FINANCIAL SECURITY PROGRAM

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MOVING FROM EXPERIMENTATION TO THE MAINSTREAM:

POLICY OPTIONS TO AUTOMATE WORKPLACE EMERGENCY SAVINGS

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ABOUT ASPEN FINANCIAL SECURITY PROGRAM

The Aspen Institute Financial Security Program's (Aspen FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. Aspen FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.

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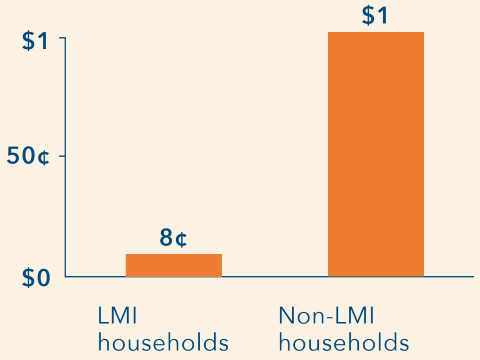
INTRODUCTION

In 2017, the Consumer Financial Protection Bureau found that having short-term, liquid savings to smooth volatile income and expenses or to cover unexpected financial emergencies was the single most important factor for household financial well-being.[1] But a recent survey by the Bipartisan Policy Center found that 45% of Americans could not cover an unexpected $400 expense without borrowing or selling something.[2] Low- and moderate-income ("LMI") households have significantly less emergency savings than other households, according to a recent Morningstar survey, with only eight cents for every dollar that non-LMI households had saved.[3]

Emergency Savings Gap

LMI households have only 8¢ for every $1 non-LMI households have saved.



Emergency savings were a particularly important lifeline for families during the economic crisis of COVID-19, with 73% of Americans reporting a reduction in their income during 2020.[4] A recent survey conducted by the Aspen Financial Security Program, Morningstar, DCIIA, and NORC at the University of Chicago found that families who had emergency savings before the pandemic were much better able to maintain their financial health than those who did not.[5] However, significant gaps in emergency savings by race and income were revealed, with a recent survey finding that 36% of Black and 28% of Hispanic [see box] workers reported having no emergency savings, compared to 24% of white households.[*6]

Existing emergency savings solutions do not meet the needs of millions of people, regardless of income. In part, this is because it is difficult for financial-services providers to profitably offer low-balance savings accounts and frequent contributions and withdrawals.[7] Additionally, as we have seen around the globe, human behavior can be a significant obstacle to retirement saving. To the extent that we have had success in the United States in building workplace retirement savings, it is largely thanks to automatic enrollment, which puts employees on an opt-out basis into their payroll deduction workplace retirement savings program. This option is seldom available for emergency savings.

People with low or moderate incomes often face specific barriers to using the emergency savings products currently on the market. Despite some financial institutions' attempts to develop emergency savings products to meet the needs of LMI households, as well as a wave of innovation in financial technology, most mainstream financial products and services leave LMI households locked out. Data demonstrate that households that are lower-income, Black, Latinx, working-age disabled, younger, less-educated, and subject to income volatility are all more likely to be unbanked or underbanked.[8] A lack of familiarity with financial products and

*It is important to note that there is insufficient data on emergency savings in Indigenous and Asian households in America, as even nationally representative surveys do not sufficiently sample members of these communities.

Given the barriers to emergency savings for people up and down the income spectrum and reflecting on the success of automatic enrollment payroll deduction retirement savings programs for those who have access to one, the workplace represents a high-potential platform for high-quality, low-cost, automatic emergency savings tools.

services and mistrust of banking institutions, especially among undocumented families, can contribute to difficulty with saving in formal accounts.[9] Additionally, the risk of losing public benefits due to asset limits, concerns related to immigration status, and the fear of wage garnishment create barriers to saving in traditional accounts.[10] Many customers only use cash and do not have access to formal banking options, including those who are in ChexSystems, a database that collects information about people's history of bank-account use.[11]

Throughout this brief we use multiple terms to refer to Latinx people and households. When citing statistics and data from others' reports, we conform to the terminology used by the authors. When discussing this demographic group more generally, we use the gender-neutral "Latinx."

