APRIL 2024

Employee Perspectives on SECURE 2.0 Emergency Expense Provisions

Executive Summary

As part of BlackRock's Emergency Savings Initiative, Commonwealth addresses implications and opportunities of the recent SECURE 2.0 Act of 2022 to support workers' emergency expense needs.

The SECURE 2.0 Act of 2022 included two provisions that allow employers to offer solutions through their retirement plans that are designed to support employees in managing unexpected expenses. To center the voice of workers earning low and moderate incomes (LMI) and inform recordkeepers and employers in decision making and solution design, Commonwealth conducted focus groups with 20 workers earning LMI to understand their needs, preferences, and questions regarding these new emergency expense provisions. This brief summarizes the key findings and insights from the focus groups.

Key Findings

- Respondents reacted positively to both the $1,000 withdrawal option and the $2,500 pension-linked emergency savings account (PLESA), but expressed a preference for the $2,500 option when asked to choose.
    - Reasons cited for this preference included an ingrained belief that retirement funds should not be withdrawn early, the notion that $1,000 is not sufficient to cover many emergency situations, and ease of setup and access to the PLESA for employees.
- Given the above preference, employers and retirement plan providers committed to meeting the needs of diverse employees earning LMI should seriously consider adding the $2,500 PLESA.
- Employers and retirement plan providers who choose to use automatic enrollment within the PLESA must be clear and thoughtful about how they communicate it to employees to minimize concerns.
- If plan sponsors implement the $2,500 PLESA, a default contribution rate of 3% is likely a reasonable amount for employees earning LMI. We did not explore the impact of that rate on pre-tax retirement savings in this research.
- While participants don't expect to withdraw frequently from the account, they still prefer minimal restrictions on withdrawals and quick access to funds through direct deposit.

Introduction

In December 2022, Congress passed the SECURE 2.0 Act to improve access to retirement savings. The legislation includes two optional provisions related to emergency savings:

1. The opportunity for employers, or plan sponsors, to implement a pension-linked emergency savings account (PLESA) capped at $2,500 as part of their retirement plan
   - Plan sponsors can automatically enroll employees into the account to make post-tax contributions at up to 3% of their paycheck; employees would be allowed to opt-out of participating.
   - Employees who contribute to the PLESA are eligible for existing employer matching contributions to their pre-tax retirement account.
2. The ability for employees to withdraw up to $1,000 once a year (with a three-year repayment window) from their retirement account for "meeting unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses" without any withdrawal penalties (but subject to income tax)

In the months since this legislation passed, there has been much discussion of these provisions, mainly focused on two areas: the practical feasibility and cost for retirement plan administrators and recordkeepers to implement the provisions, and the demand from plan sponsors to include them in their retirement offerings. One area to further explore is how employees participating in the retirement plans, particularly those earning low and moderate incomes (LMI), perceive the provisions and how they would be impacted by the decision to offer these options.

To that end, throughout July and August of 2023, Commonwealth conducted a series of five focus groups with a total of 20 participants to gauge the interest in and demand for these new emergency expense provisions. The participants all earn LMI and represent a diverse mix of ages, genders, racial/ethnic backgrounds, geographic locations, job functions, and industries. Participants were given educational materials to provide background on the provisions in preparation for the focus group, as well as a live overview with visuals (see Appendix A), and the opportunity to ask clarifying questions prior to the discussion. While the focus groups allowed the Commonwealth team to hear the perspectives of a diverse subset of workers in the U.S. that would be impacted by the provisions, there are limitations to this approach which warrant acknowledgement (see Appendix B). This is worth keeping in mind when considering the insights presented from this research and how representative it is of the desires and perspectives of the broader workforce. We see this research as a first step in bringing the employee voice into the conversation around this legislation and welcome opportunities to build upon it through future research and work.

Participant Demographics

Salary

25%
Less than $30,000

5%
$30,000 - 39,999

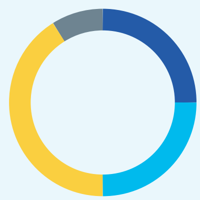
60%
$40,000 - 59,999

10%
$60,000 - 79,999

Gender

50% women (10)
50% men (10)

Race/Ethnicity



10% Asian
40% Latino or Hispanic
25% Black or African American
25% White

11
States represented

14
Industries represented

Focus Group Key Insights

Participants were interested in both options of the $1,000 withdrawal and the $2,500 PLESA, but expressed a preference for the $2,500 PLESA when asked to choose between the two options.

