Reducing Retirement Inequality

Building Wealth and Old-Age Resilience

Edited by

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OXFORD
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Great Clarendon Street, Oxford, OX2 6DP,
United Kingdom

Oxford University Press is a department of the University of Oxford.
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Published in the United States of America by Oxford University Press
198 Madison Avenue, New York, NY 10016, United States of America

British Library Cataloguing in Publication Data
Data available

Library of Congress Control Number: 2024947061

ISBN 9780198939030

DOI: 10.1093/oso/9780198939030.001.0001

Printed and bound by
CPI Group (UK) Ltd, Croydon, CR0 4YY

Cover image: iStock.com/Angelina Bambina.

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Contents

List of Figures ix
List of Tables xii
Notes on Contributors xv
Companion Website xxii

1. Diversity, Inclusion, and Inequality in Retirement Well-Being 1
Olivia S. Mitchell and Nikolai Roussanov

Part I. Retirement Wealth Inequality

2. Retirement Assets and the Wealth Gaps for Black and Hispanic Households 17
Gustavo Suarez, Jeffrey Thompson, and Alice Henriques Volz

3. Changes in Racial Gaps in Retirement Security over Time 53
Karen Dynan and Douglas Elmendorf

4. Understanding Trends in Hispanic and African American Retirement Preparedness in the US 79
Edward N. Wolff

5. Wills, Wealth, and Race 107
Jean-Pierre Aubry, Alicia H. Munnell, and Gal Wettstein

Part II. The Roles of Housing, Expectations, and Social Security

6. The Racial Wealth Gap and the Legacy of Racially Restrictive Housing Covenants 135
Larry Santucci

7. Racial and Ethnic Differences in Longevity Perceptions and Implications for Financial Decision-Making 153
Abigail Hurwitz, Olivia S. Mitchell, and Orly Sade

8. Social Security and the Racial Wealth Gap 171
Sylvain Catherine and Natasha Sarin

Part III. Differential Access to Financial and Human Capital Markets

9. Financial Inclusion and Retirement Preparedness in the United States 191
Vicki L. Bogan

10. How Racial Differences in Housing Returns Shape Retirement Security 210
Amir Kermani and Francis Wong

11. Racial Differences in Debt Delinquencies and Implications for Retirement Preparedness 228
Mingli Zhong and Jennifer Andre

12. Understanding Financial Vulnerability Among Asians, Blacks, and Hispanics in the United States 242
Annamaria Lusardi, Olivia S. Mitchell, Alessia Sconti, and Andrea Sticha

Part IV. Narrowing the Gaps

13. Tax Policy to Reduce Racial Retirement Wealth Inequality 283
Carl Davis and Brakeyshia Samms

14. Improving the Financial Security of Workers of Color through Employee Financial Wellness Programs 305
John J. Kalamarides

15. Enhancing Retirement Wealth and Reducing Retiree Inequality 318
David C. John, J. Mark Iwry, and William G. Gale

16. Would Baby Bonds Reduce Racial Retirement Wealth Inequality? 338
Naomi Zewde

The Pension Research Council 347
Index 351

Chapter 15

Enhancing Retirement Wealth and Reducing Retiree Inequality

Emergency Savings Accounts and Other Policy Options

David C. John, J. Mark Iwry, and William G. Gale

The US racial wealth gap has been a consistent feature of American life for centuries. The ratio of median wealth among Whites relative to Blacks fell from about 60 in the 1860s to about 10 in 1920 (Derenoncourt et al. 2022). Although it continued to decline thereafter, the gap remains wide. Median wealth was $188,200 for White households in the 2019 Survey of Consumer Finance (SCF), compared to $24,100 for Black households and $36,100 for Hispanic households (Bhutta et al. 2020). The gap may have grown in recent years and is especially concerning as families approach retirement (Dynan and Elmendorf 2025; Gale et al. 2022).

The causes of the gap include the historical enslavement of Black people, the propagation of Jim Crow laws after Emancipation, and the continuing effects of racial discrimination. In statistical terms, some of the gap can be accounted for by racial differences in educational attainment, income, occupational choice, and other factors (Gale et al. 2022; Thompson and Suarez 2015), but these outcomes themselves are products, in part, of earlier enslavement, Jim Crow laws, and discrimination (Althoff and Reichardt 2022). Given these patterns, it is not surprising that similar gaps arise in retirement wealth accumulation. Median retirement account balances (i.e., excluding defined benefit plans and social security) in the 2019 SCF were $80,000 for White households compared with $35,000 and $31,000, respectively, for Black and Hispanic households (Federal Reserve 2020). Similarly, 81 percent of Whites report having some retirement savings, compared to 64 percent of Blacks and 61 percent of Hispanics. Differences in participation and balances derive from differences in income and in access to payroll deduction programs. As with household income, when those assets are converted into an annuity, the gap between White retirement security and that of Blacks and Hispanics has grown in recent years (Wolff 2025).

