EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

89TH PUBLIC POLICY FORUM
MAY 11, 2021
EMERGENCY SAVING AND FINANCIAL RESILIENCE: THE ROLE OF THE EMPLOYER

GET READY FOR THE PATH FORWARD!

Monday, May 10 — **Department of Labor: The Next Four Years** and **Lessons Learned From COVID-19: State of Retirement**

Tuesday, May 11 — **Emergency Saving and Financial Resilience: The Role of the Employer**

Thursday, May 13 — **Tearing Down the ACA Firewall: Implications for Employment-Based Health Benefits Under the Biden Health Care Plan**

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THANK YOU, POLICY FORUM DEVELOPMENT TASK FORCE!

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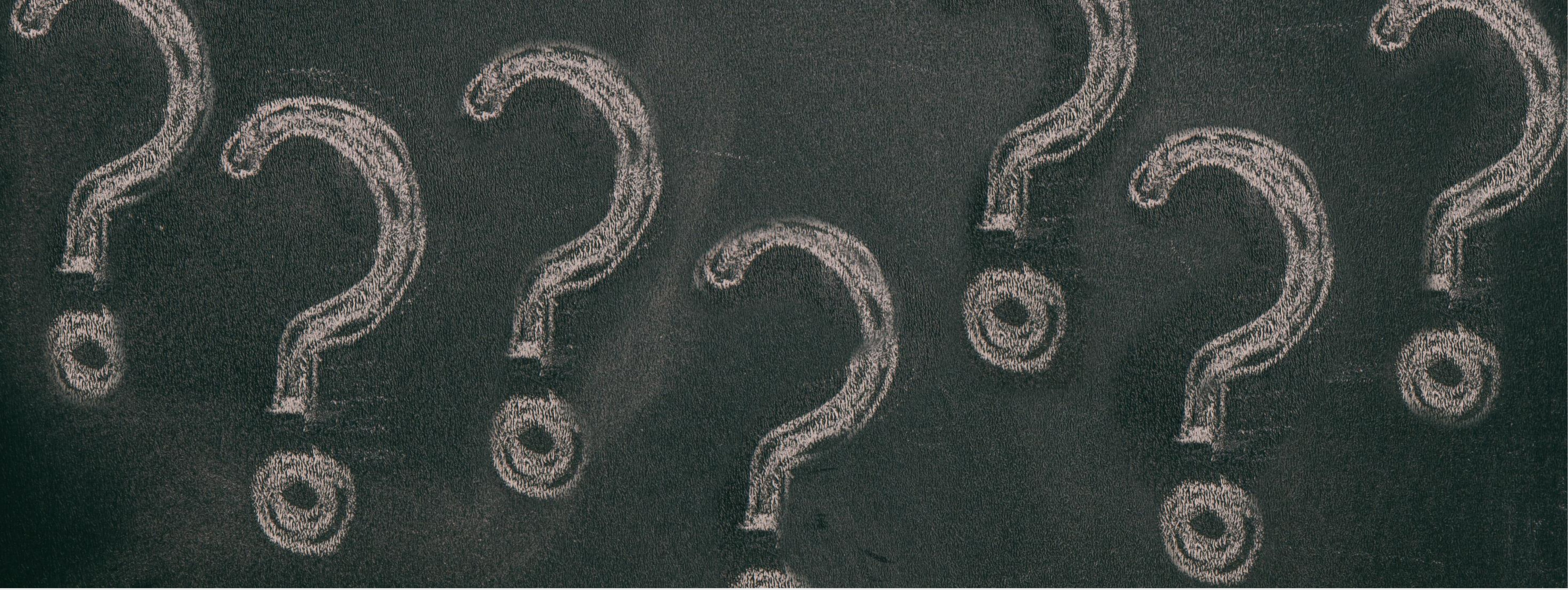
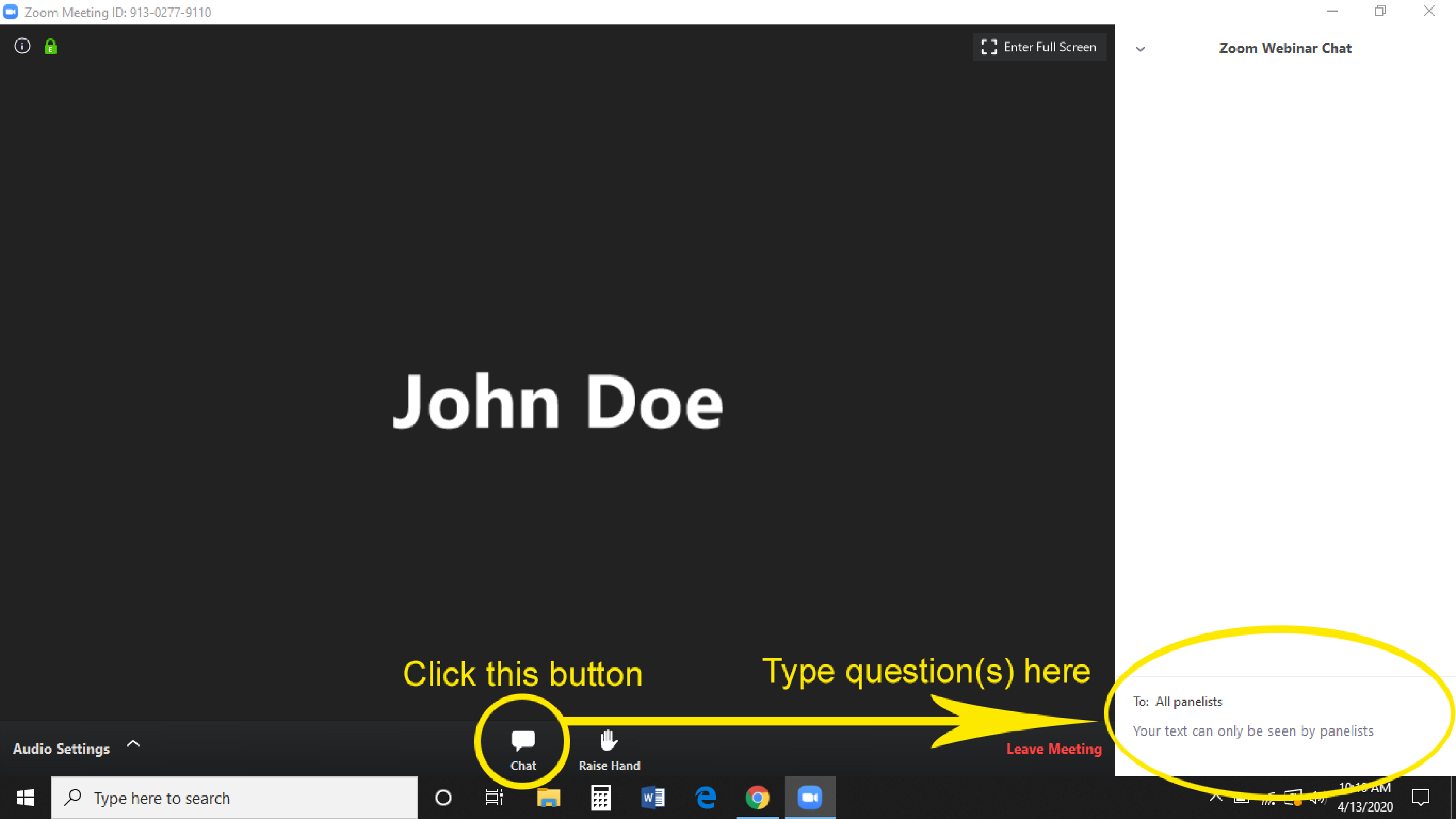