Given the barriers to emergency savings for people up and down the income spectrum and reflecting on the success of automatic enrollment payroll deduction retirement savings programs for those who have access to one, the workplace represents a high-potential platform for high-quality, low-cost, automatic emergency savings tools. Employers are starting to recognize the value of offering payroll deduction emergency savings tools to workers, and several different models are emerging. Today, these models face a variety of regulatory barriers to automatic enrollment, which limits the potential for automatic workplace emergency savings to reach scale. Fortunately, there are a variety of policy options available to policymakers to reduce or eliminate those barriers, but as we choose among them, we must also strive to guarantee that everyone in America — no matter where they work or how they are paid — has access to the power of automatic enrollment. Establishing several policy options can ensure that automatic enrollment into workplace emergency savings will be available for everyone, including people with low or moderate incomes who struggle to maintain positive cash flow.

In this brief we seek to illuminate policymakers' opportunities to help make emergency savings both automatic and inclusive. We will:

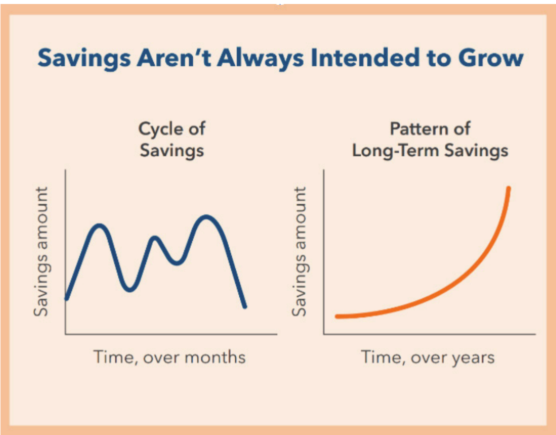
1. Explore the design features critical to a successful emergency savings tool;
2. Provide an overview of workplace emergency savings innovation in practice;
3. Summarize the policy barriers preventing employers and providers from making workplace emergency savings automatic; and
4. Offer a set of policy options that can make automatic emergency savings available to everyone.

THE DESIGN FEATURES OF A SUCCESSFUL EMERGENCY SAVINGS TOOL

Not all savings are the same, nor do they call for the same set of features in a savings tool. "Goal-based" savings often target medium- or long-term goals – higher-education costs or a down payment on a home, for example – and might be invested in more volatile asset classes, depending on the corresponding time horizon. Retirement savings are usually meant to be accessed many more years in the future. Consequently, they are often heavily invested in equities that can fluctuate in value and thus are better left untouched over time. In both goal-based and retirement savings, though, success is measured by accumulation, and that is best achieved through regular contributions, long-term investing, and resisting the urge to withdraw.

EMERGENCY SAVINGS ARE DIFFERENT FROM LONGER-TERM SAVINGS

Emergency savings fulfill a particular purpose in the financial life of a household. As the name suggests, households use emergency savings to pay for unexpected expenses. Emergency savings can also help households smooth consumption, especially when an income "dip" – increasingly common as income volatility continues to rise in America – means that a household will not have enough money to pay the bills.[12] Even a small amount of emergency savings can help low- and moderate-income families weather a drop in income. Families with as little as $250 in savings are less likely to be evicted, delay paying bills, or turn to high-cost credit alternatives, such as payday loans, after a large income disruption.[13]



Short-term savings – unlike longer-term goal-based or retirement savings – are not meant to grow exponentially. Instead, the sign of success for short-term savings is a recurring cycle of accumulation, depletion, and replenishment.[14] Research from the U.S. Financial Diaries shows that many families follow this pattern, and the total money going into their savings accounts each year is three times more than their year-end balances, revealing that these households do save and draw on those savings throughout the year to meet immediate needs. [15]