Employers and retirement plan providers can choose to offer the $1,000 option, PLESA, both, or neither. A majority of participants had a positive response to the option of the $1,000 penalty-free withdrawal from their retirement account for emergencies. Participants liked this option as an alternative to taking a loan or accruing debt in the case of an unexpected expense. A few respondents said that they had previously considered early withdrawals from retirement but were deterred by the penalty. The $1,000 withdrawal option would provide a penalty-free way to cover some unexpected expenses and may meet the needs of some employees earning LMI. Some participants had questions around tax treatment of the withdrawal (beyond exemption of the 10% early withdrawal penalty). Commonwealth's facilitators noted that additional regulatory clarity was needed but withdrawals would likely be considered taxable income. Employers who implement this option should closely evaluate the impact of the withdrawal across their employee base.

Reasons cited by those opposed to the $1,000 option included an ingrained belief that one should not withdraw from a retirement account, and that $1,000 would likely not be sufficient for most emergencies. When asked about preference between this provision and the $2,500 PLESA, participants overwhelmingly preferred the PLESA, but agreed that they would like the option for both. Several participants described the $1,000 withdrawal as "a good back-up" for emergencies.

"I definitely will go for the $2,500 option just because it's an account that I'm already tapping into knowing that it's supposed to be an emergency account, and you also have more options to remove throughout the year if you need to. I personally wouldn't be a fan of tapping into my 401(k) unless I really really have to."

-Woman, 28, Insurance industry, Florida

Given the preferences noted above, employers and retirement plan providers should seriously consider adding the $2,500 PLESA to meet the needs of diverse employees earning LMI.

A majority of the participants in our focus groups responded that they would be interested in participating in the $2,500 pension-linked emergency savings account, if offered by their employer. Many of the participants were interested because of the ease of the account setup, and the fact the account holder doesn't need to establish intentional saving behavior to begin contributing funds to the account. The accessibility to liquid funds without tapping into their retirement savings was also an important factor.

The primary reason cited for concern around the PLESA was from participants who already had funds saved for an emergency and therefore did not perceive that this account would be necessary. However, research from the Federal Reserve has shown that 37% of people living in the U.S. do not have savings to cover a $400 unexpected expense, and for people living in the U.S. with incomes less than $60,000 a year, that rate rises to 58%. Furthermore, Pew found the median cost of households' most expensive shocks in a year was $2,000. Given these statistics, and the fact that the only concern was around the account not being necessary for some, employers and retirement plan providers should strongly consider the PLESA to meet the needs of employees earning LMI.

Participants also raised questions around how employers would communicate about the accounts, how they would access the accounts, any associated fees, and how often they would be able to access the funds. Employees may have questions and concerns, which will be dependent on program design, employer communication, and the employee user experience, once implemented. Participants noted that they would be more hesitant to participate in the accounts if there was not clear communication and they were difficult to access, which is essential for employers and recordkeepers to consider. Other research from Commonwealth also points to clear communication, ease of access, and liquidity as fundamental to a high-quality emergency savings account.

"It's intended to be liquid and fast, which is very sensitive to an emergency circumstance."

- Woman, 40, Construction Industry, California

Employers and retirement plan providers who choose to use automatic enrollment in the $2,500 PLESA must be clear and thoughtful about how they communicate it to employees.

Employers have the option to automatically enroll employees into the $2,500 PLESA, but it is not required. Initially, many participants responded that they would be in favor of a plan with automatic enrollment into an emergency savings account. When we probed further, most participants agreed they would be amenable to automatic enrollment with clear communication on the ability to opt-out of participating and the ease of access to the liquid funds deposited into the account.

We did not include questions for the participants around previous experience with auto-enrollment in retirement savings or other benefits, which may have influenced their feelings towards the feature. This could be an area for exploration for future research to better understand what experience employees have had with auto-enrollment and how that impacted their perceptions of the feature.

I want more control of where my money is going, and would prefer opt-in and with more information on benefits I might enroll in. I would be okay with good communication then ability to opt-out."

- Man, 40, Education industry, Michigan

If plan sponsors implement the $2,500 PLESA, a default contribution rate of 3% is likely a reasonable amount for employees earning LMI.