David C. John, J. Mark Iwry, and William G. Gale, *Enhancing Retirement Wealth and Reducing Retiree Inequality*.
In: *Reducing Retirement Inequality*. Edited by: Olivia S. Mitchell and Nikolai Roussanov, Oxford University Press.
© Pension Research Council (2025). DOI: 10.1093/oso/9780198939030.003.0015

In this chapter, we examine how four policies—dedicated emergency savings accounts, expanded access to retirement programs, easier portability of retirement balances from employer to employer, and an improved Saver's Credit—could enhance retirement wealth, especially for minorities, and reduce racial inequity in retirement balances. Although none of these mechanisms is large enough to eliminate the racial wealth gap or produce equal outcomes in retirement, these four policy reforms, working in concert, would be mutually reinforcing and could reduce the disparities for those most in need.

Dedicated Emergency Savings Accounts

Purposes and potential effects on household finances

Having a separate savings account set aside specifically for use in emergencies has several advantages over mixing general and emergency savings. A separate, dedicated account may facilitate better financial decision-making by households through more effective 'mental accounting' that enables them to better understand what resources are available to meet unexpected expenses (Beshears et al. 2019). By keeping retirement funds and emergency funds apart and distinct, separate mental accounting helps emphasize their different character and purposes. Accordingly, it may also help to keep emergency money from being spent for other purposes; increase overall savings; and make it less likely that retirement assets will be used to meet temporary needs.

Financial emergencies strike at all income, age, and educational levels, and they can have lasting consequences. In one study, 60 percent of households reported having at least one financial shock in a 12-month period, and almost a third (32 percent) experienced two or more shocks (Pew 2015). The median level of the most expensive shock reported in that study was $2,000, with about a quarter of households facing a shock of $6,000 or more. The lasting effects especially hit Black, Hispanic, and low-income households. Between two-thirds and three-quarters of lower-income households found it difficult to meet their household expenses after an emergency, compared to 55 percent of all households, 62 percent of Black and Hispanic households, and 53 percent of White households.

Such emergencies often reduce retirement security. For every dollar saved in a retirement account by individuals under the age of 55, approximately 30 to 40 cents are withdrawn before retirement (Argento et al. 2015). Having emergency savings can reduce the need to use retirement assets. In one study, 59 percent of unretired people with no emergency savings reported taking money from a retirement account in the past 12 months,

compared to 27 percent of those who had emergency savings of less than a month's income, and 9 percent of those who had emergency savings equal to or exceeding a month's income (Consumer Financial Protection Bureau [CFPB] 2022).

Who has emergency savings and how much differs, depending on both income and demographics. One study found that 41 percent of Black households and 29 percent of Hispanic households reported having no emergency savings, compared with only 19 percent of White households (CFPB 2022). Different age groups had fairly similar percentages of people without these savings, but lower-income households were far more likely to report having no such savings.

Having emergency savings—and using them—can have lasting benefits. Low-to-moderate-income households with liquid savings of approximately one month's earnings at any point in a four-year study period were significantly less likely to experience extreme financial hardship up to three years later (Sabat and Gallagher 2020). Controlling for other financial and demographic factors, achieving this liquid savings buffer at any point in a four-year period was associated with a 9.5 percentage point decrease in the likelihood that a household would experience extreme hardship three years later. Furthermore, low- and moderate-income high-hardship households that achieved the savings goal at any point in time during the study period had nearly twice the likelihood of improving their financial well-being by moving from high-hardship to low-hardship status, compared to households that did not achieve the savings goal.

A key point, however, is that emergency savings are meant to be used. Savings totals alone are not a useful indicator of saving success (Elmi 2020). Instead, the ongoing process of building, using, and then replenishing savings is far more important, as it helps protect families from immediate emergency shocks while staying on track to achieve their long-term goals. Therefore, the value of having a savings balance available goes beyond the ability to cover a particular emergency expense.

Structuring emergency savings accounts

No single structure meets everyone's emergency savings needs. In general, there are two major categories of dedicated or separate emergency savings accounts: accounts that are freestanding with no connection to a retirement plan, and accounts that are in or connected in some way to a retirement plan. Each has advantages and certain regulatory impediments, and each can be structured with payroll deduction.[1] As interest has grown in exploring emergency saving and its potential to improve outcomes for US households, in concert with saving for retirement and for other long-term goals, employers, financial institutions, and other providers have been

actively engaged in freestanding emergency saving activity outside of a retirement plan.

