EMERGENCY SAVINGS

MAY 2024

Parents and Caregivers Saving for Today and the Future

How plan sponsors and service providers can best support the short and long-term financial security of caregivers in the workplace

The cost of caregiving has continued to increase over the past decade, making it tougher on working parents, forcing many to tap into emergency funds or struggle to build long term educational savings for their dependents. With this growing economic uncertainty households face, plan sponsors and service providers have started to recognize the benefits they can have by implementing parenting and caregiving benefits. As a part of Blackrock's Emergency Savings Initiative, Commonwealth and the Defined Contribution Institutional Investment Association's (DCIIA) Retirement Research Center (RRC) researched how parenting and caregiving expenses are influencing people earning low- to moderate-incomes (LMI), and their ability to save for emergencies and retirement. We found employer-sponsored 529 plans may be a feasible tool to build long-term college savings for caregivers earning LMI, if paired with an emergency savings solution and supported with financial education.*

This research was designed to understand the direct link between childcare expenses, emergency savings, retirement savings behavior, and the ability to save for a child's future education needs. Our goal was to examine how plan sponsors, recordkeepers, and policymakers can best support caregivers earning LMI in building long-term financial security for themselves, and providing future education resources for their children.

**Note: For the purpose of this research we use "parents and caregivers" to mean those providing care for at least one child part-time or full-time. LMI defined as household income of $75,000 or less.*

Key Findings

Childcare expenses are making it difficult for people earning LMI to save for emergencies and/or retirement.

People earning LMI are less likely than higher earners (those with a household income of $75,000 or more) to be aware of or using 529 plans, but hold similar interest in enrolling in an employer-sponsored 529.

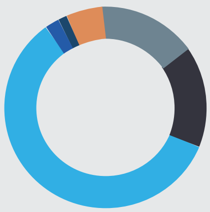
The most important features of an employer-sponsored 529 account were accessibility and portability.

Recommendations

1. Employers may want to consider offering an employer-sponsored 529 plan paired with an emergency savings option.
2. Policymakers should consider allowing features in a 529 plan that will allow liquidity.
3. Plan sponsors and recordkeepers could provide comprehensive and practical financial education and resources for employees earning LMI to learn about the benefits and features of 529 plans.

For the purpose of this research, we screened for **working parents and caregivers** (defined as having full or part-time responsibility for a child) **who had a desire to save in the future for their child's postsecondary education.**

This survey was fielded to over 1,000 working parents and caregivers; **53% of respondents were women** and **46% were men.**



RACE/ETHNICITY OF PARTICIPANTS

White (non-Hispanic): 58%
Hispanic/Latinx: 17%
African American/Black: 15%
Asian, Pacific Islander, or Native Hawaiian: 6%
Mixed Race: 3%
American Indian or Alaskan Native: 1%

INCOME LEVEL OF PARTICIPANTS

LMI (making under 75k HHI): 66%
Higher Incomes (over 75k HHI): 34%

Introduction

The costs of caring for a child can seem like a series of endless expenses. The average estimated expenses needed for a child from birth to the age of 17 is nearly $285,000. For people earning low- to moderate-incomes (LMI), addressing short-term emergency costs associated with caregiving may take precedence over saving for longer-term goals, such as higher education, averaging nearly $11,000 per year for a public university and $42,000 per year for a private university.

Through Blackrock's Emergency Savings Initiative, Commonwealth and the Defined Contribution Institutional Investment Association's (DCIIA) Retirement Research Center (RRC) researched how people earning LMI can be best supported in building long-term savings for themselves and their children. We examined the impact of parenting and caregiving expenses on emergency savings and retirement savings behavior, while also exploring how 529 college savings plans may be an employer tool that could promote financial security for parents and caregivers earning LMI. In this brief, we explore how employers, recordkeepers, and policymakers may provide needed support.

Childcare expenses are making it difficult for people earning LMI to save for emergencies and/or retirement.

In the first part of our survey, we asked respondents about their recent financial consequences related to childcare expenses and its level of impact on retirement and emergency savings behavior. We found that 58% of respondents reported that childcare expenses are having a negative impact on contributing to emergency savings, and 60% reported its negative impact on saving for retirement. Our data on recent financial actions of these parents and caregivers further supported these findings. In fact, 9% of respondents report taking a hardship withdrawal in the last 12 months due to childcare expenses, which is three times the national average of hardship withdrawals. Additionally, 15% had reduced their retirement contributions—6% above the national average.