A key decision plan sponsors need to make when implementing automatic enrollment is the default contribution rate. Most participants felt that a default contribution rate of 3% was a reasonable amount for employees earning LMI. Participants noted that at 3% there would not be a significant impact on one's paycheck, which was a very important factor to participants. Participants also emphasized that a 3% default contribution rate would be beneficial for those who are infrequent savers. The flexibility to be able to change the contribution rate was also a key consideration for participants.

Yes, I would be in favor of that: I mean 3% is a small amount. You're probably not going to really miss it, and you know, I think this is an important feature. So I would be okay with that."

- Woman, 40, Construction Industry, California

The majority of participants were currently enrolled in a retirement plan and contributing between 5-8% of their paycheck, so they likely had some understanding of the impact that this contribution level would have on their take-home pay. However, we did not translate the percentage into a dollar amount, which may have changed their perspective. Based on the salaries of the participants, 3% would translate to roughly $75-$200 per month.

One feature of the PLESA is that contributions to that account will count towards eligibility for any existing match to the pre-tax retirement account offered by the employer. We did not ask participants specifically about whether that potential employer match to retirement would impact the amount that employees would prefer to be contributing. We also did not ask how pre-tax contributions may be impacted, if at all, by this option. These are both important areas for future exploration.

While participants don't expect to withdraw frequently from the PLESA, they would still prefer minimal restrictions and quick access to funds through direct deposit.

Plan sponsors and recordkeepers have the flexibility to decide the number of withdrawals an employee can take from the PLESA, above the minimum of once per month set by the SECURE 2.0 Act. On average, participants expected that they would withdraw from a PLESA twice a year. Respondents preferred direct deposit as the method of withdrawal for easy, quick access to the funds in an emergency situation. Plan sponsors and recordkeepers should consider a less restrictive approach to allowing withdrawals given respondents' expectation to withdraw infrequently, but their desire for flexibility and minimal restrictions.

> I (like) the way that this is formatted, there's a lot of freedom and flexibility. I don't think that there should be any restrictions for the amount of withdrawals."
>
> *- Woman, 40, Construction Industry, California*

Conclusion

As employers and retirement plan providers make decisions around the implementation of the two emergency expense provisions of SECURE 2.0, it is important to consider the perspectives of the employees that would be most impacted. In this report, we have highlighted key insights on the provisions from the employee focus groups we conducted, as well as recommendations for employers and retirement plan providers interested in implementing these provisions and committed to serving diverse employees.

- Participants were highly interested in using both emergency expense provisions if offered. Plan sponsors seeking to create an inclusive emergency savings strategy should consider offering one or both options.
- If given the choice between the two provisions, the $2,500 PLESA was the preference for the majority of participants. The primary reasons cited for this included ease of access and setup for the PLESA, not wanting to withdraw from retirement, and concern that $1,000 was not sufficient to cover many emergency expenses. Plan sponsors committed to serving a diverse workforce, including employees earning LMI, should strongly consider offering the $2,500 PLESA.
- While both provisions offered limited penalty-free withdrawals at minimum, participants would be interested in unrestricted access to their funds, while also anticipating on average two withdrawals per year. Restricting access to funds or the number of withdrawals may negatively impact employee participation.
- A key theme that we heard throughout the focus groups was the need for clear and concise communication of benefits from employers and retirement plan providers to participating employees.

Our focus groups gave participants the opportunity to engage and ask questions regarding the emergency expense provisions. Many participants welcomed the focus group setting to discuss benefits, and hope that when employers and retirement plan providers offer new or complicated benefits, such as those allowed through these provisions, they can be communicated in a way that not only is clear, but gives employees the room to truly understand what is being offered. In other words, while these focus groups were intended for research purposes, they offer a model for employers and retirement plan providers to consider when implementing a new benefit or feature.

While this research is a first step in understanding how the emergency expense provisions of the SECURE 2.0 Act are perceived by employees, there remain opportunities for further exploration to inform decisions around if and how they might be included in plan design. Commonwealth can support employers and recordkeepers in designing employee-focused research specific to their populations, to support with the implements of these SECURE 2.0 provisions.

If you're interested in learning more about how Commonwealth can support your organization in designing an emergency savings offering that meets the needs of employees, please reach out to us at info@buildcommonwealth.org.