Freestanding emergency savings accounts have a major advantage: they can be made available to all employees regardless of whether their employers offer retirement plans. These programs can be structured in a wide variety of ways tailored to the specific needs of the target populations (Aspen 2021). Such emergency funds are usually deposited in a bank or credit union, and they can be accessed immediately with a debit card. This is an advantage as most people have some level of familiarity with depository institutions and how they work. When an employee leaves the firm, it is fairly simple to move the account to another financial institution, or to retain it as an individual account. This level of regulatory and operational simplicity has led some retirement plan providers to structure their emergency accounts outside the retirement plans.

Nevertheless, freestanding accounts do not qualify for the preferential tax treatment accorded to 401(k) and other retirement savings plans. Moreover, existing banking and credit union regulations make it difficult to include automatic enrollment in these programs. 'Know Your Customer' rules, designed to fight money laundering and the financing of terrorism, require depository institutions to collect information about customers' identity before opening accounts for them (Aspen 2021). It is unclear whether this information must come from the individual account owner, as per current practice, or if it could be provided by account owners' employers and, if so, under what conditions. Until this is clarified, automatic enrollment will not be available for freestanding emergency savings programs.

A variation on this type of emergency savings uses a payroll card—a debit card into which the employee's pay, or a portion of it, is directly loaded. Payroll emergency savings cards have several advantages, including instant access to the funds and the ability to provide cards to family members (Harvey 2021). AARP's program uses a card that does not charge fees for most purposes.

Another payroll card emergency savings approach, used by employers that use the cards to pay their employees, takes advantage of a savings 'wallet,' an artificial division in the card's structure where the employee can place savings that are out of sight and can be accessed only by moving them from the savings 'wallet' into spendable funds (Commonwealth 2022). Payroll card funds are held at a bank or credit union until used, and current regulations allow automatic enrollment into them if another payment method is also offered as an alternative (APA 2018).

Emergency savings accounts connected to retirement savings plans have a different set of advantages and drawbacks. While limited to employers

that sponsor a plan, emergency savings accounts in retirement plans benefit from a pre-established base of participants who often have some level of familiarity and trust in the plan sponsor, the provider, and saving in general. They also can benefit from the extensive existing saving infrastructure built up in and around 401(k)s and similar plans. At the same time, integrating emergency savings accounts into an existing operational, administrative, and complex legal infrastructure might not be nearly as simple as setting up emergency savings without relation to an existing plan.

After-tax employee contributions to 401(k) plans are also reasonably well suited to emergency saving. Those accounts are carefully kept separate from the plan's basic retirement saving accounts. They are not subject to the in-service withdrawal restrictions applicable to elective deferrals, and employees can recover their contributions, though not the earnings, tax-free and penalty-free. They also are a longstanding and familiar feature of tax-qualified plans which recordkeepers have long experience providing and administering. A few employers have implemented this separate-account model, at least in part (i.e., a few with auto-enrollment, such as Unum Group working with Fidelity as its recordkeeper, and others at least initially without it). In addition, another possibility some have raised is to fund the separate emergency savings account with deemed or 'sidecar' Roth IRAs connected to qualified employer plans (Beshears et al. 2019).

Yet a challenge for in-plan emergency savings accounts that has yet to be fully addressed is the speed with which participants can withdraw and use their savings. Retirement accounts cover withdrawals typically by selling assets, and only then sending the proceeds to savers. This process could take several days (DCIIA 2023).

Automatic enrollment to encourage emergency saving

A major obstacle to widespread use of dedicated emergency savings accounts is the need for employees to take action to enroll. Several surveys find that a high proportion of eligible workers express interest in payroll deduction emergency savings accounts. A 2018 survey of US employees found that 71 percent said they would be likely to participate in such an account if their employer offered one (Harvey et al. 2018), and certain programs of this kind have been successful. Pitt Ohio, for example, created emergency savings accounts through its credit union and reported that, by 2019, half of its employees had opened one (Grant 2019).

But the need to open emergency savings accounts, combined with various regulatory requirements, has limited participation and hindered the adoption of freestanding emergency savings accounts. To date, these obstacles or uncertainties range from 'Know Your Customer' requirements for

banks, to some ERISA questions, to state and local anti-garnishment laws (Aspen 2021). As a result, many if not most eligible employees fail to open accounts, whether because the process is too complex, other priorities are higher, they do not know how much to save, or whether they can afford to do so, or other factors. A key question for employers seeking to increase participation has been uncertainty about whether they can use automatic enrollment for emergency savings.