The survey also uncovered areas of racial and gender differences in the financial strain experienced by parents and caregivers. Women were significantly more (6 percentage points higher) likely to indicate that both their retirement and emergency savings were affected by childcare expenses as opposed to men. Black respondents were significantly more (5 percentage points higher) likely than white respondents to indicate they had taken a hardship withdrawal in the past 12 months due to childcare expenses.

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of respondents reported that caregiving expenses are having a negative impact on contributing to emergency savings.

60%

reported its negative impact on saving for retirement.

Women were significantly more **(6 percentage points higher)** likely to indicate that both their retirement and emergency savings were **affected by childcare expenses as opposed to men.**

Black respondents were significantly more **(5 percentage points higher)** likely than white respondents to indicate they had **taken a hardship withdrawal in the past 12 months due to childcare expenses.**

People earning LMI are less likely than higher earners to be aware of or using 529 plans, but hold similar interest in enrolling in an employer-sponsored 529.

We explored feasibility and interest in 529 plans as a tool to build educational savings for employees earning LMI. In our previous research, we found that having educational savings of even $500 or less makes it three times more likely a child will attend college, and four times more likely they will graduate. However, 529 plans are disproportionately used by people earning higher incomes (with a household income above $75,000), with just 4% of total college savings from families earning LMI held in 529 plans. In this survey, we found 23% of people earning LMI were using both employer-sponsored and individual 529 plans, compared to 53% of people earning higher incomes.

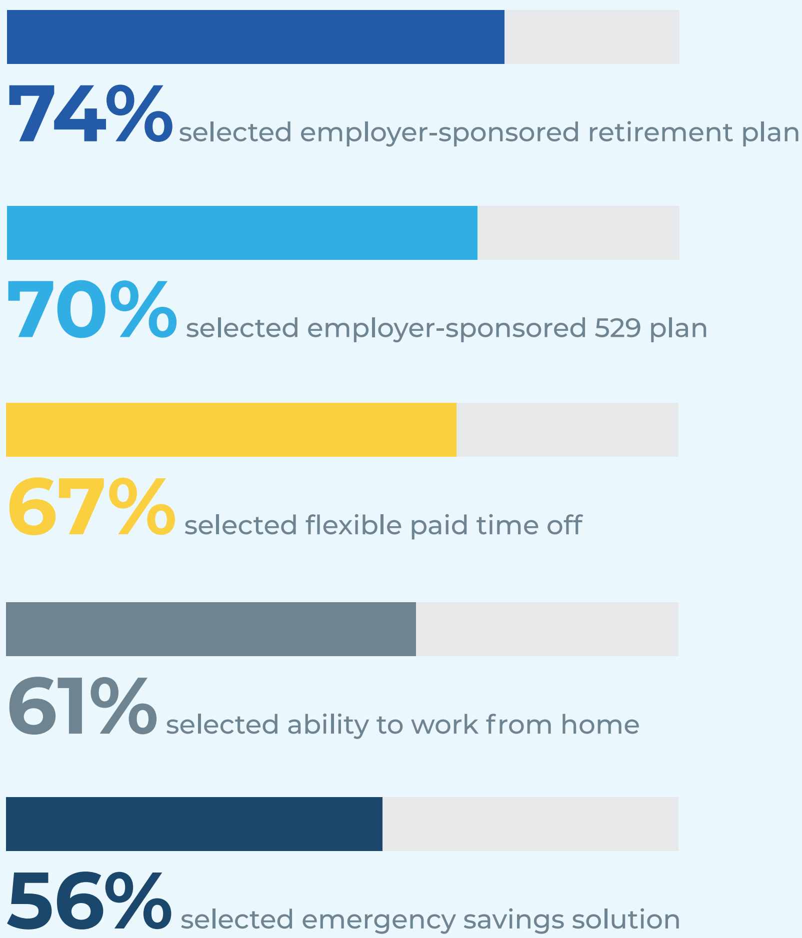
23% of people earning LMI use 529 plans.

53% of people earning higher incomes use 529 plans.

Only 47% of parents and caregivers earning LMI were aware of 529 plans as an option to save for education, compared to 74% of people earning higher incomes. When presented with a description of an employer-sponsored 529 plan, the disparity decreased with 60% of people earning LMI and 69% of people earning higher incomes interested in enrolling. This finding points to the demand for an employer-sponsored 529 plan and reveals awareness and education about the plan as one of the biggest hurdles for enrollment.

This interest in 529 plans persisted even when asked to choose against other employer benefits. Our survey asked respondents to indicate their top five preferred benefits from a list of 10 workplace benefits. An employer-sponsored retirement plan was the most popular option (selected 74% of the time). The second most-selected option was an employer-sponsored 529 plan (70%). These benefits are both tools where small dollar savings in the short term can build financial security in the long term. The next tier of top-selected benefits highlighted a desire and need for flexibility and emergency savings for caregivers, with flexible paid time off (67%), the ability to work from home (61%), and an emergency savings solution (56%) popular amongst most surveyed parents and caregivers.

