commonwealth BlackRock

Emergency Savings Solutions

Bridging the gap between short and long-term savings

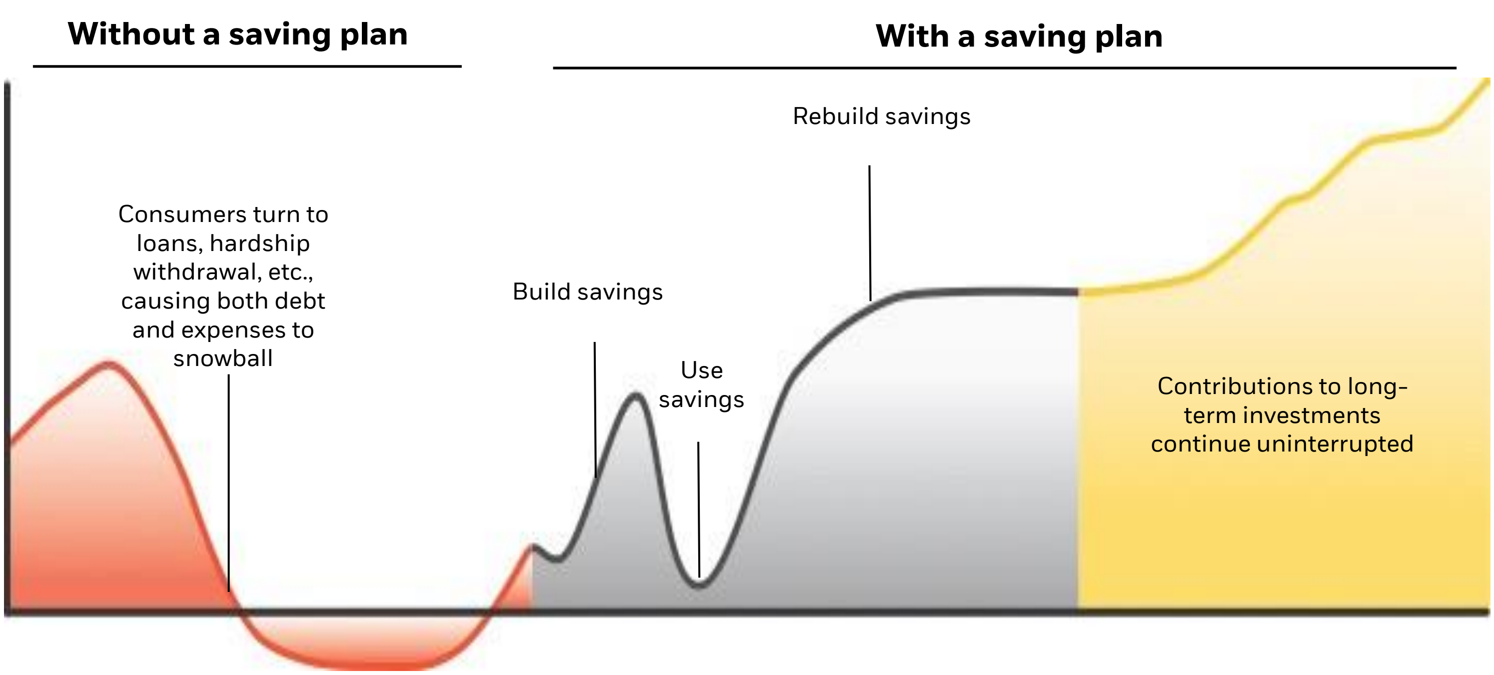
The workers' savings crisis

Employees are increasingly looking for support from their employers to help build a financial safety net that extends beyond their retirement plan. More than half of all adults in the U.S. experience the financial stress of little to no emergency savings. In fact, 37% of Americans do not have $400 in liquid savings.[1] The numbers are even lower for Black and women-led households earning low-to-moderate income (LMI), with 72% and 58% having less than $400 in liquid savings, respectively.[1]

Emergency savings solutions — both within and outside of retirement plan structures — have emerged as a foundational way employers can help employees build financial security. Many large employers — for example, United Parcel Service (UPS), Best Buy, Starbucks, and Delta — have started to do this already, and it is projected that by 2026 more than 40% of plan sponsors will offer an emergency savings solution to their employees.[2] Additionally, new government policies are in place to support emergency savings, which we explore more later on in this guide.