This issue was highlighted in the United Kingdom, when the National Employment Savings Trust (NEST), the country's government-owned retirement savings provider serving mainly moderate-to-lower income workers, started a payroll deduction emergency savings trial connected to an employer's retirement plan (Phillips et al. 2021). While 57 percent of eligible employees said that the emergency savings program would help them, and 15 percent said they would sign up either now or in the near future, only one percent actually enrolled.

A second trial using a different employer divided eligible workers into one group that had to opt in if they wanted to enroll in the emergency savings account and a second group that was automatically enrolled (Phillips and Stockdale 2022). After six months, participation by the opt-in group was 1.6 percent, while that of the auto-enrollment group was 52.6 percent. The average savings balance for opt-in workers was GBP29, while that of the automatic enrollment group was GBP130. Clearly, automatic enrollment greatly increases both participation and savings by removing barriers to opening an account.

Other features encouraging employee participation in emergency savings accounts

To be most effective, emergency savings accounts need to meet employee needs. A recent national US survey studied emergency savings account features and developed a list of features ranked by employee priorities and by whether the feature would encourage participation (Harvey et al. 2018). The survey considered an account not connected with a retirement plan, but most of its findings would also apply to accounts that are connected with a retirement plan. Overall, 71 percent of eligible survey participants said they would enroll in an automatic enrollment/payroll deduction emergency savings plan. Interestingly, demographic factors such as household income, gender, and age explained only about one-third of the decision to participate. For instance, the major drivers of participation included stress about individual financial situations, having a fairly low amount of non-retirement savings, trust in the employer, and the desire to have emergency savings equal to one month's income. Secondary reasons to participate included a higher trust in financial institutions, and the ability to meet a

$2,000 emergency. Blacks were also somewhat more likely to express an interest in participating. Messaging that focuses on ease of savings, employee control, and peace of mind encouraged participation. Discussing the employer's involvement did not.

When the employer offered a match, participation climbed to 87 percent, which included 85 percent of those who earlier had said that they would not participate. Sixty percent wanted the match to go into the emergency account. Other features with high importance included the ability to access their accounts immediately, the ability to stop and start contributions at will, the ability to take the account when leaving a job, and privacy, so the employer would not know when the account was used or the balance in it. Features that affected enrollment only moderately included the ability to use a card without having to transfer money into it, and placing the money in an account with no investment risk even if there were minimal or no earnings.

Congress alters the landscape for emergency saving

In December 2022, the US Congress included two different types of significant in-plan emergency saving provisions when enacting SECURE 2.0. One provision established a new in-plan emergency saving account separate from the existing retirement saving account (SECURE 2.0, Section 127). The second provision added an in-plan emergency saving withdrawal capacity to a plan's existing retirement saving accounts, thereby using the same in-plan account for both (SECURE 2.0, Section 115).[2] That legislation further shaped the choices now available to employers, effective in 2024, by making these two new options available to sponsors of defined contribution retirement savings plans.

In an effort to promote emergency saving with appropriate consumer protections and coverage under ERISA, the separate-accounts provision provides for a specified kind of 'pension-linked emergency savings account.' Importantly, the legislation permits employers to auto-enroll employees into that account up to a maximum contribution rate of 3 percent of pay, and it also preempts any state anti-garnishment laws that might restrict this. The legislation did not provide that automatic enrollment into emergency savings is permitted only in the case of this particular type of account, nor did it prohibit, approve, or otherwise explicitly address auto-enrollment into other types of plan-linked emergency savings accounts. Nevertheless, it did accord special favorable tax treatment to emergency saving in Roth-type accounts plus better-than-Roth tax treatment of the earnings on the contributions; the earnings are tax-exempt automatically, regardless of the individual's age or years in the Roth account. These emergency savings accounts are also exempt from the 10 percent tax on early withdrawals.

At the same time, these 'pension-linked emergency savings account' provisions were quite prescriptive. All pension-linked employee emergency savings contributions, whether regular employee elective deferrals or auto-enrollment employee contributions, must be deposited in a dedicated emergency savings account. SECURE 2.0 caps the account balance at $2,500 indexed for inflation, less than one month's income for a household earning more than $30,000 a year. The account cannot be available to highly compensated employees. Participants must be allowed to take at least one withdrawal per month, with the first four withdrawals free from fees. Furthermore, these pension-linked accounts must be invested in cash, interest bearing deposit accounts, or principal preservation funds. In addition, a provision that aroused considerable controversy was a requirement that the employer apply the same employer-matching formula, if any, to emergency saving contributions as it applied to other contributions. Any employer contributions that matched emergency saving contributions would also go into the regular employer-matching account and with the same tax treatment. The fact that these pension-linked provisions are quite prescriptive, and the other conditions and consumer protections imposed on them under ERISA and the Internal Revenue Code, raise questions about whether plan sponsors and administrative recordkeeper firms will conclude that compliance with these pension-linked emergency savings account provisions is sufficiently workable and cost-effective, especially compared to the alternatives of freestanding accounts or not pursuing emergency saving at all for the time being.

