

Retirement Industry Leaders on Emergency Savings

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Over the last several years, the retirement industry has made significant progress on developing and implementing emergency savings solutions, with recordkeeping firms leading the way. While these solutions vary, the [takeaway is clear](#): adequate emergency savings is an important part of financial wellness and retirement security. These solutions, both those currently in use, and those being created, are guided by two key insights:

1. Emergency savings should be its own “bucket,” meaning in an account that is distinct from funds intended for long-term retirement savings
2. Well-designed emergency savings accounts are [effective buffers](#) against early withdrawals from retirement savings

Ideally, public policy will be supportive of further evolution in emergency savings solutions by providing clarity to plan sponsors, recordkeepers, and other providers as to important guidelines and best practices. One significant development would be explicitly allowing for automatic enrollment into emergency savings vehicles.

Examples of Solutions in Market

The general consensus is that emergency savings solutions should enable short-term savings with liquidity *and* preserve long-term savings. In light of this, most solutions are offering a dedicated account that is distinct from retirement savings, generally following one of two structures, both of which can play an important role.

1. Outside of the retirement plan, referred to as “out-of-plan” solutions or “standalone” accounts, and
2. Inside the retirement plan but separate from the core retirement assets, typically as in-plan, after-tax contributions.

Most of the largest recordkeepers are [pursuing “out-of-plan” solutions](#) to emergency savings accounts that are formally separate from retirement savings. Examples include:

- Alight Solutions’ [Smart Savings Planner](#) integrates employee-specific financial details to provide personalized suggestions to optimize contributions across retirement, emergency, healthcare, and college savings. In the near future, the planner will include a dedicated emergency savings account for employees to consider.
- Fidelity’s [Goal Booster](#), which provides a cash management account with no minimums or account fees where plan participants can save for goals, including emergencies

- Voya's [partnership with Millennium Trust](#) to enable payroll deductions and employer contributions into a separate emergency fund
- John Hancock's [emergency savings solution](#), which is part of its suite of overall financial wellness tools
- T. Rowe Price's [recent statement](#) that it plans to develop an emergency savings program using an FDIC-insured savings account

"In-plan" solutions using the separate, after-tax option, are also in the market, with examples including:

- Last year, [UPS and Voya launched](#) an emergency savings solution within its retirement plan to 90,000 non-union UPS employees
- Prudential [announced a similar feature](#) in 2019 to allow workplace retirement plans to offer an option for employees to contribute to an after-tax account for emergencies

Learnings from the Field

Research on this topic with participants living on low to moderate incomes, oversampled for households headed by people of color, and lessons from the various models in market have shed light on how to effectively design emergency savings that preserves retirement savings. Households that save in an account dedicated exclusively to emergency savings [are more likely](#) to have a higher amount of liquid savings than those who save but don't have a dedicated emergency savings account. Emergency savings solutions utilizing a dedicated account model also can be [buffers against early withdrawals](#) from retirement savings. Throughout the pandemic, households with at least \$1,000 in liquid emergency savings were [half as likely](#) to withdraw from their workplace retirement savings accounts.

[Research](#) illustrates the link between inadequate emergency funds and the higher likelihood of taking a loan or hardship withdrawal from a workplace retirement savings account. Families can face multiple economic shocks in a year, with a single emergency often costing them [several thousand dollars](#). Legislation should support emergency savings solutions that are separate from retirement savings, flexible, and allow people to save for the types of financial challenges they experience. This is particularly important for households headed by people of color, who were more likely to have lower incomes coming into the pandemic and to see their income decrease, according to a [recent survey](#).

Conversely, emergency savings models that introduce additional liquidity into core retirement assets, rather than as a separate account or bucket, carry risk for both the industry and consumers. Data on hardship withdrawals from retirement shows that the [average hardship withdrawal is close to \\$3,000](#), suggesting that they are being used as a substitute for emergency savings. Recent [research from Voya](#) found that almost half of people who took money out of their retirement during the pandemic said they took out too much, highlighting the risk of vehicles introducing liquidity to retirement. Policymakers should ensure that emergency savings policy solutions support the preservation of retirement funds and do not inadvertently incentivize leakage from retirement savings.

Conclusion

Policymakers have a unique opportunity to improve retirement security and financial wellbeing by enabling greater access to emergency savings and supporting the models that are already in the market. They can foster continued innovation through a legislative and regulatory environment that seeks to support multiple models and reflects the following key principles of emergency savings:

- Allow for automatic enrollment in workplace emergency savings
- Ensure emergency savings are their own "bucket" of savings
- Allow for a wide range of options, particularly for low- to moderate-income households
- Design emergency savings to meet household needs
- Do not inadvertently put retirement savings at risk



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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.