POLLING QUESTION

PLEASE SHARE YOUR THOUGHTS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EMERGENCY SAVING AND FINANCIAL RESILIENCE: THE ROLE OF THE EMPLOYER

Sarah Holden,
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Research Associate,
Employee Benefit
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May 11, 2021

Emergency Saving and Financial Resilience: The Role of the Employer

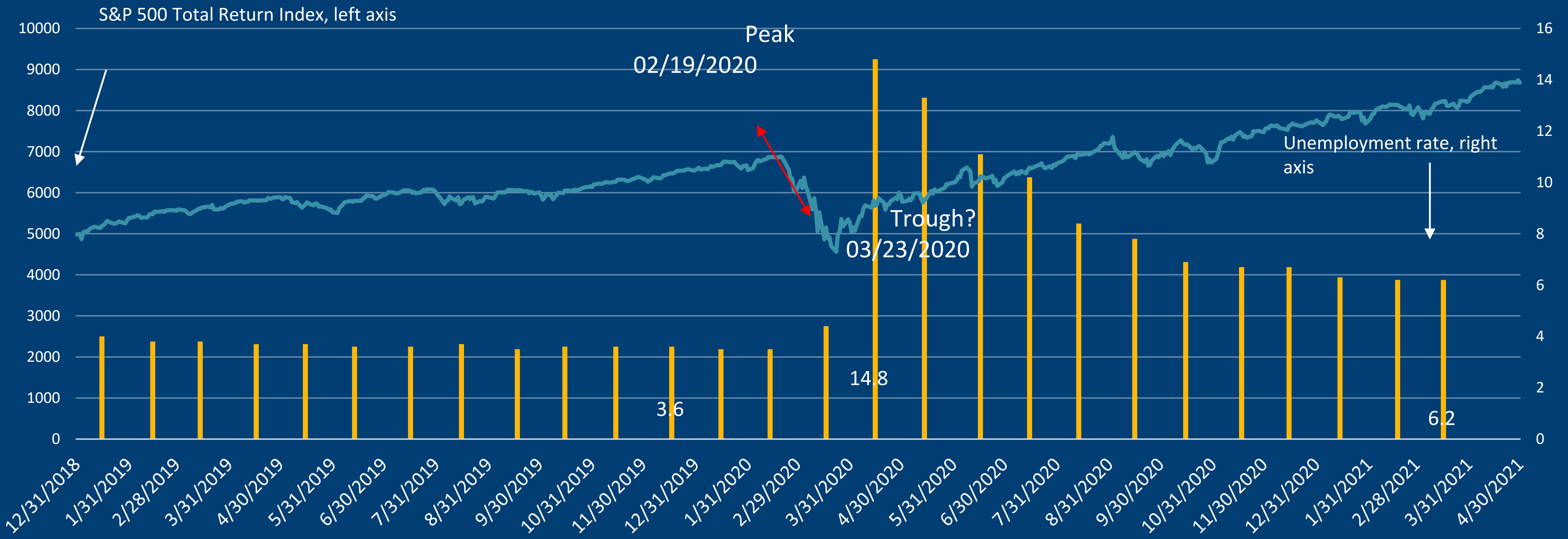
Sarah Holden
Senior Director, Retirement & Investor Research

EBRI Policy Forum

How Did Policymakers Respond When COVID-19 Hit the United States Last Year?

COVID-19 Hits US in 2020:Q1

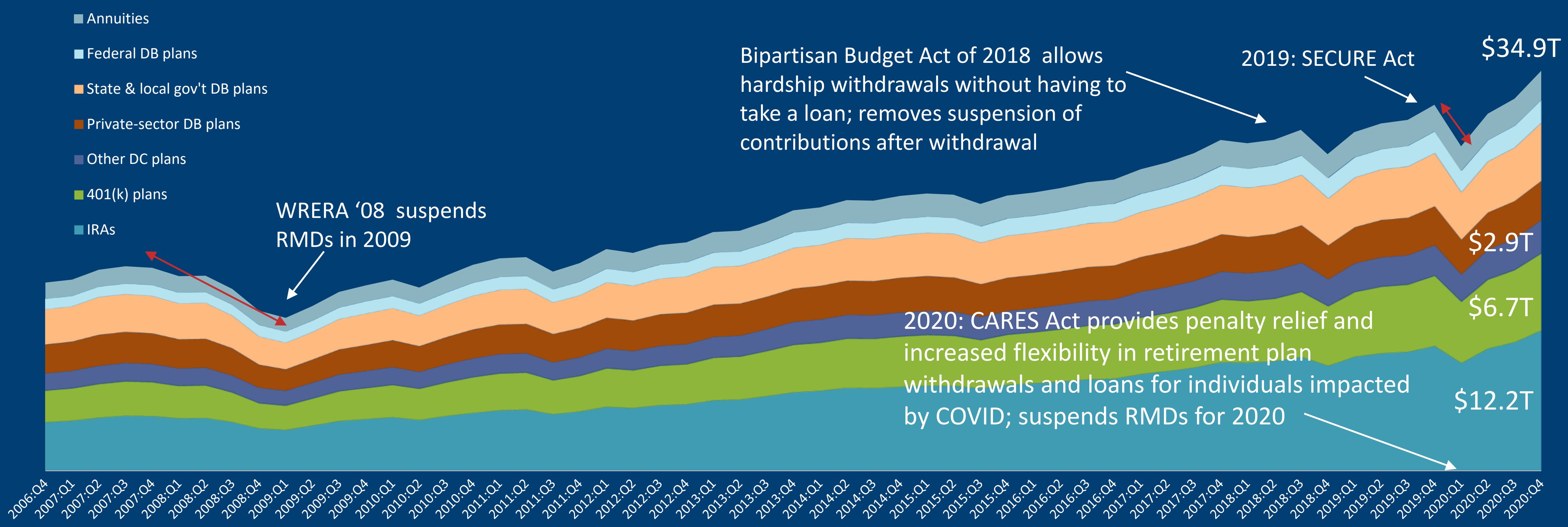
S&P 500 Total Return Index and unemployment rate