Appendix

Appendix A: Educational Material

SLIDES REVIEWED WITH PARTICIPANTS:

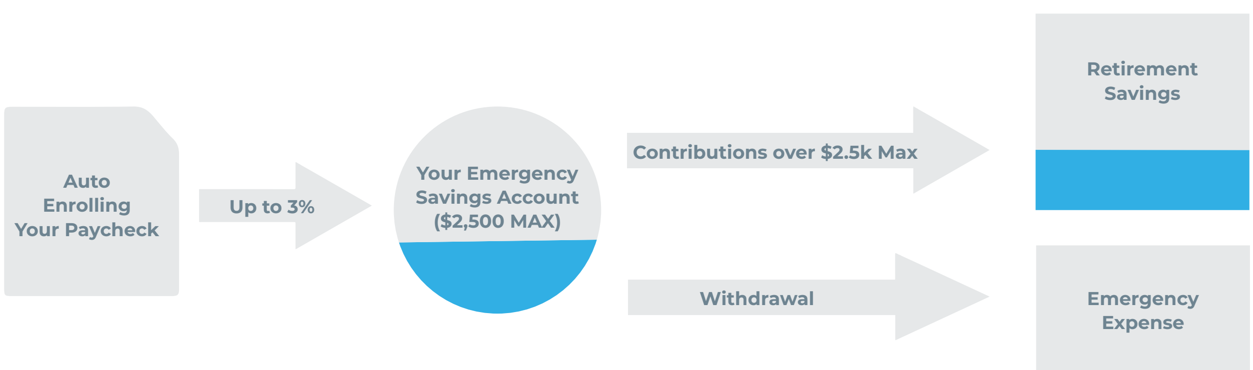
In-Plan Emergency Savings Account

The first potential new benefit that your employer could offer is an emergency savings account that is connected to your retirement plan.

- A portion of your paycheck would be allocated towards this emergency savings account.
- You would be able to make withdrawals without a tax penalty.

You are able to save up to $2,500 per year to pay for emergeny expenses without tapping into your retirement plan.

- If you hit the $2,500 limit, the funds automatically coming out of your paycheck would start going to your workplac retirememt plan.
- If your employer offers a retirement plan matching program, they would be able to match any contributions into your retirememt savings account.



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$1,000 Withdrawal Provision

Employees may withdraw up to $1000 per year from their retirement accounts for emergencies without paying the 10% early withdrawal tax.

- Employees can self-certify hardship conditions and they do not have other available funds to address hardships in order to make a hardship withdrawal.

Employees also have the option to repay the withdrawal distribution back into their accounts within three years.

- Individuals may not take out an additional withdrawal unless the initial withdrawal is paid back first.

Appendix B: Methodology

Our research methodology for these focus groups allowed Commonwealth to understand the perspectives of a diverse group of workers on new benefits that may be available to them through the SECURE 2.0 legislation. However, there are some limitations to the focus group format that warrant acknowledgement. First, we recruited participants through a third-party research recruitment service. This allowed us to select a diverse set of participants based on income, race/ethnicity, gender, job type, and geographic location, focusing on employees earning LMI. However, we were limited to those who signed up to participate in this service, had internet and computer access to join a virtual meeting, and who were available for a one-hour period between the hours of 9am-5pm. The majority of participants were currently enrolled in a retirement plan, limiting our insights on how these provisions would be received by individuals not currently participating in a retirement plan.

Second, the SECURE 2.0 Act and the relevant provisions for this research are complicated pieces of legislation not familiar to the average American. To educate participants and prepare them for the discussion, we sent materials prior to the call and reviewed the information using visuals during the focus group while allowing for questions. Participants conveyed an understanding of the provisions, but the educational portion of the session on average took approximately 20 minutes, leaving only 40 minutes of discussion. This meant that each participant was given around ten minutes total of response time. The limitations of the focus group format and our recruitment methodology are worth keeping in mind when considering the insights presented from this research and how representative it is of the desires and perspectives of the broader workforce. We see this research as a first step in bringing the employee voice into the conversation around this legislation and welcome opportunities to build upon it through future research and work.

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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.

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.

The W.K. Kellogg Foundation (WKKF), founded in 1930 as an independent, private foundation by breakfast cereal innovator and entrepreneur Will Keith Kellogg, is among the largest philanthropic foundations in the United States. Guided by the belief that all children should have an equal opportunity to thrive, WKKF works with communities to create conditions for vulnerable children so they can realize their full potential in school, work and life.