Can Emergency Savings Support the Retirement System?

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American households face widespread financial insecurity, with lack of short-term savings a particularly urgent issue. A recent national BPC survey found that a broad swath of workers live paycheck to paycheck, with almost 1/3 of respondents saying they could cover roughly a month or less of expenses if they lost their income.

Over the past several years, the retirement industry has made significant progress on developing and implementing emergency savings solutions for American workers. Looking at data from early adopters, the takeaways are clear—adequate emergency savings can:

- Enhance financial wellness;
- Protect retirement savings, functioning as a buffer against early withdrawals; and
- Serve as an important building block toward increased contributions to retirement, especially for households living on low to moderate incomes (LMI).

Along with AARP Public Policy Institute and Saverlife, we recently outlined five key principles for public policy innovations in this space:

1. Allow for automatic enrollment in workplace emergency savings;
2. Ensure emergency savings are their own "bucket" of savings;
3. Allow for a wide range of design options, particularly for LMI households;
4. Structure emergency savings tools to meet household needs; and
5. Safeguard retirement savings.

In this brief, we dive deeper into the final principle, with a focus on how new tools to save for emergencies might impact retirement savings.

Emergency savings can safeguard existing retirement savings

There is growing evidence that emergency and retirement savings can go hand in hand. Simply put, well-crafted emergency savings solutions can be buffers against early withdrawals from retirement. Throughout the COVID-19 pandemic, households with at least $1,000 in emergency savings were half as likely to withdraw funds from their workplace retirement accounts as those who had no savings. The Consumer Financial Protection Bureau found that 59% of retirement account holders without emergency savings withdrew from their account in the past year, compared to only 9% of those with at least a month of income in emergency savings.

Beyond early withdrawals, research also shows that automatic enrollment into emergency savings accounts is unlikely to significantly detract from retirement contributions. In other words, most of the funds going into the new accounts would be additive. Indeed, a prominent existing trial of an emergency savings sidecar product by UPS has reported preliminary findings that it has not reduced retirement contributions.

In addition, automatic enrollment tends to be sticky: workers are able to opt out at any time, but tend to participate at the levels at which they are automatically enrolled. Vanguard recently found that its plans using automatic enrollment had an average 92% participation rate in 2020, compared with 62% for voluntary enrollment plans. Employer matching contributions and tax preferences also encourage savings and are important features to consider in emergency savings policy innovation.

Emergency savings may help bring more people into the retirement system

The workers who stand to benefit most from emergency savings solutions are those not currently contributing to a retirement account. A recent Pew Research Center study found that an important reason workers do not contribute to retirement is lack of liquidity—if there is an emergency, people want to know they can quickly retrieve their money. In this way, the everyday reality of financial shocks makes it harder to save for retirement. An emergency savings account, however, may help solve this problem.

> A recent survey by Commonwealth and SaverLife of households making under $75,000 who had access to a workplace retirement plan found that 30% of respondents reported that an emergency savings option paired with their retirement plan would make them *more* likely to contribute to retirement, with few saying it would make them less likely to contribute.

Facilitating emergency savings and building retirement savings in the process will also make many households more self-sufficient in a way that reduces pressure on various government welfare and benefit programs.

Emergency savings policy proposals align with the goals of the retirement system

On Capitol Hill, policymakers are considering allowing automatic enrollment into this type of emergency savings account. Importantly, all existing proposals are voluntary, enabling the financial firms designing the tools, along with employers themselves, to decide whether to adopt these solutions. The financial services industry wants to preserve assets under management and is not interested in advancing designs that will increase leakage from retirement accounts, so any emergency savings solution would need to preserve and build retirement savings to make it to market.

In following the principles outlined above, emergency savings policy innovations will strengthen the existing retirement system by preserving retirement funds and by motivating participation among those who currently opt out as they prioritize liquidity. With the right solutions, vulnerable households will be better prepared for short-term financial shocks and begin building long-term financial security.

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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.