



Testimony on HR 2680: Evidence Supporting Workplace Emergency Savings

Tim Shaw, Aspen Institute Financial Security Program
House Commerce, Labor and Economic Development Committee
Tuesday, February 15, 2022

Chairman Tarwater and members of the committee, thank you for considering this important piece of legislation supporting workplace emergency savings. My team at the Aspen Institute Financial Security Program has spent years researching the financial lives of households and have found that adequate emergency savings is not just a critical tool for workers to deal with unexpected expenses, but is also the foundation for them to take the first step towards building wealth.¹ The program under consideration today aligns with evidence we have gathered on the most effective tools for building workplace emergency savings, will provide a powerful recruitment tool for Kansas employers who take up the program to offer a cutting-edge workplace benefit, and will provide many Kansans with a powerful tool to build financial security and wealth.²

In 2017 researchers 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.³ 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.⁴ 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.⁵

¹ Elmi, Sheida and Bianca Lopez. “Foundations of a New Wealth Agenda.” Aspen FSP, November 30, 2021. <https://www.aspeninstitute.org/publications/foundations-of-a-new-wealth-agenda-a-research-primer-on-wealth-building-for-all/>

² Biddle Andres, Karen, Taylor Gauthier, and Tim Shaw. “Moving from Experimentation to the Mainstream: Policy Options to Automate Workplace Emergency Savings.” August 2021. https://www.aspeninstitute.org/wp-content/uploads/2021/09/Aspen-Emergency-Savings-Policy-Brief_Final_EV-1.pdf

³ Melford, Genevieve and Financial Security Program. “Five Lessons About Financial Well-Being.” Aspen FSP, May 15, 2020. <https://www.aspeninstitute.org/blog-posts/five-lessons-about-financial-well-being/>

⁴ Akabas, Shai, Kara Watkins, and Nicko Gladstone. “New BPC Survey Shows Americans Need Better Ways to Save for Emergencies.” Bipartisan Policy Center, February 25, 2021. <https://bipartisanpolicy.org/blog/new-bpc-survey-shows-americans-need-better-ways-to-save-for-emergencies/>

⁵ Treger, Stan, and Steve Wendel, “Financial Security of American Households During the Pandemic.” Morningstar, April 12, 2021. <https://www.morningstar.com/articles/1033010/financial-security-of-americanhouseholds-during-the-pandemic>

Our research has found that emergency savings were a particularly important lifeline for families during the economic crisis caused by COVID-19, with 73% of Americans reporting a reduction in their income during 2020.⁶ A recent survey conducted by the Aspen Financial Security Program, Morningstar, the Defined Contribution Institutional Investment Association, 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.⁷

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.⁸ Additionally, as we have seen around the globe, human behavior can be a significant obstacle to saving. Retirement savings has been one of the most successful savings vehicles available to Americans, and its success is largely thanks to locating retirement savings at the workplace, where it can easily be automated through payroll deduction when offered by an employer. This option is seldom available for emergency savings.

Given the barriers to emergency savings for people up and down the income spectrum and reflecting on the success of 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. Fortunately, 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.⁹ Workers' financial challenges are both a household problem and a business problem: one study estimated that employees' financial stress could cost businesses up to \$250 billion per year in reduced productivity.¹⁰ 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 have begun to design and build products that provide these tools in the workplace. UPS, in partnership with the national nonprofit Commonwealth and the Blackrock Emergency Savings Initiative, rolled out its emergency savings plan program for more than 90,000 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

⁶ Fedor, Lauren, and Christine Zhang. "Income of 73% of US Hit by Coronavirus Outbreak — FT-Peterson Poll." Financial Times, April 7, 2020. <https://www.ft.com/content/7a7233a3-160a-41be-8d63-40f64e041e57>

⁷ Treger, Stan, and Steve Wendel. "Financial Security of American Households During the Pandemic."

⁸ Akabas, Shai, Kara Watkins, and Nicko Gladstone. "New BPC Survey Shows Americans Need Better Ways to Save for Emergencies."