Sources: Investment Company Institute, S&P 500, Bloomberg, and Bureau of Labor Statistics

Retirement Assets and Policy Changes

US retirement assets (trillions of US dollars) and ICI summary of legislative changes



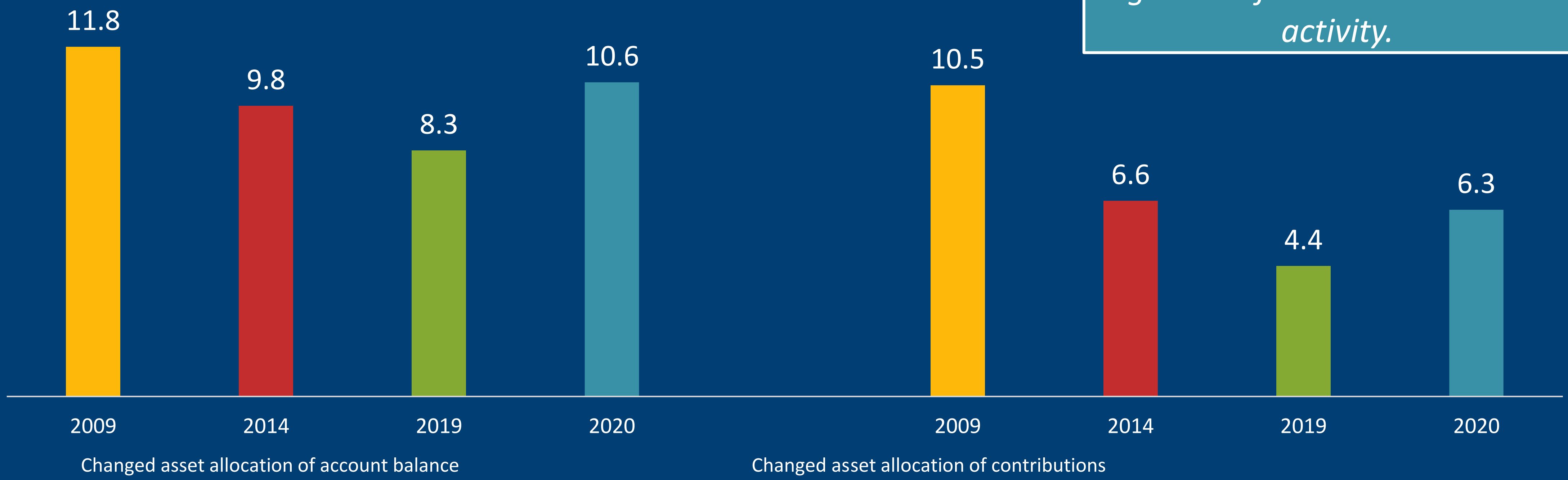
Note: For definitions of plan categories and a complete list of data sources, see Tables 1 and 6 in "The US Retirement Market, Fourth Quarter 2020." Some data are estimated.
Sources: Investment Company Institute summary of legislative changes, and Investment Company Institute, "The US Retirement Market, Fourth Quarter 2020"
https://www.ici.org/research/stats/retirement

Were Defined Contribution Plan Participants Able to Stay the Course?

US Defined Contribution Plan Participants' Asset Allocation Activities

Summary of recordkeeper data, percentage of DC plan participants during the year indicated

Reallocation occurring inside target date funds is not counted as activity.

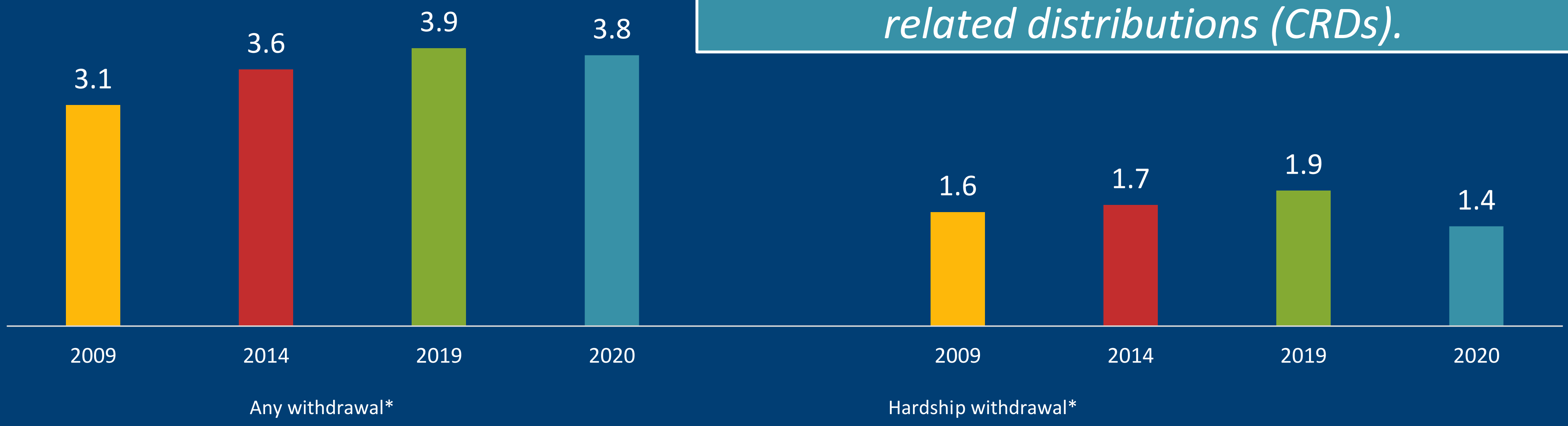


Source: ICI Survey of DC Plan Recordkeepers; see "Defined Contribution Plan Participants' Activities, 2020," *ICI Research Report*
https://www.ici.org/pdf/20_rpt_recsurveyq4.pdf

US Defined Contribution Plan Participants' Withdrawal Activities

Summary of recordkeeper data, percentage of DC plan participants during the year indicated