Providing liquidity and stability

While some experts suggest having three to nine months of savings to protect for sudden job loss, this is unattainable for many. Even a small cushion of liquid savings to address unexpected, emergency expenses can help create financial resilience and stability — some experts recommend having between $500 and $2,500 in liquid savings.[3]



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Four factors driving employer momentum around emergency savings solutions

1 Short-term savings is directly linked to retirement saving

A lack of emergency savings can negatively impact an individual's ability to save for their retirement. Participants with inadequate savings are 13 times more likely to take a hardship withdrawal from their retirement savings account,[4] which may prevent them from optimizing their retirement savings. Additionally, employees with emergency savings are 70% more likely to contribute to their employer sponsored retirement plan.[5]

*We've seen people who hadn't participated in the retirement plan join the emergency savings plan, **like a gateway**. If they're worried they can't save for retirement, they'll put it in something they know they can get the money out of."*

- US Retirement plan recordkeeper

2 Employees are looking to employers to help

65% of employees think employers should be doing more to increase employee financial security.[6] Moreover, in a survey conducted by Commonwealth, 72% of employees said they would participate in an emergency savings program if offered by their employer.[7] These data points suggest employees are seeking additional support from their employees to save beyond the retirement plan.

3 Large corporations are leading the way and raising awareness

Several large employers have started offering workplace emergency savings solutions and showcasing the positive results. Some of the world's largest companies have already added an emergency savings benefit for their employees, including:

With a growing focus on financial wellness and large corporations adopting emergency savings solutions, more employers may start to follow suit.

*[Emergency savings] is probably the **first thing to be discussed** with plan sponsors."*

- US Retirement plan recordkeeper

4 New policy provides new savings opportunities

Two new Secure 2.0 provisions went into effect in January 2024, introducing a new way for participants to build emergency savings and for employers to offer solutions. A change to the withdrawal policy now allows employees to make penalty-free withdrawals from their retirement plan of up to $1,000. The creation of a standardized in-plan emergency savings solution provides a path to linking emergency savings to the retirement plan structure.

*"Emergency savings is a sleeper issue [...] There is **opportunity for disruption and innovation in product offering."***

– US Retirement plan recordkeeper

Comparing in-plan and out-of-plan solutions

There are two main types of emergency savings solutions: in-plan solutions and out-of-plan solutions. The key difference lies in each solution's relationship to an employer-sponsored retirement plan. As the name suggests, an in-plan solution is offered within a Defined Contribution (DC) plan. Since these solutions are embedded within a DC plan, they are subject to ERISA and only available to employers that offer a retirement plan. Additionally, employees must be enrolled in the retirement plan to access an in-plan emergency savings solution. In contrast, out-of-plan solutions are not connected to an employer-sponsored retirement plan, and thus are not subject to ERISA. Any employer can offer an out-of-plan solution, therefore making the solution available to all workers.

	In-plan	**Out-of-plan**
Connection to retirement plan	✓	✗
Subject to ERISA	✓	✗
Available to all workers	✗	✓
Auto-enrollment eligible	✓	✗
Contribution & account balance limits	Solution-dependent (ex.: PLESA has $2,500 balance limit)	✗
Immediate liquidity	Solution-dependent	Solution-dependent
Implementation	Leverages current retirement plan and current recordkeeper[8]	May require a third-party vendor, such as a fintech offering a savings account, bank, or credit union; cost is solution-dependent
Examples	• After tax 401(k) • Deemed Roth Account (ex: PLESA)	• Cash management account • Saving account • Payroll-led (ex: cards, mobile apps, split deposit)

Policy changes are advancing savings opportunities

In January 2024, two new provisions of Secure 2.0 that seek to minimize the impact of emergency savings needs on retirement savings went into effect.[9]

The first provision gives plan sponsors the choice to offer a new type of in-plan emergency savings solution: a Pension Linked Employer-Sponsored Savings Account (**PLESA**). A PLESA is a $2,500 Roth "sidecar account" that is tied to an employer-sponsored retirement savings account. Employee contributions to a PLESA count towards their annual contribution limit for their retirement savings account.