Retail savings accounts at banks and credit unions do not have the features and functionality that best support emergency savings. To match what many researchers have uncovered about people's cyclical savings needs, including those with lower incomes, successful workplace emergency savings programs should include the following features:

1. **Automatic enrollment.** Workers should be automatically enrolled in a payroll deduction emergency savings program. As

with automatic enrollment retirement plans, workers would always have the choice to "opt-out" to cancel their enrollment.[16] When automatic enrollment became a standard feature of 401(k) plans, overall 401(k) participation nearly doubled, with 91% of new hires participating consistently. Automatic enrollment also dramatically increased participation among younger, lower-income, and female employees.[17]

2. **Automatic replenishment.** The emergency savings account should replenish automatically through recurring paycheck deductions.[18]

3. **Accessibility.** Workers should have continuous and unlimited access to their emergency savings, with no penalty for withdrawals. When a worker requests a withdrawal, funds should be available as soon as possible – ideally instantly.[19]

4. **Liquidity.** Emergency savings should not fluctuate in value and be easy to liquidate when a withdrawal is requested. This prevents a loss of account value should the saver's need to withdraw funds coincide with a market downturn.

5. **Low or no fee.** The emergency savings accounts should be low or no fee to the consumer. High fees can erode emergency savings balances and act as participation barriers for low- or moderate-income savers.

6. **Designed for "mental accounting."** To ensure that emergency savings are used effectively and savings intended for other purposes are protected, emergency savings should be held in a separate account, or "bucket," rather than combined with other kinds of savings, such as those designated for retirement. This design aligns with what behavioral scientists understand about "mental accounting" – the well-documented practice in which people assign their money to different categories, for specific uses.[20] Setting up two accounts – one for emergency savings, the other for long-term savings – provides psychological separation, helping to preserve long-term savings for the intended purpose.[21]

WORKPLACE EMERGENCY SAVINGS SOLUTIONS IN PRACTICE

Employers have begun to take note of the deep need workers have for emergency savings. In 2019, 79% of employers in America reported that their employees were struggling financially, and 58% of employers were concerned that their employees were unprepared to meet unexpected financial challenges.[22] Workers' financial challenges are both a household problem and a business problem: one study estimated that employees' stress could cost businesses up to $250 billion per year in reduced productivity.[23] These trends, compounded by the financial crises faced by households during COVID-19, have sparked new employer interest in offering workplace emergency savings.

While access to workplace emergency savings remains low, some employers, retirement plan providers, and other organizations have begun to design and build products that provide these tools in the workplace. They have pioneered three key types of workplace emergency savings – all of which are likely to move from experiment to widely offered, widely adopted benefit with the addition of automatic enrollment.

"RETIREMENT-LINKED" EMERGENCY SAVINGS

Sometimes described as "in-plan" or "sidecar" accounts, this is emergency savings provided in conjunction with a retirement savings plan. Administered by a retirement plan provider, these accounts are embedded in or connected to a retirement savings plan and use the existing structures of the retirement system, providing access to emergency savings through payroll deduction. These plans are subject to different regulations than are "bank-based" emergency savings accounts. Withdrawals may have tax implications for participants as well; because workplace retirement savings

*After-tax 401(k) accounts are a less commonly used retirement account. In an after-tax 401(k), initial contributions are made after taxes are paid, and earnings are taxed upon withdrawal.

Linking Emergency Savings and Retirement Savings Is One of Several Ways to Meet People's Emergency Savings Needs

For many researchers and policy innovators, the defined contribution retirement savings system, in which millions of workers in the United States save for retirement through paycheck deduction, has been a natural model for, and platform upon which to build, workplace emergency savings tools. In 2017, the Aspen Institute Financial Security Program published "Driving Retirement Innovation: Can Sidecar Accounts Meet Consumers' Short- and Long-Term Financial Needs?"[30], which explored one model of how emergency savings accounts could sit in or alongside retirement accounts in our existing workplace retirement savings system.