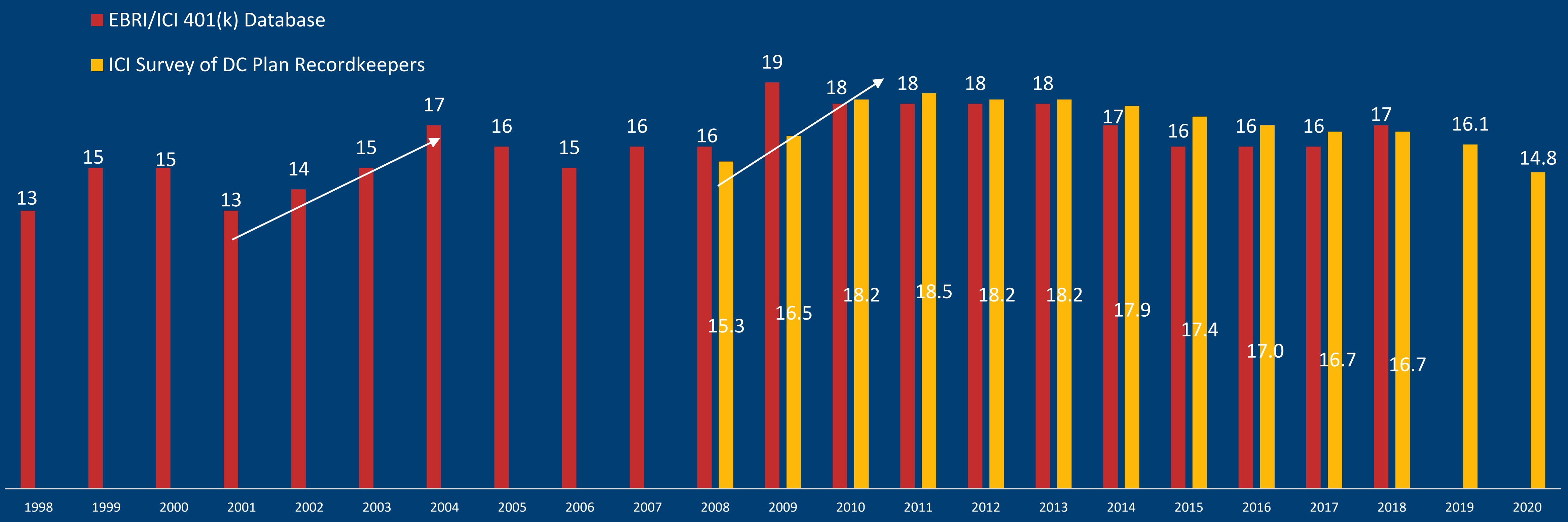
During of 2020, recordkeepers identified 5.8% of DC plan participants taking coronavirus-related distributions (CRDs).



*These withdrawals do not include coronavirus-related distributions (CRDs) identified by the recordkeepers.
Source: ICI Survey of DC Plan Recordkeepers; see "Defined Contribution Plan Participants' Activities, 2020," *ICI Research Report*
https://www.ici.org/pdf/20_rpt_recsurveyq4.pdf

401(k) Plan Participant Loan Activity

Incidence of loans outstanding; percentage of 401(k) plan participants, period-end

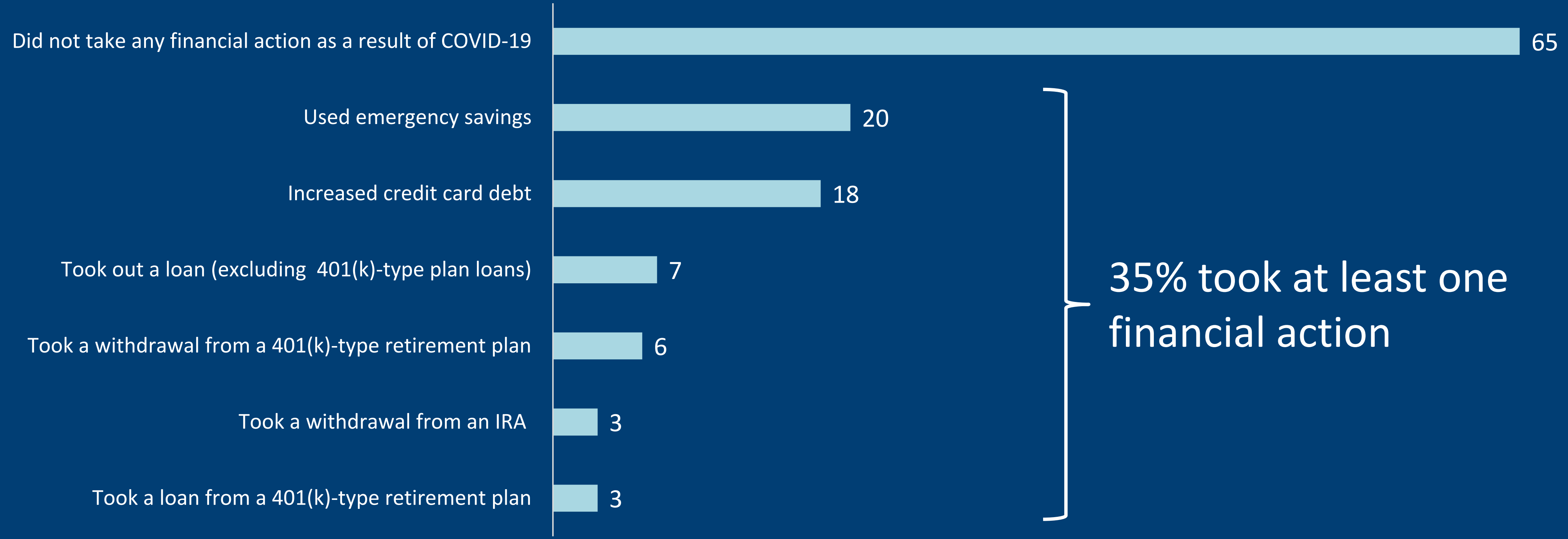


Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project and Investment Company Institute Survey of DC Plan Recordkeepers; see “401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2018,“ *ICI Research Perspective* and *EBRI Issue Brief*, and “Defined Contribution Plan Participants’ Activities, 2020,” *ICI Research Report* https://www.ici.org/pdf/20_rpt_recsurveyq4.pdf

How Many Americans Made Financial Adjustments in Response to COVID-19?