To appreciate how Congress arrived at this point, it is helpful to know that the emergency savings issue in SECURE 2.0 was heavily negotiated between those holding competing philosophies: stakeholders with conflicting commercial interests, other private-sector organizations with differing priorities and agendas, and of course congressional committees and Members of Congress with differing jurisdictional stakes and political interests. During the legislative process, account limits were raised and lowered, an option to make employer contributions to the emergency saving account was included but later eliminated, the employer-matching requirement was attacked and defended, other conditions were added and subtracted, and various other changes were contested.

In addition to the separate-accounts approach reflected in the pension-linked emergency savings accounts, SECURE 2.0 also permitted plans to make 'emergency personal expense distributions.' Plan sponsors and IRAs were given the option of offering participants an ongoing opportunity to take one penalty-free withdrawal from the plan of up to $1,000 per year for 'immediate financial needs' (SECURE 2.0, Section 115). This withdrawal would generally be taxable but exempt from the normal restrictions on early withdrawals by active employees and from the additional 10 percent

tax penalty for employees taking early withdrawals of retirement savings. Employees can reverse the taxability of the withdrawal by repaying it to the plan within three years. Unless and until an emergency withdrawal were repaid, employees will be precluded for three years from taking further such withdrawals from the same plan, but apparently not from other plans or from an IRA.

It appears that this was originally intended as a minimalist approach, allowing only limited emergency withdrawal amounts in order to contain the risk of crowding out retirement saving, especially among lower- and moderate-income employees. Yet this authorization to take penalty-free emergency expense distributions of retirement savings has raised concerns among proponents of the separate 'mental accounting' approach. The fear is that the single-account emergency withdrawal alternative could actually invite far more 'leakage' of retirement savings from the system, by overtly weakening the withdrawal restrictions for retirement savings. For some, these concerns are heightened by the question whether the simplicity of the single-account approach would appeal to employers and recordkeepers that might be deterred by the comparatively heavy lift—in terms of systems programming and plan administration—that the new pension-linked emergency savings account provision would entail.

Nonetheless, some proponents of the behavioral separate account strategy are encouraged that the provision explicitly permits auto-enrollment into emergency savings. They are inclined to view this as indirectly providing more general support for auto-enrolling employees into emergency saving even under alternative arrangements, such as after-tax employee contributions, that might not meet all of the conditions for the unusually favorable, better-than-Roth tax treatment described earlier. Others, however, wonder whether employers and their advisors will worry that the two provisions might have the practical effect of safe harbors that occupy the field, making alternative approaches seem comparatively riskier. Instead, observers hope employers will view the statutory provisions as simply two new approved emergency saving options without negative implications for the use of after-tax employee contributions or other alternatives.

Forthcoming guidance from the US Treasury and Labor Departments could also bear on some of these issues. This could include interpretation of SECURE 2.0 provisions recognizing the use of after-tax employee contributions with auto-enrollment and employer matching, as emergency saving. The guidance could help determine whether the use of after-tax employee contributions for emergency saving comes to be seen as a simpler and more viable option in the market, versus one that appears less reliable in view of the new statutory provisions.

Improved access to retirement savings accounts

Access to and participation in a retirement savings account is essential to retirement security. The main exception to this rule for private sector workers is if they are among the lucky few who still have a functioning traditional defined benefit (DB) pension plan. While 75 percent of those without access to either a DB or a defined contribution (DC) plan have less than $10,000 saved for retirement, 58 percent of those with a DC plan have over $100,000 saved (EBRI 2022).

Unfortunately, almost 57 million Americans lack access to a payroll deduction workplace retirement savings plan (Sabelhaus 2022). People of color and lower-income workers are especially disadvantaged, with 53 percent of Blacks and 64 percent of Hispanics lacking access, compared to 42 percent of White workers. Moreover, 79 percent of those earning $18,000 or less and 64 percent of those earning between $18,000 and $31,000 are not covered by a workplace plan, while only 20 percent of those earning over $78,000 are in a similar situation.