As one of many potential workplace emergency savings models, retirement-linked emergency savings options leverage the existing defined contribution retirement savings system. Not only is this convenient – though it is critical to note that roughly one third of all workers in America lack access to a workplace retirement savings plan[31] – but the tying together of an emergency savings account with a retirement savings account reflects the way these two kinds of savings co-exist in people's lives.

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are tax advantaged, withdrawals can be subject to restrictions and penalties.

Examples of retirement-linked emergency savings include:

- **Prudential**, in partnership with the nonprofit Prosperity Now, began offering a retirement-linked emergency savings solution in 2018.[24] As of fall 2019, 135,000 employees from more than 20 Prudential clients were enrolled in the plan.[25] In this model, emergency savings are held in an after-tax 401(k)*
- **UPS**, in partnership with Commonwealth and its retirement savings recordkeeper, Voya, rolled out its emergency savings plan program for more than 90,000 non-unionized US workers in October 2020. UPS allows workers to contribute both to their 401(k) and an emergency savings option within the account, using after-tax payroll deductions. Plan participants have full access to their emergency savings contributions and the ability to roll over earnings to their retirement accounts to avoid early-withdrawal penalties.[26]
- **Maryland$aves** is a state-facilitated automatic enrollment payroll savings program expected to debut early next year. Its standard (default) investment option will be a liquid emergency savings account combined with a professionally managed Roth IRA retirement account. The emergency savings account will use a stable value fund that offers a significantly higher (and more stable) interest rate than traditional money market funds, as well as one-day access.

"BANK-BASED" EMERGENCY SAVINGS

"Bank-based" emergency savings accounts use a depository account, usually through a bank or credit union. These accounts are most commonly associated with emergency savings, are FDIC insured, and governed by banking regulations.

Examples include:

- **Pitt Ohio**, a trucking company, introduced an emergency savings initiative for employees in 2016 after evidence emerged linking unsafe driving practices to drivers' worries about personal finances. The company began

A lack of emergency savings can threaten workers' long-term financial security, as many who have a retirement plan withdraw from that savings to cover emergency expenses. Pre-pandemic, for every $1 deposited into retirement plans by savers younger than 55, between 30 and 40 cents leaked out prior to retirement, not including repaid loans or other significant sources of liquidity.[32] Among older workers, 29% of job changers chose to cash out their defined contribution retirement savings account when they moved on.[33]

When households withdraw from their retirement account, either using existing hardship withdrawal provisions or "cashing out" after a job change, they may pay withdrawal penalties. In addition, withdrawals threaten households' long-term financial security by sacrificing future growth. The combined "leakage" from retirement accounts produces balances that are 25% smaller on average by age 60.[34]

For households with both emergency savings and retirement savings that experienced income loss during COVID-19, the emergency savings protected retirement savings. During 2020, 12.6% of workers with a retirement account took advantage of CARES Act provisions to withdraw funds, compared with 6.8% the previous year.[35] However, households with emergency savings before the pandemic were 50% less likely to withdraw from their retirement accounts to weather the pandemic.[36] The protective power of emergency savings increased as balances increased: households with at least $3,000 in emergency savings were 3.24 times less likely to report retirement

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offering a payroll-linked emergency savings account through the company's credit union, and by 2019 it reported that almost half of its employees had opened an account since the launch.[27]

- **MassMutual** introduced its emergency savings product—an FDIC-insured, taxable cash account—in January 2020. Through MassMutual's "Map My Finances" tool, the plan is available to more than 2.6 million retirement plan savers, as well as employees who are not enrolled in the company's retirement plan.[28]

"PAYROLL CARD" EMERGENCY SAVINGS

Another innovative way to provide emergency savings payroll deduction is through a debit card-like payroll card. Historically, payroll cards have held all of an employee's compensation, usually in lieu of direct deposit to a checking account. But they can also be used to deduct a portion of an employee's income for emergency savings, making the funds intuitively easy to access.