PLESA overview	
Establishment	Plan sponsor may elect to offer a PLESA. Plan fiduciary selects the investments in the account.
Implementation	Requires a product build from recordkeepers.
Investment	Money can be held in cash in an interest-bearing account or in a principal protected fund. Investment products are subject to ERISA section 801(c)(1)(A)(iii) and cannot have liquidity constraints at the plan or participant level.
Employee contribution	The maximum account balance attributable to employee contributions is $2,500. If employees are automatically enrolled in the PLESA, their default contribution rate is capped at 3% of their compensation.
Employer contribution	Employers can match participant contribution to the PLESA in the participant's retirement plan. Employers must match PLESA contributions at the same rate that other matching contributions are made to the plan.
Distribution	Employees are allowed a minimum of one tax-free and penalty-free distribution per month. The first four withdrawals in a plan year are not subject to fees or charges.
Termination and rollover	Plan sponsor can terminate a PLESA at any time. All assets are eligible for rollover if an employee switches firms. If a PLESA is terminated, an employee can roll over their assets to a designated Roth account within the retirement plan or can claim the assets.
Access	Only available to participants who do not qualify as highly compensated, as defined by the IRS. The threshold to qualify as highly compensated is $155,000 in 2024.

The second provision changes the rules around hardship withdrawals from employer-sponsored retirement savings accounts. Participants will now be allowed to withdraw up to $1,000 annually for unexpected family expenses. The withdrawal is penalty-free, but subject to taxation if the DC plan is not a Roth plan. Employees must repay the $1,000 within 3 years and once the money is paid back, tax is no longer owed. Participants are allowed one penalty-free distribution per year and must repay the previous withdrawal in full before any subsequent withdrawal.

Emergency savings success stories

Many employers have successfully implemented a workplace emergency savings solution. As a leading partner of BlackRock's Emergency Savings Initiative, Commonwealth has collaborated with employers, recordkeepers, and payroll providers to implement and evaluate the impact of a workplace emergency savings program.

UPS; in partnership with Voya

In 2020, UPS collaborated with Voya Financial (Voya) and Commonwealth to create a high-quality emergency savings program for its 100,000 non-union workers. After analysis of the employees' financial security, UPS decided to leverage an already existing feature of their retirement plan, administered by Voya. The 401(k) plan has an "after-tax" option within it that allows for employees to make after-tax contributions to their retirement savings account in excess of their annual contribution threshold. Employees can opt-in to having after-tax contributions automatically deducted from their pay, just like they can for pre-tax contributions. Unlike pre-tax contributions, after-tax contributions can be withdrawn at anytime without penalty[10], making them more liquid.

To communicate the importance of emergency savings to UPS employees and to position the after-tax option as an effective solution, UPS, Voya and Commonwealth worked closely to develop a multi-channel messaging campaign.

The campaign included: (1) a new landing page with information about emergency savings and details about the after-tax in-plan option, (2) direct mail communication, (3) multiple emails sent by UPS and Voya, (4) behaviorally informed interventions on the plan participant website, including well-timed pop-up nudges to start after-tax contributions, and (5) new emergency savings content incorporated into other financial wellness resources, like webinars.

Since the inception of the program through June 2022, UPS has seen positive results.

$15+ million in new savings, which translates to over 25% increase in overall assets

40%+ increase in participation in the after-tax 401(k) option in one year after the start of the campaign

Employees were 2x as likely to increase contribution to their retirement account if participating in the emergency savings program

We've seen, since inception of the program from about September/October of 2020 through June of 2022, $15 million in contributions to the after-tax source, which is really remarkable."[11]

– B.J. Dorfman, Director, Global Retirement Strategy and U.S. Benefits, UPS

Source: Commonwealth, "A Case Study in Workplace Emergency Savings: How UPS and Voya Designed a Solution Resulting in $10 Million in Savings", 2022

ADP

Payroll providers are in a unique position to help employers of all sizes offer an emergency savings solution to their employees. ADP – the nation's largest payroll provider, reaching 1 in 6 working Americans — saw the opportunity to do just that in their Wisely® card and myWisely® mobile app. As a part of BlackRock's Emergency Savings Initiative, Commonwealth and ADP collaborated to learn more about the emergency savings needs of both employees and employers. They then translated their learnings into enhanced high-quality savings features available to all Wisely® cardholders, offered through the myWisely® mobile app.