Impact of COVID-19 on US Household Finances

Percentage of US individuals, fall 2020

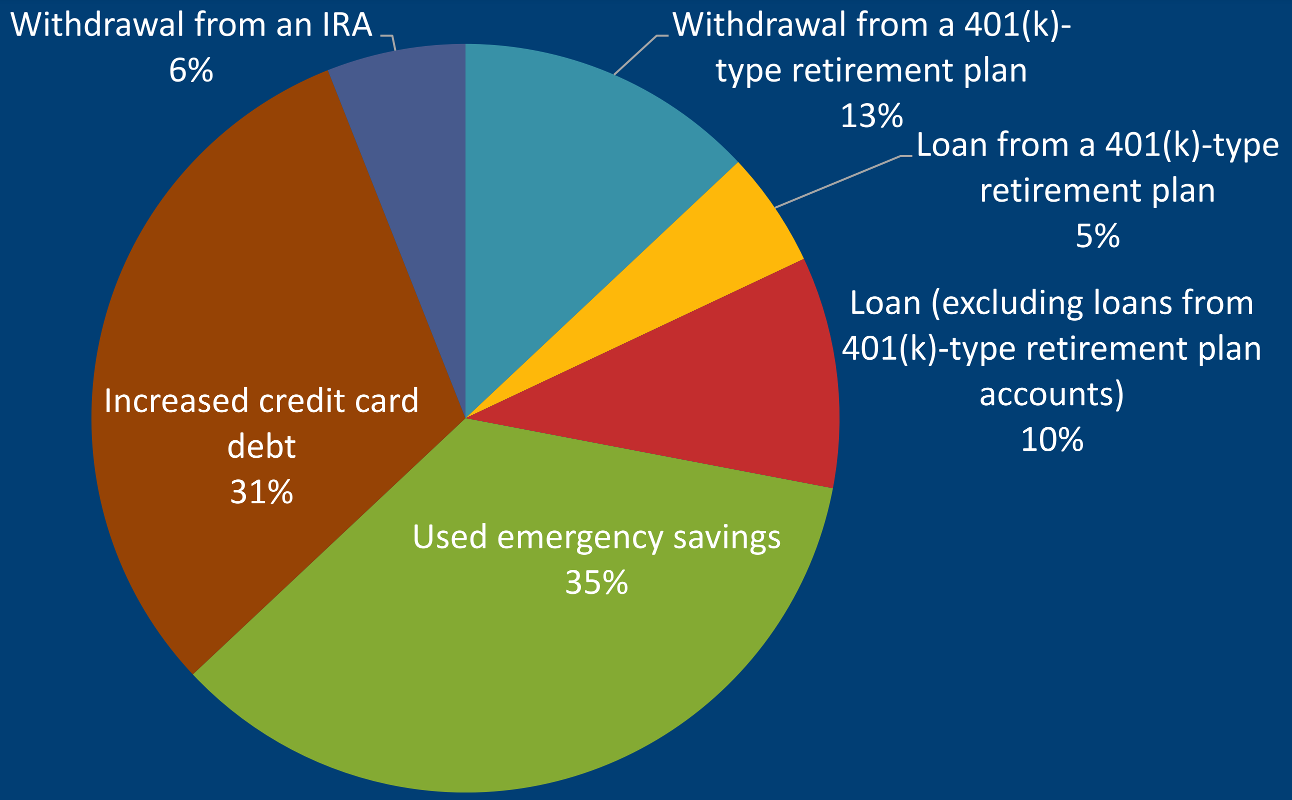


Note: Multiple responses are included for respondents who took financial action as a result of COVID-19.

Source: ICI tabulation of NORC AmeriSpeak® survey data (fall 2020); see “Survey Confirms: Despite COVID-19, Retirement Savers Protect Their Accounts,” *ICI Viewpoints* (February 2, 2021), https://www.ici.org/viewpoints/21_view_retirementsurvey

Financial Response to COVID-19 Involving the Most Money

Percentage of US individuals taking financial action as a result of COVID-19, fall 2020



Source: ICI tabulation of NORC AmeriSpeak® survey data (fall 2020); see "Survey Confirms: Despite COVID-19, Retirement Savers Protect Their Accounts," *ICI Viewpoints* (February 2, 2021), https://www.ici.org/viewpoints/21_view_retirementsurvey

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EBRI Spring Policy Forum
Emergency Saving and Financial Resilience: The Role of the Employer

May 11, 2021

Diana Rucci, Director, Product Development Prudential Retirement

When it comes to financial wellness, too many American workers are simply not prepared for difficult times

Pre-COVID impacts:

- 40% of Americans would not be able to cover an unexpected bill of $400.[1]
- 30% have more credit card debt than emergency savings.[2]
- 3 in 4 Americans live paycheck to paycheck.[2]
- Only 11% of millennials have enough to cover more than 12 months of spending compared with 18% of Gen Xers and 34% of Baby Boomers.[3]

COVID impacts:

- For many American workers, the largest, and possibly the only, source of savings is their retirement savings. Too often, it gets tapped into early to help workers address pre-retirement cash needs.
- 23% of households have no emergency savings at all & another 25% can cover less than 3 months in the event of an emergency[3]

Employers can help employees meet their emergency savings needs through a workplace retirement plan.

1 Source: Federal Reserve's 2018 Survey of Household Economics and Decision Making.
2 Bankrate.com Financial Security Index Survey May 2019.
3 July 2020: LIMRA Retirement Account Leakage and Emergency Savings: Impact of COVID-19 Report.

Prudential

What options do employers have?

How can we utilize a workplace savings plan to offer Emergency Savings?

Sidecar IRA (Deemed IRA)

Integrated with the Retirement Plan

- ☺ After-tax payroll contributions
- ☺ Institutional pricing & investments

- 😐 Complexity in administration, employee communication & tax reporting
- 😐 Subject to IRA contributions limits

After-Tax Source

Integrated with the Retirement Plan

- ☺ After-tax payroll contributions
- ☺ Institutional investments
- ☺ No fees
- ☺ Existing recordkeeping capabilities & participant experience integration