- **AARP** offers its employees a payroll deduction emergency savings program using the ADP Wisely Pay payroll card. The program, modeled on a concept from the AARP Public Policy Institute, allows employees to direct a small portion of their pay to a debit card they own.[29] The card provides instant access to emergency savings and comes with customer privacy and identity protections. Duplicate cards can be issued to family members as well.

savings withdrawals; people with at least $5,000 in emergency savings were almost four times less likely to tap into retirement savings.[37]

While workplace retirement plan access is skewed towards wealthier workers, according to the Department of Labor, 42% of workers in the lowest quarter of wage earners have access to a defined contribution retirement plan.[38] But as of 2019, only 13% of employers offered emergency savings plans through payroll deduction.[39] Taking advantage of the existing structures of workplace retirement savings will be an important strategy for closing that gap and providing increased access to emergency savings for millions of workers.

The Cutting Edge of Workplace Emergency Savings: Nest Jars

In 2012, the UK government introduced a mandate that required employers to automatically enroll workers into a workplace pension plan. At the same time, it established the National Employment Savings Trust (NEST), a defined contribution workplace pension plan designed to sit alongside existing plan providers to ensure that all employers had at least one way to comply with the new mandate. In 2018, Nest Insight, a research unit set up by the trust, implemented an emergency savings trial for UK employers called "Jars," as a response to their finding that, similar to the situation in the United States, one in four UK adults would not be able to pay an unexpected bill of £300 ($416).[40] And as in the United States, the UK market for emergency savings products and tools is still developing.[41]

Recognizing that the defined

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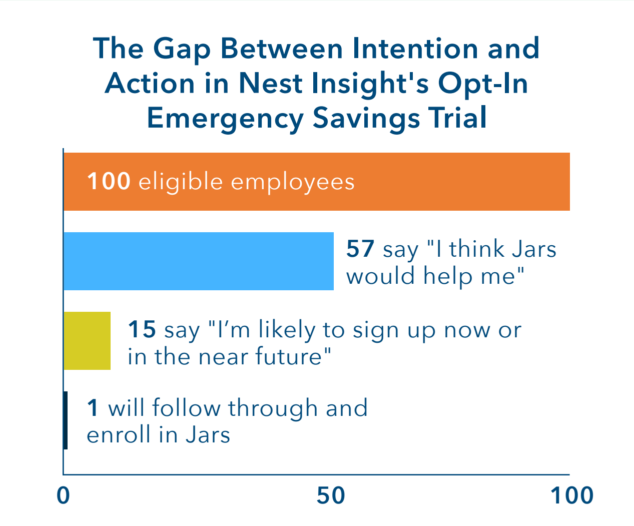
contribution platform offers users a convenient and familiar place to save – and understanding how emergency savings can prevent early withdrawals from retirement savings – the Nest Insight team and its research partners created a savings account that sits alongside the retirement savings account and is similarly funded through paycheck contributions. Workers opt into Jars and can make additional contributions on top of their automatic enrollment contributions. Initially, additional contributions are paid into the emergency savings account. Once the balance in that account reaches a predetermined (user-defined) threshold – the "savings cap" – future contributions flow into the retirement savings account. When a saver withdraws funds from the emergency savings account, reducing the balance to below the savings cap, additional contributions once again flow into that account.[42]

In July 2021, Nest Insight published early findings on how well the Jars model is meeting the emergency savings needs of workers enrolled in the trial. The analysis relies on a combination of survey and administrative data from the first four employers participating in the trial. The average annual income of surveyed workers ranges from less than £30,000 ($41,570) to £36,000 ($49,885), and the administrative data comes from more than 2,000 deposits and more than 1,000 withdrawals.

Nest Insight found that:



Around 60% of surveyed employees at one employer indicated that they believed Jars could help them – even if they were not currently using it. That number rises to 80% in employees currently struggling with bills and other fiscal commitments.

Within the same population, around 15% said they were "likely to sign up now or in the near future." In practice, though, just over 1% of eligible employees in this population had an active Jars account after 15 months of the product's availability.