ADP's employer customers have the option of paying employee wages through the Wisely® card. Cardholders can have part, or all, of their pay directly deposited into the card that functions as a standard prepaid debit card. Cardholders also have access to the myWisely® mobile app, which shows card balance, transaction activity, and houses financial wellness resources.

The Wisely® card and myWisely® app already had many of the key features that Commonwealth had identified through research as features that are key to meeting the emergency savings needs of a low to moderate income household, such as no fee for account opening, no minimum balance, automation, and immediate access to savings.

Commonwealth identified several key areas for enhancement in the app to maximize the emergency savings elements: (1) multiple, customizable savings envelopes, (2) customized savings transfer schedule, (3) gamification – turning cash rewards from card into savings, and (4) automated payday transfers into savings.

In addition to the mobile app improvements, ADP developed a new set of emergency savings marketing materials to increase awareness of the Wisely® card and myWisely® mobile app. Some of these marketing materials are currently available for ADP's employer clients.

Since the implementation of the app enhancements and marketing campaign through December 2022, ADP has seen positive results.

$1.35+ billion in new savings, which translates to over 600% increase in overall assets

3.5x increase in monthly average number of new users of the savings envelopes

2.7x increase in net savings inflows (savings less withdrawals)

"We believe that emergency savings continues to be a major pillar for our financial wellness strategy, and we will continue to work with our employer clients to help educate them about the capabilities that they can offer to their workers."[12]

– Anurag Chandra, Senior Division Vice President of Strategy, ADP

Source: Commonwealth, "How ADP's Solution Facilitated $1.5 Billion in Emergency Savings", 2022

Evaluating emergency savings solutions

There are lots of emergency savings solutions currently on the market, and there may be more coming as emergency savings receives more and more attention. Advisors and consultants can help plan sponsors decide what solution is best for their plan's unique needs. Evaluating solutions across four key categories can be a great start.

	Select considerations	Select questions for emergency savings providers
Product features	• Median uptake rates are 4x higher for solutions with auto-enrollment relative to solutions requiring employee opt-in[13] • LMI workers prefer no fees, no minimums, and instant withdrawal[14]	✓ How will employees access the funds? Is there a time delay or cost to access the funds? ✓ What is the cost structure? ✓ Will there be an account minimum? ✓ How easy or difficult is the sign-up process? ✓ Is it possible to integrate with payroll? ✓ Is it possible to use auto-enrollment?
Incentive structure	• 87% of employees would opt-in to an emergency savings solution if offered an employer match[15] • LMI workers prefer rewards for… opening an account, reaching a target saving level, or consistent savings behavior[14]	✓ Is the plan able to offer a monetary incentive? ✓ What should monetary incentive(s) be for? Ex: seed fund, employer matching similar to 401(k), goal or milestone based [ex: reach $500 balance or account active for 6 months, etc.] ✓ Is it possible to run small tests with different incentive structures to see effectiveness before scaling up?
Demographics	• Black and Latino employees are more likely to take a hardship withdrawal from their retirement plan than white employees and are less likely to use digital engagement tools[16]	✓ What are the demographics of the plan participants? Does the plan sponsor want a targeted solution for a specific subset of employees? ✓ Who will this solution work for? ✓ Who won't it work for?
Awareness and engagement	• LMI workers prefer learning about benefits through email, benefits workshop, group meetings, or printed brochure[13] • Targeted communication about emergency savings may be more effective than including it in a list of other benefits announcements	✓ How will the plan sponsor communicate with employees about the emergency savings solution? Will it reach all employees? ✓ How frequently will the plan sponsor communicate with participants about emergency savings?

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Getting started with emergency savings solutions

Advisors and consultants have an important role to play in the emergency savings landscape. Given the four factors previously highlighted, advisors and consultants can expect more and more plan sponsors to express interest around emergency savings solutions. Advisors and consultants can meaningfully partner with plan sponsors who are in various stages of adoption of an emergency savings solution.

