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Emergency Savings Features That Work for Employees Earning Low to Moderate Incomes



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 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.



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.

Executive Summary

Workers earning low to moderate incomes¹ (LMI) continue to face challenges in financial security. The COVID-19 pandemic exacerbated the financial situation of many workers earning LMI. Along with the current macroeconomic environment, it has become even more challenging to build liquid savings for unexpected expenses. In this brief, we will share insights from our latest research on how employers and service providers can build and offer emergency savings solutions that are inclusively designed for workers earning LMI.

Emergency savings solutions have emerged as foundational ways to build financial security. [Early research](#) has shown it to be a predictor to increasing savings and, ultimately, building wealth for workers earning LMI. These workers have expressed interest in and need for these solutions and, when offered, have used emergency savings to improve their own financial security. [Previous research](#) from Commonwealth and the Defined Contribution Institutional Investment Association (DCIIA) Retirement Research Center (RRC) found that those with lower financial wellbeing scores are more likely to be interested in workplace emergency savings programs. Our research has also found individuals with emergency savings to be less likely to have accumulated debt, prematurely tapped retirement savings, or taken actions that jeopardized their financial future.

In Commonwealth and DCIIA RRC's latest research, we focused on the preferred features of an emergency savings solution, where we found:

1. Workers, including those earning LMI, prefer no fees, no minimum balance requirements, and fast access to funds.
2. Incentives are valued by employees and can be leveraged by employers to encourage uptake.
3. A lack of emergency savings hinders workers' retirement plan participation.
4. Employers need to continuously and dynamically engage LMI employees regarding their workplace financial benefits.

Despite the rapidly growing market of emergency savings solutions, limited employee-centric research exists to both guide the industry in building products and prioritizing features. Commonwealth and DCIIA RRC's research helps to identify preferred emergency savings features, demonstrating how high-quality emergency savings solutions can be best designed, offered, and marketed to workers earning LMI.

Plan sponsors and recordkeepers are uniquely positioned to offer emergency savings solutions that employees earning LMI are interested in and can improve their financial wellbeing. Employees believe employers should be playing a leading role in this space; providing emergency saving solutions that meet employees' savings needs can help to improve employee productivity and retention.

¹ Workers earning from \$20,000 - \$75,000 per year.

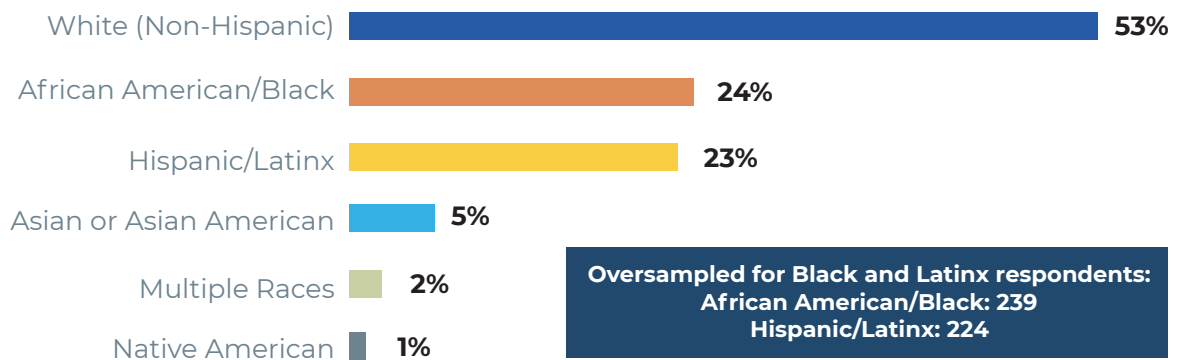
Research Goals & Participant Profiles

Commonwealth and DCIIA RRC conducted qualitative and quantitative research in the first quarter of 2022. We began with focus groups of defined contribution (DC) plan participants followed by a quantitative study where we surveyed nearly 1,000 individuals living on LMI to:

1. Understand what people who are living on LMI and eligible for DC plans, particularly women, Black, and Latinx employees, would be looking for in an emergency savings solution;
2. Determine how emergency savings impacts retirement participation; and
3. Gain better insight into effective employee benefit communication strategies for emergency savings solutions.

Women made up just over half (52%) of respondents. We oversampled for Black and Latinx participants in our research to gain better insight into how emergency savings solutions can be better tailored to meet the needs of these workers. Systemic racial inequity and gender discrimination in financial systems have excluded these populations from traditional pathways to wealth, thus [exacerbating financial insecurity](#).