Small-business employees are especially unlikely to be covered by retirement plans, with 78 percent of those working for an employer with fewer than ten workers not having such a benefit as well as 65 percent of those employed by companies with 11 to 25 workers. Smaller businesses generally cite several reasons for failing to offer a retirement plan. Nearly three-quarters (73 percent) note that plans are too expensive, and almost two-thirds (63 percent) say their organization did not have the resources to manage such a plan (Pew Charitable Trusts 2017). These beliefs persist, even though Congress has created several versions of simplified retirement plans.

There is no general requirement for US private sector companies to offer a retirement plan, and a breakthrough in expanding coverage is unlikely as long as employers can decline to offer such a benefit. Nevertheless, an increasing number of state laws are requiring employers to enable their workers to save for the future through a state-facilitated Auto IRA program, unless the employer offers a pension or retirement savings plan, and an increasing number of states require employers without a plan to facilitate saving by their employees by making their payroll systems available for automatic enrollment into payroll-deduction IRAs. To date, seven state-facilitated programs are in operation, while eight additional states are in the process of implementing legislation providing for some form of similar program.[3]

The operating programs and eight of the 12 other states that have passed legislation all use an Auto IRA, combining a payroll deduction IRA with automatic enrollment. Unlike 401(k)s, Auto IRAs are not retirement plans, and accordingly they are not subject to ERISA or plan qualification rules.

Auto IRA programs address the cost and administrative concerns of small business owners, as the seven currently operating programs impose no fees on business owners. In fact, almost 80 percent of businesses that participate in OregonSaves, the first Auto IRA program, reported no out-of-pocket expenses (Scott 2021). Administration is simple, as an employer's sole responsibility is to provide its employee roster to a state-contracted recordkeeper and then implement payroll deductions reflecting the choices of employees who choose to participate. Auto IRAs involve no employer contributions, whether matching or otherwise. One important and hoped-for side effect of the state-facilitated programs appears to be materializing: there is early evidence that they are also encouraging the creation of more ERISA plans, as certain employers choose to start one instead of joining the state's Auto IRA (Olson 2022).

At the individual level, when people are offered a retirement plan, participation rates of those from distinct racial and ethnic groups narrows somewhat, as an estimated 80 percent of Blacks and 75 percent of Hispanics choose to participate, versus about 90 percent of Whites (Bhutta 2020). While participation rates for state-facilitated Auto IRAs are lower, at roughly 66 percent, these programs do primarily serve lower-income workers (Massena Associates 2023). Racial data have not been available for the state programs, but the largest, CalSavers, estimates that two-thirds of its potential users are people of color (Werschkul 2020). Regardless of the type of retirement program that is offered, greater access would sharply improve retirement outcomes.

Analysts at AARP's Public Policy Institute and the Defined Contribution Institutional Investment Association Retirement Research Center have modeled the combination of a universal Auto IRA with built-in emergency savings. They report that this would provide a marked improvement in both household wealth and liquid assets (Cormier et al. 2023). This research shows an even greater improvement for Black and Hispanic households, although the racial wealth gap remained, and even grew, due to the higher earnings level of Whites. Using actual enrollment and contribution data from the three oldest state Auto IRA programs, the projections assume investments grow at the real rate of return for a stock and bond portfolio experienced over the 20-year period ending in 2020. A set amount, determined by using Pew data on financial emergencies, was withdrawn every year. That money could represent an actual withdrawal, or an amount contributed instead to a separate emergency savings account. Participants were assumed to join the program at whatever age they were when the modeling began and remain in the program until they reached the age of 68. Anyone who was already in a retirement plan was assumed to remain in it.

Outcomes were modeled using four sets of economic assumptions. First, a baseline case used assumptions consistent with those in the past several

decades. A second case assumed that the rate of return on assets was half of the baseline case, representing the effects of poor economic conditions. In a third, contributions were assumed to be half the baseline case, representing the potential outcome if individuals only participated sporadically. Finally, in a fourth case, both the rate of return and contributions were assumed to be half of the level of the baseline case. In addition to tracking contributions, their growth, and withdrawals for emergencies, the model projected that the emergency funds helped to stabilize household finances. Results depicted the overall population of participants, as well as those with incomes below $40,000 annually; the populations of Black and Hispanic participants were combined to increase the number of observations.[4]

Using the baseline assumptions, median household assets were projected to increase by 69 percent, or over $180,000 in real dollars by age 68. Whites' assets increased by 71 percent, while Black/Hispanic households saw an 89 percent increase. This projection averaged participants of all ages when they started the program. Workers who began saving in their twenties saw an even greater increase in assets by age 68, with Whites' assets growing by 109 percent and Black/Hispanic assets by 125 percent. The projection showed similar increases in the amount of liquid assets.