3 ways that advisors and consultants can help

1

Navigation of Secure 2.0

- Secure 2.0 provisions may be a good starting point with plan sponsors for a conversation around emergency savings
- Advisors may be called in to help with understanding the policy and to help with implementation in terms of plan amendments, investment choices and participant communications

2

Advice on emergency savings

- Demonstrate to plan sponsors the importance of emergency savings
- Be aware of solutions offered by recordkeepers as well as other out-of-plan solutions in the market
- Be well-versed in high-quality emergency savings features; refer to page 7 for select considerations when evaluating a solution

3

Implementation of a solution

- Advocate on behalf of plan sponsor to the recordkeeping industry or third-party vendors to facilitate the build of specific solutions
- Help with communication and engagement
- Once implemented, help plan sponsor assess usage of the solution and impact on participation and leakage, including demographic trends

Resources for conversations with plan sponsors

- "Emergency Savings Features that Work for Employees Earning Low to Moderate Incomes", Commonwealth and DCIIA, 2022
- "Incentives to Increase Emergency Savings Enrollment", Commonwealth and DCIIA, 2023
- "Impact and Learnings Report: 2019-2022", BlackRock's Emergency Savings Initiative, 2022

> ***"Having access to BlackRock's Emergency Savings Initiative resources and research has not only helped us to support our clients and their benefits offerings, but it has also helped them to support their employees with their long-term retirement goals."***
>
> -Tom Armstrong, Vice President, Customer Analytics & Insight and Head of Voya's Behavioral Finance Institute for Innovation, Voya Financial

About Commonwealth and BlackRock's Emergency Savings Initiative

commonwealth

Commonwealth has been a leading partner of ESI since its inception. Commonwealth is a national nonprofit dedicated to building financial security and opportunity for financially vulnerable people through innovation and partnerships. For nearly two decades Commonwealth has designed effective innovations, products, and policies enabling over 2 million people to accumulate more than $8 billion in savings. Commonwealth works closely with leading employers, recordkeepers, workplace infrastructures solutions, and policymakers to improve the financial wellness of U.S. workers. To learn more, visit: buildcommonwealth.org

BlackRock's Emergency Savings Initiative

In 2019, BlackRock's Social Impact team launched the ESI--a $50 million philanthropic commitment to help millions of people living on low-to-moderate incomes establish a financial safety net through proven savings strategies and tools. Since its inception, the ESI has reached 10 million people with an emergency savings solution and has helped create $2 billion in savings. ESI is a frequent collaborative partner of Commonwealth. To learn more, visit savingsproject.org.

Disclaimer

1 Federal Reserve, "Report on the Economic Well-being of U.S Households", 2022.

2 TransAmerica, "Transamerica Prescience Report", 2023.

3 Forbes, "How to Save Money Fast – Pump Up Your Emergency Fund To Prep For Hard Times", 2023

4 Voya, "Retirement at Risk: Building Financial Resiliency With an Emergency Savings Fund", 2021

5 Commonwealth and DCIIA, "Emergency Savings Features that work for Employees Earning Low to Moderate Income", 2022

6 Commonwealth, "Perceptions of Financial Insecurity in America", 2020

7 Commonwealth, "Incentives to Increase Emergency Savings Enrollment",

8 If a plan sponsor wants to implement a PLESA, it would require their current recordkeeper to build it.

9 There are many outstanding regulatory questions, and DOL and IRS continue to provide guidance and invite comments .

10 There is a 10% penalty on earnings

11 "Securing Americans' Financial Future", uploaded by Commonwealth, 2023, www.youtube.com/watch?v=aiUTgDXpDvs

12 "Securing Americans' Financial Future", uploaded by Commonwealth, 2023, www.youtube.com/watch?v=aiUTgDXpDvs

13 BlackRock Emergency Savings Initiative, "Impact and Learnings Report: 2019 -2022", 2023

14 Commonwealth and DCIIA, "Emergency Savings Features that Work for Employees Earning Low to Moderate Incomes", 2022

15 AARP Public Policy Institute "Saving at Work for a Rainy Day. Results from a National Survey of Employees", 2018.

16 Voya Financial, "Bringing greater financial equity to the workplace to support everyone's opportunity for a better financial future", 2023.

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