- 😐 Not available in all plan types
- 😐 Potential ACP testing implications

Traditional Savings Account or Savings App

External to the Retirement Plan

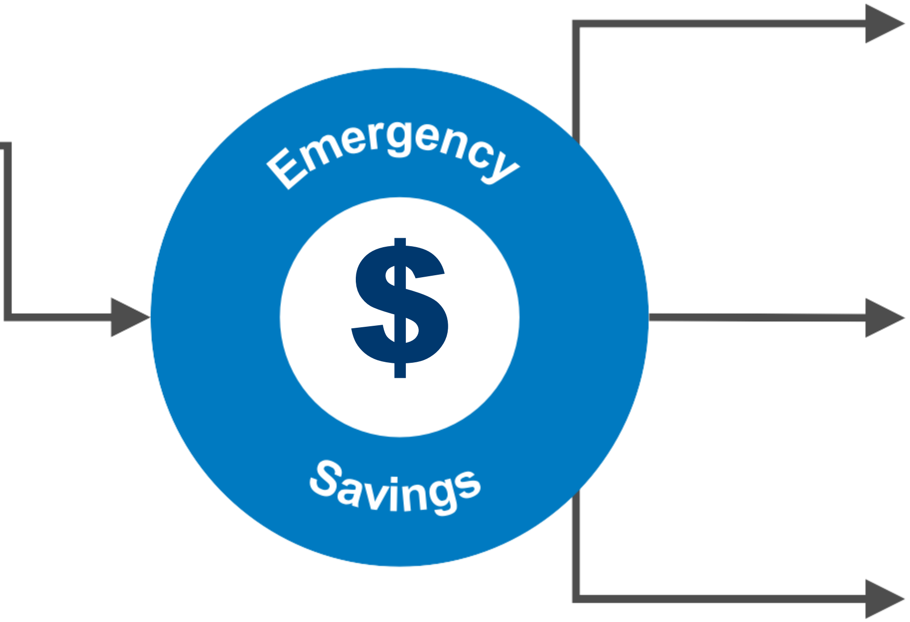
- ☺ Payroll deductions or ACH
- ☺ Flexible design
- ☺ Likely more liquid investment alternatives

- 😐 Separate account application and access
- 😐 Retail pricing & fees

Prudential

Building emergency savings within a retirement plan

How it works:



Funding the account

Participant elects payroll contributions into the after-tax source within the retirement plan.

Taking withdrawals

Participants can request withdrawals through the plan's current distribution process.

Disbursements

Participants will receive the funds via EFT or check.

Tax implications

The withdrawal will include earnings on a prorated basis. Earnings are subject to income taxes and may be subject to a 10% early withdrawal penalty that will need to be addressed when filing tax returns.* Participants will receive an IRS Form 1099-R at the end of the tax year.

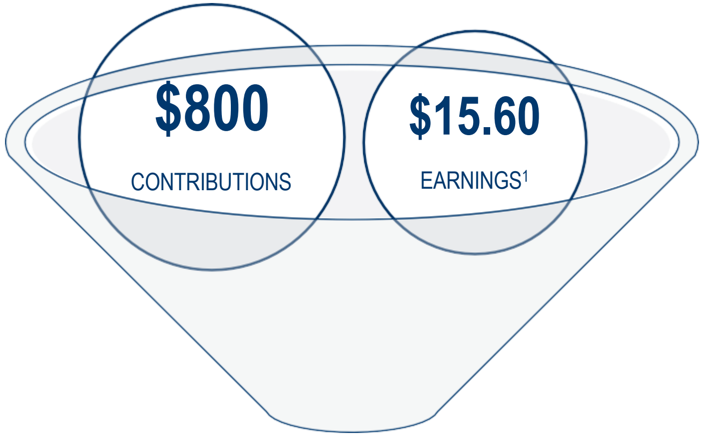
* After-tax earnings withdrawn are subject to income taxes. When taking a withdrawal, participants may have the option to rollover the taxable portion to another qualified plan or IRA. Withdrawals before age 59½ may also be subject to a 10% federal income tax penalty and plan restrictions. Neither Prudential Financial nor any of its affiliates provide tax or legal advice–for which you should consult with your qualified professional.

MEET SARAH

28 YEARS OLD

RETAIL SERVICE ASSOCIATE

$20/HR. ANNUALLY



$815.60

AVAILABLE EMERGENCY SAVINGS

The coronavirus outbreak led Sarah to face a difficult decision: stay home and lose wages, or risk getting sick or infecting others by going to work.

CONTRIBUTIONS

- **4% to pre-tax** (meeting the company match) [1]
- **2% to Emergency Savings Feature** (after-tax)
- **Investment Assumption:** Stable Value (1.95% interest rate)[1]

WITHDRAWAL

Sarah requests a withdrawal from her Emergency Savings to help cover her cost of living while unable to work due to government closure of retail business.

$815.60 Net Distribution[2]

Income taxes[3] and a 10% withdrawal penalty[4] will apply to the $15.60 in earnings.

If Sarah took less than the $800 available in her emergency savings, then earnings are prorated and she would only pay tax and the 10% early withdrawal penalty on the prorated amount of earnings at the end of the tax year.

1 Sarah's hypothetical scenario assumes the Stable Value interest rate is 1.95% and assumes pre-tax company match.
2 Assumes withdrawal fee is waived.
3Prudential will withhold 20% for federal tax purposes from rollover-eligible distributions that are greater than or equal to $200. If the rollover eligible distribution is less than $200, then the participant will be responsible for the tax when they file their federal income tax return. The exception from 20% mandatory withholding for rollover-eligible distributions less than $200 only applies if all eligible rollover distributions received within the same taxable year total less than $200. In this scenario, the rollover-eligible distribution is $15.60 in earnings, so Prudential will not withhold any taxes. State taxes may also apply to earnings.
410% early withdrawal penalty applies to taxable distributions taken by participants under age 59½. Participants will need to pay tax when they file their federal income tax return. In this scenario, the tax is applied to the earnings only.

Prudential

Employee Engagement

How can the Employer increase employee adoption?

Champion
as a Financial Wellness imperative

Trust
Help employees build & grow wealth

Omnichannel Marketing
Meet employees where they are

Incentive
Consider company match

Prudential

What employees value most about after-tax savings that can be accessed for emergencies

Convenience
It's already in their existing plan and they can contribute through payroll

Easy to set up and get started
Log in and update contributions online, set it and forget it

Dual-purpose saving
Money is available in case of emergency, but there for retirement if not needed

Helps avoid making financial situations worse
Can avoid putting large charges on credit cards, etc.

Separate from daily accounts
Accessible without being overly so

Possibility of
growth

Most importantly, this concept elicited feelings of empowerment, security, peace of mind and a sense of accomplishment for behaving responsibly.

Source: Prudential, Emergency Savings Feature Usability Testing 2018

What results are we seeing? Are we really changing savings behaviors?

