Enhancing Retirement Wealth and Reducing Retiree Inequality: Emergency Savings Accounts and Other Policy Options

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Four policies to reduce inequity in retirement balances

- Dedicated emergency savings accounts,
- Expanded coverage by retirement programs,
- Easier portability of retirement balances from employer to employer,
- An improved Saver’s Credit

- None of these mechanisms are large enough to eliminate the racial wealth gap or produce equal outcomes in retirement.

Emergency Savings Accounts

- 41 percent of Black households and 29 percent of Hispanic households reported having no emergency savings as compared with only 19 percent of white households (CFPB 2022).

- Low-to-moderate income households with liquid savings of approximately one month's earnings at any point:
  - Are less likely to experience extreme financial hardship up to three years later.
  - Have nearly twice the likelihood of improving their financial well-being by moving from high-hardship to low-hardship status (Sabat and Gallagher 2020).

Emergency Savings Structures:

- No perfect solution:
  - Part of a retirement savings plan – SECURE 2.0 makes this easier.
  - Freestanding payroll deduction account – Simple, but regulatory barriers.
  - Payroll card savings wallet – Showing success.
  - Independent payroll card account – Simple, may auto enroll.

Enrollment Methods for Emergency Savings

- 71 percent of eligible survey participants said they would enroll in an automatic enrollment, payroll deduction emergency savings plan.
  - 87 percent with a match, including 85 percent of those who initially said no. 60 percent wanted the match to go into the emergency account. (Harvey et al. 2018).
- UK NEST study using manual opt-in enrollment:
  - 57 percent of eligible employees said that the emergency savings program would help them. 15 percent said they would sign up either now or in the near future. Actual enrollment was 1 percent. (Phillips et al. 2021)
- UK NEST auto enrollment trial:
  - After six months, participation of the opt-in group was 1.6 percent, while that of the auto enrollment group was 52.6 percent. Average savings balance: opt-in workers was GBP29, automatic enrollment group was GBP130. (Phillips and Stockdale 2022)

Features Emergency Savers Want

- Features of high importance to participation:
  - Able to access their accounts immediately,
  - Can stop and start contributions at will,
  - Able to take the account when leaving a job,
  - The employer would not know when the account was used or the balance in it.
- Features of moderate importance to participation:
  - Ability to use a card without having to transfer money onto it.
  - No investment risk even if there were minimal or no earnings. (Harvey et al. 2018)

Increasing Retirement Plan Coverage

- 75 percent of those without access to a retirement plan have less than $10,000 saved. But 58 percent of those with such an account have over $100,000 saved. (EBRI 2022).
- Almost 57 million Americans lack access to a payroll deduction, workplace retirement savings plan. (Sabelhaus 2022).
  - 53 percent of Black and 64 percent of Hispanic workers lack access vs. 42 percent of white workers.
  - 79 percent earning $18,000 or less and 64 percent earning between $18,000 and $31,000 are not covered by a workplace plan. 20 percent of those earning over $78,000 are not covered.

A Universal Auto IRA + Emergency Savings

- AARP and DCIIA's RRC modeled the effect on household assets of a Universal Auto IRA where a certain amount is withdrawn each year to meet financial emergencies.
  - Projections use historical data on Auto IRA contribution levels, investment growth, size and frequency of financial emergencies, etc.
- By age 68, workers who started saving in their 20s saw an increase in assets, with white assets growing by 109 percent and Black/Hispanic assets by 125 percent. (Cormier et al. 2023)
- If both average contributions and rate of return were half of normal, whites saw an increase in household assets of between 10 percent and 45 percent depending on the age they started saving, while Black/Hispanic assets increased between 22 percent and 62 percent.

Increased Portability – SECURE 2.0

- Black and Hispanic savers are more likely to have small 401(k) and IRA balances than white savers. (John et al. 2021).
  - Small IRAs are more likely to be abandoned than those with larger balances, and
  - retirement balances that are rolled over into IRAs by default because a departing employee failed to respond to plan requests for direction are about ten times more likely to be abandoned than other types (Goodman et al. 2021).
- SECURE 2.0 starts to address this:
  - “Auto-portability” provisions give statutory permission to automatic rollovers of retirement savings balances under $5,000 to a new employer’s plan, expanding on prior Labor Department permission.
  - But also takes a step backwards by raising from $5,000 to $7,000 the maximum limit of benefits that employers can move out of plans and into default rollover IRAs.
  - The Department of Labor is to create a lost and found facility to help participants locate retirement benefits.

Additional Reforms to Improve Portability

- Require qualified DC plans to accept all valid rollovers
  - Make inadvertent acceptance of an improper rollover taint only the tax treatment of the transferred funds.
- Permit small auto-rollover IRAs to be invested in target date funds to make continued growth more likely.
- Require the use of standardized, uniform protocols for rollovers, and other fund transfers, and for showing that a rollover came from a qualified plan or bona fide IRA.
  - SECURE 2.0 directs Treasury to develop sample standard forms that plans could – but would not be required to -- use to simplify and expedite the rollover process.

Improved Saver’s Credit

- The Saver’s Credit, proposed by the Treasury Department and enacted by Congress in 2001, reduces the disparity in tax incentives for retirement saving between individuals in lower as opposed to higher tax brackets
- Originally proposed as a refundable, 50 percent credit deposited in the retirement account. (Gale et al. 2004a, 2004b, Iwry 2005).
- To save money, Congress made it a nonrefundable credit of between 10 percent and 50 percent. Any benefit is usually consumed or used to reduce debt.
- SECURE 2.0 returns the Saver’s Credit to the original intent.

The Saver’s Match

- SECURE 2.0 provides for a refundable 50 percent credit up to $1,000 deposited directly into a retirement account or IRA.
- Full 50 percent credit available to joint filers with incomes below $41,000.
- Phased down for joint filers with incomes between $41,000 and $71,000.
- Considered a pre-tax contribution – cannot be deposited into a Roth account or Roth IRA, but those types of accounts are eligible for the match.
- Will not take effect until 2027