Even under the most pessimistic conditions, where both average contributions and the rate of return were half of normal, Whites saw an increase in assets of between 10 percent and 45 percent depending on the age at which they started saving. Blacks and Hispanics together saw an increase of between 22 percent and 62 percent. Accordingly, even with a certain amount of leakage for emergencies or contributions directed into an emergency account versus the retirement program, universal access to a savings program improves retirement outcomes. As discussed earlier, having and using emergency savings stabilizes household finances. It provides an additional source of funds rather than needing to draw from retirement accounts, and the additional stability can allow greater retirement contributions and accumulation over time.

Improved portability of retirement savings

A related point is that US retirement savers can find it difficult to move their retirement balances from one employer to another when they change jobs, mainly because a forest of regulatory requirements and industry practices makes the process overly complex. Most of these requirements were created for good reasons, yet now they must be re-examined and better coordinated. The current system especially affects those with small accounts, who are more likely to be cashed out when the saver leaves an employer, or rolled into an IRA by default, unless the departing employee chooses otherwise.[5]

The literature shows that Black and Hispanic savers are more likely to have small 401(k) and IRA balances than White savers (John et al. 2021), leaving them more likely to have their past accounts rolled into IRAs.[6] Unfortunately, small IRAs are more likely to be abandoned, compared to larger balances. Moreover, retirement balances that are rolled over into IRAs by default because a departing employee fails to respond to plan requests for direction are about ten times more likely to be abandoned than are other types (Goodman et al. 2021).

In response, the SECURE 2.0 Act of 2022 included 'auto-portability' provisions, giving statutory permission to automatic rollovers of retirement savings balances under $5,000 to a new employer's plan, expanding on prior Labor Department permission. Yet, at the same time it took this highly publicized step forward to reduce leakage of savings and promote portability, the legislation more quietly took two steps backward by expanding employers' ability to eject these small benefits from their plans in the first place and automatically roll them into default IRAs unless departing employees explicitly elected otherwise. This was done by raising from $5,000 to $7,000 the maximum limit on the size of benefits that could be subjected to such removal and default rollovers.

On the positive side, SECURE 2.0 also instructed the Department of Labor to create a lost and found facility to help participants locate retirement benefits. This and the auto-portability provisions are constructive steps, but additional reforms are also needed.[6]

One positive step would require all qualified retirement plans and IRAs to use standardized, uniform protocols for rollovers and other transfers of funds—not limited to small amounts—and for transmission of standardized data showing that rollovers came from a qualified plan or bona fide IRA. SECURE 2.0 began cautiously to move in this direction, by directing the Treasury Department to develop, with industry input sample standard forms that plans could—but would not be required to—use to simplify and expedite the rollover process for savers and providers alike. A related step could provide that the inadvertent acceptance of an improper rollover would not taint a plan's qualified status, only the tax treatment of the transferred funds. With these protections, it would be reasonable to require qualified defined contribution plans to accept valid rollovers (which is not currently required). This package of reforms would go far toward helping savers easily keep track of, manage, and appropriately consolidate their retirement savings.

Another constructive change would expand the Labor Department's fiduciary safe harbor for small auto-rollover IRA investments, to permit investment in low-cost Qualified Default Investment Alternatives (QDIAs) such as target date funds, at least if individuals were invested in such funds in the former employer's plan or if that plan offered those funds as qualified

default investments. This would permit investment of the rolled-over funds as they had been invested in the former plan, and it would usually make continued growth more likely. In the past, in periods of historically low interest rates, the balances invested in low-return principal protection funds would often gradually shrink when administrative fees exceeded investment returns.

In addition, using paper checks to transfer balances is problematic. Checks often get lost in transit or misplaced, while electronic transfers are less costly and more secure. Certain providers use paper checks as a way to prove that they have searched for lost participants, but there are other ways to meet this requirement.

An Enhanced Saver's Credit

One of the most important elements of SECURE 2.0 from a policy standpoint is a major expansion of the Saver's Credit (SECURE 2.0 section 103). 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 versus higher tax brackets (Gale et al. 2004a, 2004b; Iwry 2005). It provides households with lower marginal tax rates an additional tax benefit in the form of a credit available exclusively to low- and moderate-income taxpayers who contribute to a retirement plan, such as a 401(k) or IRA (Internal Revenue Code 2023, section 25B).