Race/Ethnicity of Participants²



² Question allows for respondents to select all that apply, thus total is greater than 100%.

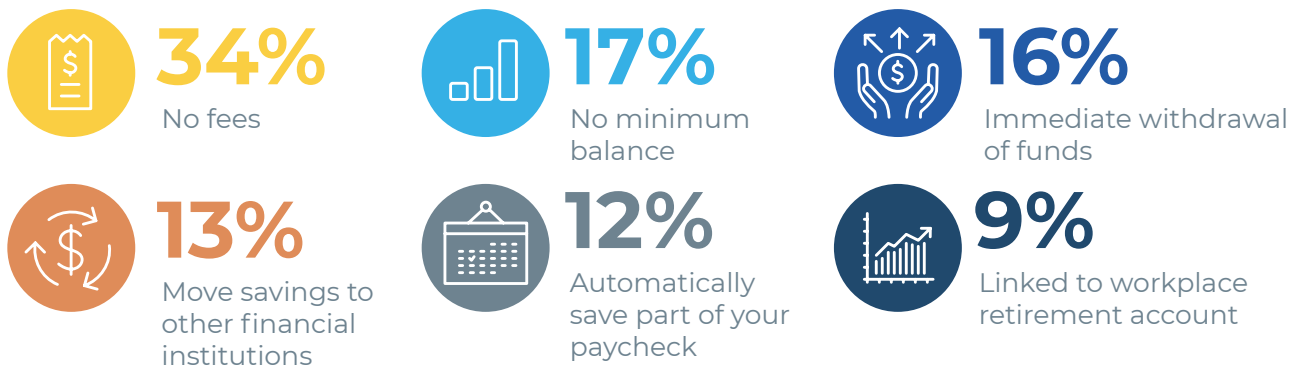
Key Findings

1. Workers earning LMI prefer no fees, no minimum balance requirements, and liquidity (defined in our research as immediate access to funds) in an emergency savings solution.

Our survey investigated respondents preferences towards potential features of an emergency savings solution. No fees (34%), no minimum balance (17%), and immediate withdrawal of funds (16%) were the most preferred features. In this way, no fees in an emergency savings solution was preferred at least two times more than any other option and was as much as four times more preferred than some features.³ These preferences stayed consistent regardless of race, gender, or income. These findings demonstrate that plan sponsors and recordkeepers have clear guideposts on how features should be prioritized when choosing or designing a quality emergency savings solution. This research provides a clear roadmap of the “how” for plan sponsors and recordkeepers to follow.

Of these, the biggest concept for plan sponsors and service providers to grapple with, based on Commonwealth and DCIIA RRC research, will be the demand for liquidity. Access to savings must be immediate and penalty-free during a time of need. Respondents indicate interest in non-punitive mechanisms to prevent frequent withdrawals and low-resource options (e.g., screen prompting “Do you need to withdraw funds?”). Our survey reinforced the need for liquidity that we heard repeatedly in our focus groups. When asked about using their emergency savings account, one participant said “I would need the [money] as soon as possible, as well. I mean, especially if, you know, something happens. Then I want to be able to have it accessible.”

Preferred Features



³ Percentages are a calculation of preference share - a measurement of the distribution of preference that respondents have. The preference shares sum to 100 and can be understood as the likelihood that the attribute truly is the most preferred item.

2. Incentives are an effective mechanism to bolster account engagement

Participants are overwhelmingly interested in incentives and expressed that incentives can help motivate them to open a savings account. Plan sponsors and recordkeepers also have multiple options of structuring the incentive. Incentive options that were positively viewed included a reward to open an account (98%), matching contributions (96%), a reward for consistent savings (93%), and a reward for reaching a target savings amount (92%). The overwhelming interest in different incentive types highlights how incentives are not only helpful in motivating participants to open a savings account, but also may encourage better long-term savings behavior while demonstrating employers' commitment to their employees' financial wellness.

90%

expressed interest in opening an account if offered any of the incentive options.

Preferred Incentives



98%

Reward to open an account



96%

Matching contributions



93%

Reward for consistent savings



96%

Reward for reaching a target savings amount

3. Lack of emergency savings hinders retirement participation

Commonwealth and DCIIA RRC's survey found workers with no emergency savings were significantly less likely to be contributing to a DC plan. Offering an emergency savings solution could be an effective mechanism to boost plan retirement participation amongst employees. Further, emergency savings also helps to protect retirement assets. In our previous research, we found that, during the pandemic, those with emergency savings were [less likely to tap retirement savings to cover an unexpected expense](#).