- Employers are very interested in talking about it – especially post-COVID, slow to adopt the feature
  - Citing the penalty on earnings as a negative
  - Requires additional conversations with retirement plan committees as they evaluate a broader Financial Wellness offering
  - May require plan document amendments & payroll updates if the plan needs to add an after-tax source

- Engaging individuals is challenging
  - An enhanced experience is needed to help drive engagement

- Broad range of demographics leveraging the after-tax emergency savings solution
  - Majority of male participants
  - Most heavily used in the 55-64 age demographic (both in participant count and balances)
  - Account balances increase with age
  - Distribution of balances were low (<$5,000) or high (>$20,000) likely meaning participants are using it for emergency savings and supplemental savings

Prudential

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Increasing Savings with a Choice at Onboarding
A Study with Even

EBRI Spring Policy Forum

May 11, 2021

FINANCIAL HEALTH NETWORK

ABOUT

Our mission is to improve financial health for all.

The Financial Health Network is a trusted resource for business leaders, policymakers, and innovators united in a mission to improve the financial health of their customers, employees, and communities. We envision a future where all people, especially the most vulnerable, have the financial systems they need to be resilient and thrive.

The Financial Health Leaders Lab

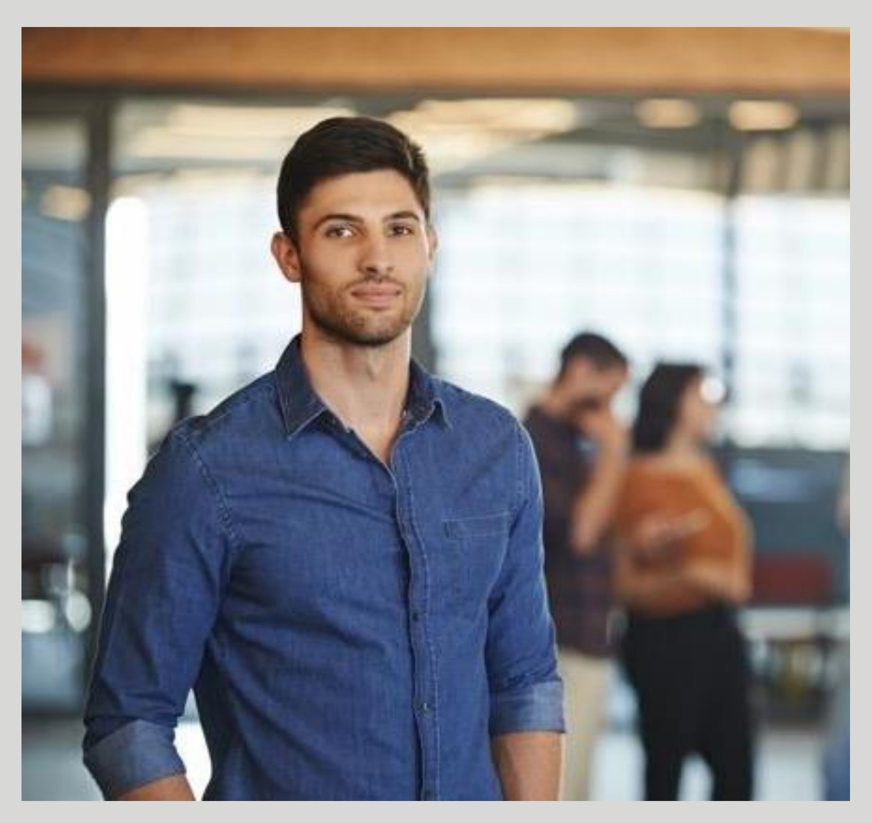
is generously supported by

MetLife Foundation

Short-term savings for low- to moderate-income employees

In January of this year, **1 in 5** workers earning $30k - $60k per year didn't have enough savings to cover **one month** of expenses

(Financial Health Pulse, 2021)



Automatic Savings as a Solution

Opportunity

Automatic savings can **overcome key behavioral barriers** to saving:

- Set it and forget it: A single action can close the intention-action gap
- Reduce loss aversion: Payroll deductions skip the step of removing savings from a checking account

Challenges

But **LMI employees are less likely** to use automation to save:

- Three out of our workers who use direct deposit for their paychecks didn't use split deposit
  - Lower-income, part-time workers are less likely to use direct deposit for their paychecks

(Javelin Strategy survey, 2015)

- People with household incomes of $100,000 or more were 63% more likely to use automatic transfers to save than people with incomes below $30,000

(Financial Health Pulse, 2019)

Even's Automatic Savings Solution

Embedding Savings into Onboarding

> Even is an earned wage access and financial management platform provided by employers as a benefit to their workers

> Even's offerings include goal-based automated savings through payroll deductions

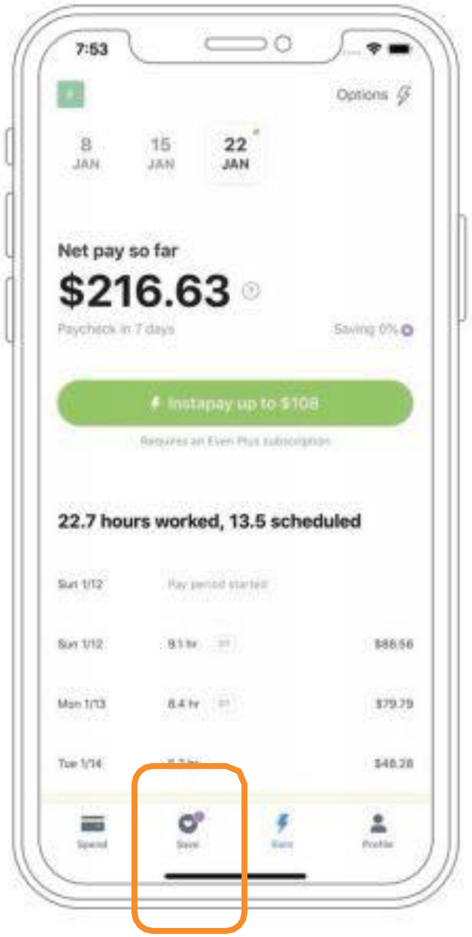
> Financial Health Network collaborated with Even to design an update to its app onboarding process to boost enrollment in automatic savings