TOP 5 PREFERRED EMPLOYEE BENEFITS



The most important features of an employer-sponsored 529 account were liquidity and portability.

Our previous research has found that a lack of emergency savings impacts the ability for employees earning LMI to save for a child's future education. A goal of this research was to further explore the relationship between emergency savings and 529 plans, specifically in the workplace.

We found that two major features may be necessary to make 529 plans effective for employees earning LMI.

1

LIQUIDITY: Our research found parents and caregivers earning LMI prioritize accessible liquid funds. In the survey, parents and caregivers were asked to indicate their biggest concerns when considering enrolling in an employer-sponsored 529. The most popular option, selected by 40% of caregivers earning LMI, was the ability to access the funds in case of an emergency. This need for liquidity was consistent throughout the findings when asked to select their most desired features in a hypothetical employer-sponsored 529 plan. Parents and caregivers earning LMI selected the ability to access the funds in case of emergency most often, above features such as an employer match or customer support. Black caregivers were significantly more likely to be concerned with accessing the funds in case of an emergency (48%), compared to 37% of white caregivers, and named liquidity as their most desired feature. These statistics demonstrate the importance and demand for a liquid option when LMI caregivers are considering a 529 plan

2

PORTABILITY: Another major concern for parents and caregivers earning LMI was accessing the account after changing their employers (40%). This was an even bigger concern than affordability (38%). Under the current structure of employer-sponsored 529 plans, either through the state or a third-party vendor, enrollees will always be able to access their account, even if at a new employer. This demonstrates the need for education and resources to spread awareness and dispel myths around 529 plans.

Recommendations

Based on our findings, Commonwealth and DCIIA RRC have compiled actionable insights for employers and recordkeepers looking to support the financial security of parents and caregivers in the workplace.

EMPLOYERS SHOULD WORK WITH PLAN SPONSORS TO CONSIDER OFFERING A 529 PLAN PAIRED WITH AN EMERGENCY SAVINGS OPTION.

Our research highlights the interest for a 529 plan from employees earning LMI (60%), but also revealed the biggest concern would be accessing the account in times of emergency.

While a liquid sidecar (an accessible savings pocket featuring asset limits and without penalty to access) may not be currently available as a feature, this research highlights the necessity for plan sponsors to consider offering an emergency savings option paired with the 529 plan in the short term for parents and caregivers. This may provide value to caregivers earning LMI to be better prepared for short-term emergencies and long-term post-secondary savings.

POLICYMAKERS SHOULD CONSIDER ALLOWING FEATURES IN A 529 PLAN THAT WILL ALLOW EMPLOYEES TO TRANSFER FUNDS TO AN EMERGENCY SAVINGS ACCOUNT FROM A 529 PLAN WITHOUT PENALTIES.

In the 529 plan design, policymakers should consider allowing a liquid sidecar to allow employees to transfer funds to an emergency savings account without penalties. When asked about an employer-sponsored 529 plan, the most major concern and the most desired feature for parents and caregivers earning LMI was the ability to access funds in an emergency.

PLAN SPONSORS AND RECORDKEEPERS SHOULD PROVIDE COMPREHENSIVE AND PRACTICAL 529 PLAN EDUCATION AND RESOURCES FOR EMPLOYEES EARNING LMI.

In our survey, 47% of people earning LMI were aware of 529 plans in comparison to 79% of higher earning employees. Additionally, 23% of people earning LMI were currently using a 529 plan to save in comparison with 53% of higher earning employees. Therefore, providing quality financial education and resources around 529 plans will be necessary to decrease this knowledge gap.

Customer support and accessibility are important when thinking through an employer-sponsored 529 plan design. In fact, 36% of employees earning LMI were interested in education and customer support provided with an employer-sponsored 529 account.

Looking Ahead

Our findings demonstrate the need for a thoughtful strategy to support parents and caregivers in the workplace. These employees are taking a disproportionate amount of hardship withdrawals and experiencing emergency savings shocks. The plan sponsor and recordkeeper community can offer needed support in the form of emergency savings solutions, employer-sponsored 529 plans, and financial education support.

Commonwealth and DCIIA RRC will continue to conduct joint research to understand the preferences and needs for those in the workplace earning LMI. Check our website for new research or sign up for our newsletter.

Acknowledgements

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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 [www.buildcommonwealth.org.](http://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.](http://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.](http://www.savingsproject.org)