When looking at the population of those eligible but not participating in DC plans, they tended to be younger, have lower income levels, and be Black or Latinx. Addressing lack of participation in these populations through an emergency savings solution should be prioritized as they remain financially vulnerable.

It is important to note, preference specifically for an emergency savings account linked to a workplace retirement account was relatively low for workers earning LMI, which indicates the challenge in-plan emergency savings solutions will face with this large audience of workers.



Those with emergency savings were **70% more likely** to contribute to their DC plan.⁴



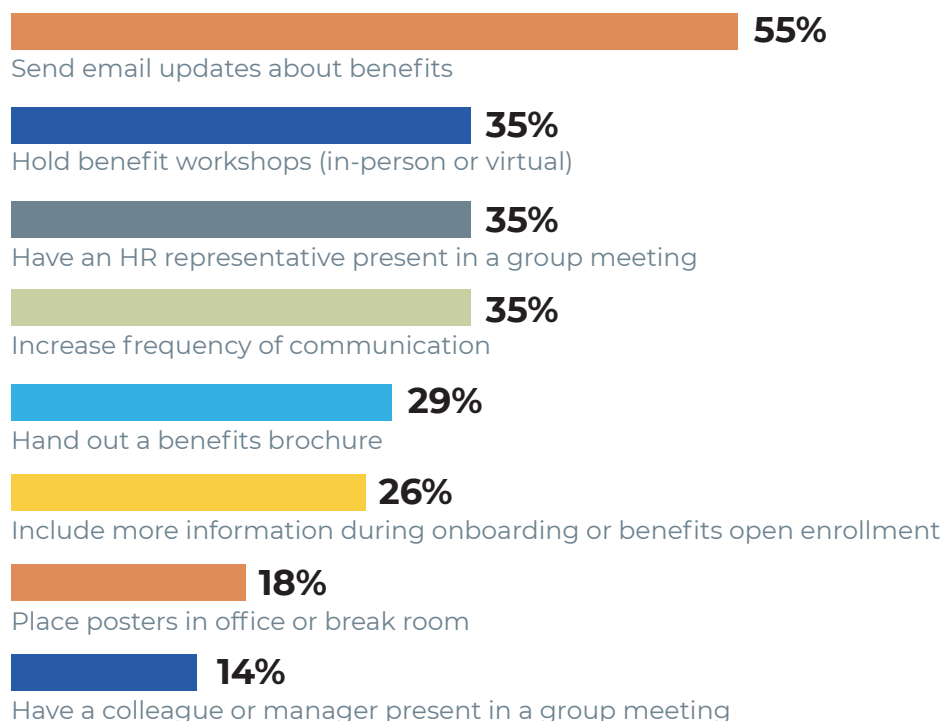
⁴ Based on a logit regression model consisting of "contributing to DC accounts" as the dependent variables and various factors that affect the socioeconomic status of the household as the explanatory variables.

4. Employers need to continuously and dynamically engage employees regarding their financial benefits

[Given the current lack of auto-enrollment and payroll integration for emergency savings solutions](#), the messaging and delivery of a high-quality solution is essential to ensuring it is used by those who need it. To gain better insight into effective employee benefit communication strategies, we asked a series of questions focused on employee benefit communication preferences.

Email is the primary place employees look for news about benefits, with 55% indicating their company should email about benefit information. Many supported increasing the frequency of communication (35%), holding workshops (35%), or having an HR representative present new updates (35%). These findings show the need for constant and varied ways to reach workers. There is no one-size-fits-all communication method, and employers need to continuously engage employees.

How can your company best improve communications about all (new and existing) benefits?



Conclusion

Workers earning low to moderate incomes face a lack of access to high-quality, low-cost savings tools. Plan sponsors and recordkeepers are in a unique position to offer these tools to help their workers to save and weather financial challenges. Plan sponsors and service providers are also uniquely positioned to connect savings to the regular paycheck.

Plan sponsors and recordkeepers should tailor solutions with a focus on providing liquidity with no fees, minimum balance requirements, or penalties. In a space without emergency savings auto-enrollment, employers should also encourage program sign-ups through multiple modes including email updates, benefit workshops, and HR presentations. Increased communication is needed, and incentives can help engage employees and fuel savings. This research also highlights the positive impact emergency saving can have on retirement participation. An emergency savings tool that prioritizes low fees and fast access will tailor to the needs and interests of workers earning LMI and will be impactful in growing savings, protecting retirement, and building financial security.