The average savings contribution into Jars is around £100 ($138) a month. There is, however, quite a range of savings:

22% of Jars users save less than £50 ($67) per month

39% save between £50 ($67) and £100 ($138) per month

20% save between £100 ($138) and £150 ($207) per month

18% save more than £150 ($207) per month

5% save more than £300 ($413) per month

Jars users save persistently once they have signed up. Very few accounts have been closed.

If the take-up of the opt-in Jars program remains low among employee populations of trial employers, it is comparable to trial results of other US workplace savings models. As was the case when automatic enrollment into 401(k) plans became more widespread in the United States, Nest researchers have found that there appears to be significant barriers to signup, even when there is interest in doing so. As they suggest, automatic enrollment could be a key factor in increasing take-up rates.[43]

Nest analysts also noted the potential value of employer matches in encouraging employees to use the tool, and in the intentional separation of emergency savings and retirement savings accounts. Separate accounts are well suited for the "mental accounting" and "earmarking" behaviors documented by researchers, and that, in turn, makes them the best path to the effective use of emergency savings.[44] Further, separating accounts means users who may not earn enough to contribute to retirement savings can still take advantage of emergency savings.

POLICY BARRIERS TO AUTOMATIC WORKPLACE EMERGENCY SAVINGS

Innovators have made significant strides in recent years towards creating new workplace emergency savings. However, one key design feature remains missing from every workplace program, product, and tool we reviewed: automatic enrollment. In addition to the strong evidence supporting automatic enrollment's impact on retirement savings, there is also evidence of consumer demand for the feature.[45] A recent Bipartisan Policy Center survey found that, despite low availability of work-based emergency savings accounts, 42% of workers given the option would want their employer to automatically enroll them in an emergency savings account.[46]

Automatic enrollment isn't a gap in the field simply because workplace emergency savings accounts are still relatively new. It is also the case that existing policies at the state and federal level have created barriers to automatic enrollment. Though intended to provide important consumer protections to employees, these laws and regulations deter automatic enrollment in three ways. First, they may prohibit actions by employers that are otherwise necessary for implementing auto-enrollment. Second, a lack of clarity about whether auto-enrollment or retirement-linked features are allowable can discourage employers from exploring them, even if they turn out not to be prohibited. Finally, navigating complex regulations can increase the costs and administrative burden of offering new benefits or benefit features, particularly for smaller employers.

Key policies that may affect an employer's ability to offer automatically enrolled workplace emergency savings accounts are summarized here:

- **Employee Retirement Income Security Act (ERISA)**. ERISA provides administrative standards for certain types of employee benefits. For retirement savings plans, it establishes the fiduciary responsibility of employers, requiring them to manage plans in the interests of the participants; includes rules about what plan information must be provided to employees; and sets participation requirements to ensure workers of all incomes can benefit. Employers would doubtless benefit from guidance about how ERISA might apply to the establishment of retirement-linked, workplace emergency savings accounts and their various features as well as what steps they would need to take to offer such benefits.

- **Regulation E.** The Consumer Financial Protection Bureau (CFPB) has jurisdiction over Regulation E, which implements the Electronic Fund Transfers Act.[47] The regulation requires that employees be given a choice of where their funds are deposited. Even if an employee were given the opportunity to opt out, though, it is unclear whether automatic enrollment in an emergency savings account would be allowed.[48] In 2020, the CFPB issued Commonwealth a Compliance Assistance Statement of Terms Template ("CAST

Template"), by which employers could apply for regulatory safe harbor for an automatic emergency savings program on a case-by-case basis or use it to design its own Autosave program that would likely be compliant with Regulation E.[49]

- **Know Your Customer (KYC) Regulations**. KYC regulations require that depository institutions establish the identity of a consumer before allowing them to open an account. This may serve as a barrier for an employer who wants to begin a savings account on behalf of an employee at a bank or credit union, as it is unclear whether employers can share – and financial institutions accept – the necessary identifying information.*[50]

- **State Payroll and Wage Garnishment Laws.** States have a number of laws and regulations that, to varying degrees, restrict the ability of employers to deduct funds from employees' paychecks without advanced written consent.[51] This can certainly make it difficult for employers to establish automatically enrolled workplace savings accounts.

