retirement

For each of the four options, over 30% of people said each option would make them more likely to contribute if they are not already contributing or contribute more to retirement if they already contribute. Few respondents said the options would make them less likely to contribute to retirement.

Those who have access but don't contribute to retirement may prefer hardship withdrawals and stand-alone emergency savings, though future research is needed

People who do not contribute to retirement seemed to prefer hardship withdrawals and stand-alone emergency savings to the other two options ($1,000 withdrawal and loan) when assessing what would make them more likely to contribute to retirement. The $1,000 withdrawal option was least preferred among people who have access to but do not currently contribute to retirement savings.

**Note**: While this survey focused on those with access to workplace-based retirement plans, many potential respondents could not complete the survey because, although employed, they did not have access to workplace retirement plans. This challenge reflects national data, which shows that only two-thirds of workers in private businesses have access to a workplace retirement savings plan, and among those, only three-quarters participate, meaning that only half of private-sector workers currently participate in an employer-sponsored retirement plan. Access numbers are even lower for LMI households, people of color, and part-time workers.
Conclusion

Our survey aims to advance the conversation on key principles to guide policy conversations related to workplace savings benefits. We believe that starts by incorporating the perspectives of LMI households, women, and people of color into the discussion.

The workplace holds tremendous potential to bolster family financial security. Public policy has a critical role in enabling innovation in workplace savings, especially in advancing solutions that account for the financial reality of lower income households. In practice, that means recognizing that a large number of Americans face multiple unplanned expenses in a year. They also face large emergencies over $1,000. To be effective, a set of liquidity solutions must account for these and more.

Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx, and female-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 1.5 million people to accumulate more than $6 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.

SaverLife is a nonprofit organization leveraging data and technology to build savings and improve the financial health of our members. Simultaneously, we advocate for policies to remove systemic barriers and open pathways to economic mobility. Our members share their financial lives and perspectives with us through bank transactional data, surveys, and interviews, enabling us to engage with policy-makers, industry experts, reporters, and the private sector on how to create a financial system that works for everyone.