While the Saver's Credit is claimed annually on more than 10 million tax returns, it has only slightly improved retirement savings, because Congress changed its proposed structure from a refundable 50 percent credit deposited in retirement savings accounts to a nonrefundable credit of only 10 percent for most eligible savers and 20 percent for some others with only a small number actually receiving a 50 percent credit. Because it is not deposited in retirement savings accounts, the Saver's Credit is usually consumed or used to reduce debt. Moreover, as a nonrefundable credit, it has been limited to filers with a federal income tax liability. A tax filer who has no income tax liability receives nothing from the Saver's Credit, and if a filer's tax liability is less than what would be received from the credit, the taxpayer receives the smaller amount.[7]

The new structure under SECURE 2.0 provides for the originally proposed refundable 50 percent credit rate to be deposited as a match directly into the individual's retirement account or IRA. Thus, every saver who qualified would be entitled to the credit regardless of whether there was an actual tax liability (and the credit accordingly was renamed the 'saver's match'). Joint filers with incomes below $41,000 could receive a match of up to $1,000 for contributions of up to $2,000, and for joint filers with incomes between $41,000 and $71,000 the credit will phase down ratably to zero at

$71,000 of income. To limit the revenue cost, the match will be considered a pre-tax contribution taxed only when withdrawn from the retirement account; therefore, savers may not elect to have it deposited into a Roth account or Roth IRA. The new law also requires the Treasury Department to promote the reformed Saver's Credit so more retirement savers can take advantage of it.

This new structure will be superior to the existing credit, especially for those with lower incomes. Automatically depositing the match in a retirement savings account instead of paying it to the saver makes the credit more likely to be saved, rather than spent. Because a smaller proportion of low- to moderate-income workers are employed by companies that offer a retirement plan, much less an employer match, a federal match will improve Saver's Credit participation and increase savings. In addition, making the credit refundable will make tens of millions of additional workers eligible if they contribute to a qualified plan or IRA. Finally, there is evidence that offering the refundable credit in the form of a matching deposit will be an effective saving incentive. For instance, one study of IRA contributions at tax time found that a match resulted in more people saving and higher contributions by those who saved (Duflo et al. 2006).

Unfortunately, Congress provided that the expansion of the credit, including the matching feature, will not take effect until 2027. This reduces the estimated revenue cost and gives Treasury/IRS and plan and IRA recordkeepers four years to reprogram their systems to be able to make and accept the new matching deposits. Even then, however, plans and IRAs will have the option of declining to accept the matching deposits, in which case it remains to be seen whether they will be held for individuals by the IRS, accruing interest.

Conclusion

Emergency savings accounts help retirement savers and others to meet unexpected expenses without reducing their retirement prospects or destabilizing household finances. They can especially help minorities and low-to-moderate income workers. Having and using emergency savings can have longer-term effects that can enable people to save even more for retirement in the future, due to strengthened family finances. These can be structured in a wide variety of ways to meet the specific needs of segments of the workforce.

Nevertheless, for emergency accounts to improve retirement outcomes, individuals must first have the savings in the first place and second, be able to increase them. Access to retirement saving programs remains the first essential step toward financial security, and also key is improved portability

so past accounts can be located and appropriately consolidated. Providing a government match for low-to-moderate income savers through an improved Saver's Credit can also help those who most need greater security to build assets faster and give them an added incentive to save instead of opting out.

Each of these four reforms would reduce inequality, yet implementing all four together would have a far greater effect. They would substantially increase household wealth and improve equality of outcomes. Nevertheless, as important as these mechanisms are, they still do not solve the racial wealth gap. Additional reforms and wage equality will be needed for that.

Notes

1. A good summary of aspects of each category for both employers and employees is provided by DCIIA (2023).
2. SECURE 2.0 did not consider emergency savings accounts that are not connected to a retirement account, due to the jurisdiction of the committees that developed the bill. Legislation allowing automatic enrollment or other provisions of freestanding emergency savings is still under development.
3. The seven operating programs as of June 2023 are in California, Colorado, Connecticut, Illinois, Maryland, Oregon, and Virginia. All use the Automatic IRA. Auto IRA programs are also being implemented but are not yet operating in Delaware, Hawaii, Maine, Minnesota, Nevada, New Jersey, New York, and Vermont. New Mexico has adopted both a voluntary payroll deduction IRA and a marketplace. In addition, Massachusetts has a very small Multiple Employer Plan (MEP) open only to small nonprofits, Missouri is implementing a statewide MEP, and Washington State has only a marketplace that has resulted in few new plans.
4. Detailed results, including those by race, and a larger discussion of the methodology can be found in Appendix A in John et al. (2021).
5. The Urban League and the NAACP have both stated their support for automatic rollover of certain accounts from one employer plan to the next (Guerin 2022).
6. Details of these and additional reforms can be found in Appendix C of John et al. (2021).
7. For further discussion of the Saver's Credit and its history, see Gale et al. (2004a, 2004b) and Iwry (2005).

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