*However, an emergency account that uses a payroll card rather than a bank account would not be subject to KYC, as the customer is the employer rather than the employee. See AARP. "Facilitating Workplace Emergency Savings Programs through Payroll Cards," July 2020. https://www.aarp.org/content/dam/aarp/ppi/2020/07/facilitating-workplace-emergency-savings-programs.doi.10.26419-2Fppi.00107.001.pdf

Policy barriers to automatic enrollment affect different types of emergency savings in different ways. This table summarizes which policies policymakers need to modify or clarify to open the way for automatic enrollment for each type of workplace emergency savings.

TABLE 1: OPPORTUNITIES TO REDUCE BARRIERS, REAL OR PERCEIVED, TO AUTOMATIC ENROLLMENT, BY POLICY AND TYPE OF WORKPLACE EMERGENCY SAVINGS

Policy action or clarification could allow for automatic enrollment across all types of workplace emergency savings*

	ERISA Provides standards for employer administration of certain types of workplace benefits, including retirement plans	**Regulation E**** From Electronic Funds Transfer Act; requires that employees have choice of where funds are deposited	**Know Your Customer Regulations** Require that depository institutions positively establish customer identity	**State Wage Garnishment Laws** Restrict employers' ability to deduct funds from employees' paychecks without advanced written consent
"In-plan" Retirement-linked Emergency Savings From the same payroll feed as pre- or post-tax 401(k) plans; funds held within the 401(k) plan	✓			
Bank-based Emergency Savings Separate payroll feed funding bank-based FDIC insured account (checking/saving)		✓	✓	✓
Payroll Card Emergency Savings Separate payroll feed funding to payroll card's issuing bank		✓		✓

*This table is based on analysis by Commonwealth and subsequent review and conversations with subject-matter experts, originally presented at a private convening held by the Aspen Institute on automatic enrollment in emergency savings

**CFPB issued to Commonwealth a CAST Template, by which employers could apply for regulatory safe harbor for an automatic emergency savings program on a case-by-case basis or use it to design its own Autosave program that would likely be compliant with Regulation E.

POLICY OPTIONS TO INCREASE ACCESS TO AUTOMATIC WORKPLACE EMERGENCY SAVINGS

Through our work with leaders who are focused on implementing emergency savings products, improving emergency and retirement savings policy, and researching the financial lives of households, we have identified key options for policymakers who are looking to improve access to automatic workplace emergency savings.

1. **Reduce regulatory barriers to automatic enrollment across all three types of workplace emergency savings.**

As described above, a number of policy barriers stand in the way of implementing automatic enrollment in workplace emergency savings products, from ERISA at the federal level to wage garnishment laws at the state level. To address barriers caused by federal policy, federal lawmakers and agencies must either modify existing policy that restricts automatic enrollment or provide clarifications to explain that these programs are in fact allowable under existing policy. If state wage garnishment laws remain a major barrier, federal lawmakers could consider preempting them for the purpose of establishing these programs, similar to the Pension Protection Act of 2006 preemption of these laws for automatic enrollment in retirement plans.[52]

2. **Explore embedding emergency savings in state-facilitated savings programs.**

In addition to privately offered savings programs, a number of state-facilitated retirement plans have been established in recent years, with several more proposed or set to begin in the coming years.[53] As with privately provided plans, the architects of state plans must also consider offering emergency savings accounts alongside retirement plans, as was recently proposed by Wisconsin's Retirement Security Task Force and will soon be adopted by Maryland$aves.[54] Similarly, proposals for federally facilitated retirement plans should include an emergency savings feature.

