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The State of Emergency (Savings)

As the COVID-19 crisis continues to bring unimaginable human, social, and economic consequences, the workplace faces a unique set of difficult circumstances. It would be an understatement to say the pandemic has been making life challenging for both companies and their employees.


In an ideal world, companies support healthy workers — who, in turn, help to create and maintain a healthy business. Employees are engaged, focused, and productive. Clearly, this is nearly impossible right now, in the face of pervasive anxiety and uncertainty. All of us are much more vulnerable in terms of our physical, emotional, mental, and financial health.

While many factors remain out of our control, one area has potential to make a positive impact: improving financial preparedness. Our research reveals that 56 percent of consumers express concern about the long-term impact the COVID-19 outbreak will have on their financial security. Since the pandemic began, 14 percent of consumers we surveyed had lost their job; in addition, 32 percent earned less income due to decreased hours or reduced pay. What's more, 45 percent of workers indicate the pandemic's economic downturn has negatively affected their retirement.

Of course, industry discussion of financial wellness had begun long before the pandemic hit. Some employers have offered programs for years. What's different today is the heightened sense of intensity and urgency — from both companies and employees — about having support available in this area.

The pandemic's severe impact on the employment landscape has made it abundantly clear that emergency savings accounts play a critical role in overall financial wellness. There is an obvious need to help people either

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create or strengthen this safety net. Our research finds that — even among people who do have an emergency fund — the majority say it would cover less than 6 months of their expenses.

In response, more companies are expressing interest in offering financial wellness support and taking action to offer emergency savings resources. Nearly two thirds of employers are somewhat or very interested in offering employees access to an emergency savings account. Also, 3 in 10 defined contribution (DC) plan advisors would like to see recordkeepers offer workplace emergency savings alongside retirement plan recordkeeping.

A common approach is for companies to offer emergency savings accounts via payroll deduction, as a convenience to workers. These accounts — originally conceived in an effort to stem retirement plan leakage — take on greater significance now, as more people experience financial stress. If employees have emergency savings, then they can avoid raiding their retirement accounts (which is now easier to do, since the CARES Act passed in 2020). They also would not need to seek high-interest payday loans.

These plans essentially allow employees to deduct a certain amount of money from their paychecks (after taxes). People can access these funds, without penalty, whenever they wish. Employers can offer the accounts as part of their typical benefits enrollment process.

Initially, some advisors and plan sponsors had regulatory concerns about this approach: Were they authorized to set up savings accounts using payroll deduction and/or automatically enroll employees? However, the federal Consumer Financial Protection Bureau (CFPB) addressed these concerns via guidance in a Compliance Assistance Statement of Terms (CAST) template in July 2020.

There are a few different approaches to the emergency savings gap:

- *Use an in-plan option* — This approach supplements an existing workplace retirement plan, and helps to prevent employees from dipping into their actual retirement savings. One example is Prudential's supplementary emergency savings plan feature, which was created to "help employees balance a broader array of needs by meeting the short-term needs that DC plans are not designed to address."¹ There is also a potential option to roll employees' unused emergency funds into their retirement savings at a later date.
- *Add a "sidecar" solution* — Here, a company would offer an option essentially along with an existing retirement plan (but not within it). For instance, early in 2020 MassMutual announced an emergency savings solution to everyone who participates in one of its DC plans.² It requires employees to contribute a minimum deposit per month.
- *Take it online* — There are apps available specifically built to facilitate effective savings behaviors. For example, John Hancock's Twine savings and investing app has a cash savings account component designed for either individuals or pairs/couples. Its goal is "simplifying saving for major milestones" with automated features — which certainly can be applied to emergency savings.³
- *Turn to insurance* — One less formal (and likely not well known) option is to tap into a whole life

policy. People who own this product and have a cash balance are able to access those funds during difficult financial circumstances.

In today's climate — where the pandemic has heightened Americans' "need for a financial cushion" — more companies are taking action. *The New York Times* recently reported that, "Workers struggling to save for a rainy day are increasingly likely to get help from their employers."⁴ The article states that employers ranging from large companies and banks to foundations and municipal governments have initiated payroll deduction programs where employees can automatically put aside cash. Some companies even match contributions (up to a defined level), similar to 401(k) plans. Other options — such as stand-alone programs and "payroll cards" — allow savings to be loaded onto a card and used to pay for unexpected expenses.

The employee need for this type of solution is apparent. As of 2020, our research shows that nearly 3 in 10 workers say they do not have an emergency savings fund at all. In addition, more than 6 in 10 workers previously expressed interest in a workplace emergency savings account.

Coupling this reality with consumers' general anxiety about their short- and long-term financial stability, the bottom line is clear: There is both great need for emergency savings accounts and significant opportunity for companies to accelerate their efforts in providing them. Progress in this area will create more stability today and a more certain tomorrow for employers, employees, and families across America. 🌐

¹ "Increasing Financial Security With Workplace Emergency Savings," www.prudential.com, July 3, 2018.

² "Emergency Savings Solution Now Available to All Workers Who Participate in a MassMutual Retirement Savings Plan," MassMutual press release, January 23, 2020.

³ "Twine Honored With 2019 FinTech Breakthrough Award," John Hancock press release, April 5, 2019.

⁴ "More Workers Get Help in Building Rainy Day Savings," *The New York Times*, November 6, 2020. www.nytimes.com

For More Information

For additional perspective, see "Streamlining Emergency Savings Accounts for Financial Well-Being and Retirement," *SRI Review Issue 2, 2020* at www.limra.com/SRIReview.