⁹ Mass Mutual. "MassMutual Workplace Financial Wellness Study." December 2019. <https://www.massmutual.com/about-us/news-and-press-releases/press-releases/2019/12/new-massmutual-study-finds-widespread-worry-among-employers-about-employees-financial-woes>

¹⁰ Mercer, LLC. "Inside Employees' Minds: Financial Wellness, Volume 2." 2017. <https://www.mercer.com/content/dam/mercer/attachments/global/inside-employees-minds/glb-2017-inside-employees-minds-volume-2.pdf>

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.¹¹

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.¹² The company began 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.¹³

In addition to the benefit for employers, workers benefit from increased access to emergency savings. As the name suggests, households use emergency savings to pay for unexpected expenses, like a blown out tire, a leaky roof, or a medical emergency. 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.¹⁴ 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.¹⁵

The proposed Kansas employee emergency savings account (KEESA) program provides critical support to small businesses to offer emergency savings accounts owned by the employee with federally insured savings accounts, funded through payroll deductions by the employee. In addition, it provides first-of-its-kind support for small businesses who provide matching contributions to workplace emergency savings, further boosting the rainy-day funds of their workers and providing critical protection against everyday financial risks. Research on employer matches in retirement savings finds that the existence of an employer match boosts participation in retirement plans by 3 to 10 percentage points.¹⁶ I expect that the effect of the employer match for the KEESA program will be even more important for two reasons. First, this benefit will be new to many employees, who may need additional incentive to participate. Second, the amount of the employer match in the KEESA program is significant relative to the needs of many households. Simply the seed money of \$50 employers would contribute under the program would be 20% of the \$250 research finds is needed to assist with avoiding eviction,

¹¹ Tergesen, Anne. "UPS to Offer Employees a Way to Save for Emergencies." The Wall Street Journal, October 22, 2020. <https://www.wsj.com/articles/ups-to-offer-employees-a-way-to-save-for-emergencies-11603360801>

¹² Huff, Aaron. "Research Leads Pitt Ohio to Create Emergency Savings Plan for Drivers, Employees." CCJ, November 10, 2016. <https://www.ccdigital.com/business/article/14934068/research-leads-pitt-ohio-to-create-emergency-savings-plan-for-drivers-employees>

¹³ Grant, Tim. "Financially Stressed Workers Are Less Productive on the Job." Pittsburgh PostGazette, July 25, 2019. <https://www.post-gazette.com/business/career-workplace/2019/07/25/Financially-stressed-workers-are-less-productive-on-the-job/stories/201907250005>

¹⁴ Aspen Financial Security Program. "Income Volatility: A Primer." May 2016. <https://www.aspeninstitute.org/publications/income-volatility-a-primer/>

¹⁵ The Finra Foundation and SaverLife. "Savings: A Little Can Make a Big Difference." December 2020. https://static1.squarespace.com/static/5fb2ed3e535af708d0c84149/t/5fd3a0f146be8e2e489fe52c/160770481735/7/RGB%2BFINRA%2BPaper%2BSaverLife-Nov30_v3.pdf

¹⁶ Benartzi, Shlomo and Charlie Nelson. "Employers Need to Reinvent Retirement-Savings Match." Harvard Business Review, October 19, 2020. <https://hbr.org/2020/10/employers-need-to-reinvent-retirement-savings-match>

paying the bills, and avoiding high-cost credit alternatives. The program will be even more powerful if employers take up the ongoing match that the program provides a tax incentive for.

The thoughtful account design embedded in the program also aligns with key principles researchers have uncovered about people's cyclical savings needs, including those with lower incomes:¹⁷

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

The program as designed will already be a powerful tool to enhance workplace emergency savings. It could also be a foundation for additional policies to allow for autoenrollment features in emergency savings plans, a tool that has greatly increased participation in retirement savings since it became common industry practice. In summary, the workplace benefit provided for by the KEESA program would be a powerful recruitment tool for employers and could set Kansas businesses apart by providing a cutting-edge benefit for financial security that few employers in the country have taken advantage of.

¹⁷ Biddle Andres, Karen, Taylor Gauthier, and Tim Shaw. "Moving from Experimentation to the Mainstream: Policy Options to Automate Workplace Emergency Savings."

¹⁸ Elmi, Sheida, and Laura Tamayo-Castillo. "The Cycle of Savings: What We Gain When We Understand Savings as a Dynamic Process." Aspen FSP, September 2020.

<https://assets.aspeninstitute.org/content/uploads/2020/09/The-Cycle-of-Savings.pdf>

¹⁹ Ibid.

²⁰ Madrian, Brigitte. "Inertia Can Actually Be a Helpful Thing." Interview with Christine Benz and Jeffrey Ptak. Morningstar The Long View Podcast, April 22, 2020.

<https://www.morningstar.com/articles/979209/brigittemadrian-inertia-can-actually-be-a-helpful-thing>

²¹ Beshears, John, et al. "Building Emergency Savings Through Employer-Sponsored Rainy-Day Savings Accounts." National Bureau of Economic Research, November 2019.

https://www.nber.org/system/files/working_papers/w26498/w26498.pdf