What the Pandemic Taught Us about How People Use Retirement Savings as Emergency Savings

During the pandemic, Congress eased rules to allow workers to withdraw from their retirement savings without undergoing the normal tax penalties, if employers chose to participate. An April 2020 survey by the Aspen Financial Security Program, Morningstar, DCIIA, and NORC at the University of Chicago found that the policy roughly doubled the probability of retirement savings withdrawals.[57] However, those withdrawals were not effective at increasing household financial health. Emergency savings increased the ability of households to manage debt and pay bills, but even with loosened withdrawal restrictions, money from retirement savings did not correlate with improvement in those financial outcomes.

The challenge of using retirement savings in the same way as emergency savings is that it is designed for a contrary purpose. In addition, incentivizing increased withdrawals for emergencies could put retirement savings at risk. We identified the following three principles that should be a part of emergency savings but are explicitly at odds with the design of retirement savings.

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Adding such features to government-facilitated savings products is especially important from an equity perspective. Existing state-facilitated retirement programs are designed to reach workers who are currently without access to retirement plans in the workplace, and this group is disproportionately low income, Black, and LatinX. Those least likely to have adequate emergency savings would most benefit from a plan that links short-term and longer-term saving.

3. **Provide financial incentives for employers to establish workplace emergency savings accounts.**

Offering new benefits to workers can be costly for employers. As they do with retirement savings and paid family leave, federal lawmakers could provide tax incentives to employers who provide such benefits. This would be especially helpful to small business owners, who are least likely to offer retirement savings plans and often cite cost as a barrier.[55]

4. **Address asset limits.**

Asset limits are policy restrictions that prevent individuals from receiving certain public benefits once they obtain resources or build savings above a certain threshold. Social programs with asset limits include the Supplemental Nutrition Assistance Program (SNAP), Temporary Aid to Needy Families, Medicaid, and disability programs.

Those least likely to have adequate emergency savings would most benefit from a plan that links short-term and longer-term saving.

Because asset limits put critical benefits at risk, they pose a significant barrier to savings for low-income households.[56] As policymakers act to enable automatic enrollment in additional savings products, there is a risk that those savings could put a household's public benefits at risk.* Policymakers need to address how increased savings could affect eligibility for other benefits that extend a critical financial lifeline to millions of households. This challenge could be addressed narrowly, by exempting relevant funds from asset limits, or, more expansively, by limiting or eliminating asset limits altogether.

*Similar risks were present when states implemented auto-enrollment in state-facilitated retirement plans. See The Pew Charitable Trusts. "'Secure Choice' Retirement Savings Plans Could Affect Eligibility for Public Benefits," February 2017. https://www.pewtrusts.org/-/media/assets/2017/02/rs_secure_choice_retirement_savings_plans_could_affect_eligibility_for_public_benefits.pdf

- *Accessibility.* To preserve the balance and maximize growth potential, retirement savings are designed to be held for long periods with limited ability to withdraw from them. This means they are not available on a continual basis, as emergency savings should be. In addition, because withdrawing retirement funds comes with reporting requirements, the sale of assets, and tax implications, it can be several days from withdrawal request to receipt of funds, too slow to meet the emergent need.

- *Liquidity.* Retirement savings are typically invested in higher-yield investments (such as equities or longer-term bonds) that have potential for long-term growth but also for significant fluctuations in value. Using retirement funds in emergency situations could mean having to withdraw funds during a market downturn when their value is depressed.

- *Designed for "mental accounting."* Using retirement funds for emergency savings when they are not housed in a separate account poses two risks. First, because the funds, in the saver's mind, are not earmarked for emergency use, they might not be used at all, the saver turning instead to high-cost debt to finance the immediate problem. On the other hand, using these funds once may normalize the use of retirement funds for non-retirement – and potentially non-emergency – purposes, prompting regular withdrawals that reduce retirement balances over time.

CONCLUSION

The field of workplace emergency savings has come a long way in only a few years, with many companies building out products that will provide thousands of workers with a new way to create short-term financial security. However, policy continues to be a barrier that separates millions of others from one of the most powerful tools in the behavioral economics toolkit: automatic enrollment. Policymakers must take the necessary steps to ensure that automatic enrollment into workplace emergency savings is available to every worker in America, giving them the means to weather life's unexpected turns.

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