Enrollment Choices

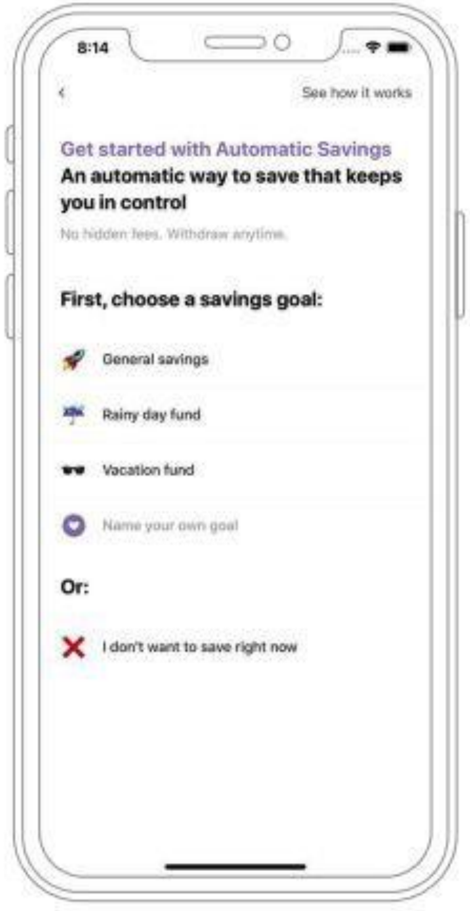
Opt in	Active choice	Auto-enroll (opt out)
Option to choose to sign up	Asked to make a choice (Variation of “opt in”)	Signed up automatically, with option to opt out
Most common implementation	Even	commonwealth

Even’s Implementation of Active Choice

Typical enrollment



Tested enrollment



Active Choice in Onboarding

Directs attention

Active choice can help to overcome procrastination, or inattention, by inviting employees to think about the choice

Preserves choice

Changing the default for a benefit from opt-in to opt-out (auto-enrollment) can have powerful results...

… but it isn’t always advisable due to

- Legal hurdles
- Different employee preferences

Leverages an opportunity moment

Employees are thinking about their financial needs when signing up for a financial health benefit → their financial goals are salient

Employee onboarding is an opportunity moment to reflect on goals and seize the “fresh start effect” to take action

Testing Approach

Path to Automatic Savings for Active Choice and Control Groups

JOIN EVEN, PROGRESS THROUGH ONBOARDING PROCESS

Active Choice Group

ACTIVE CHOICE MESSAGING

User decides to enroll in automatic savings

User does not enroll in automatic savings

Control group

DASHBOARD SCREEN

SAVE TAB

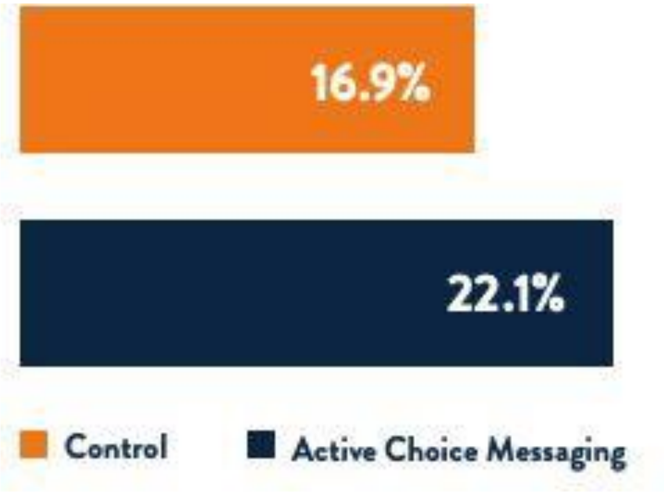
AUTOMATIC SAVINGS ENROLLMENT

User decides to enroll in automatic savings

Financial Health Impact

After 8 months:

31% More Employees Saved with Even



42% Higher Average Savings Balances

FINANCIAL HEALTH NETWORK

Recommendations to Boost Savings

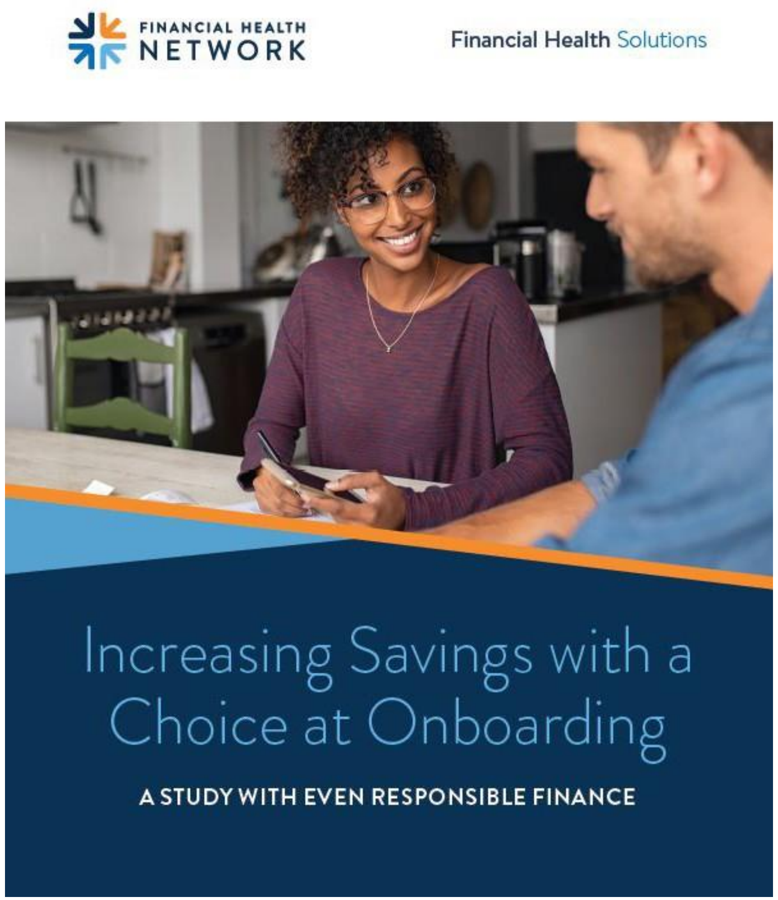
- Active choice
  - Can help promote financial health goals when auto-enrollment is not feasible.
  - Applicable to any channel for offering emergency savings (401k sidecar, split direct deposit of paycheck, financial management app)
- Onboarding
  - Onboarding to a digital financial health solution or tool is an opportunity to increase enrollment.
  - May also be relevant for employee onboarding
- Other considerations
  - Increasing default contribution amount to grow savings balances even further.

Learn More

> To access the report and our other research on financial health solutions, visit

https://finhealthnetwork.org/research/behavioral-insights/

> To explore additional research on emergency savings from the Emergency Savings Initiative, visit https://savingsproject.org/



Thank You

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Q&A

THURSDAY'S EVENT

Register at ebri.org

EBRI SPRING POLICY FORUM WEBINAR
MAY 13, 2021
2:00–3:15 P.M.

Tearing Down the ACA Firewall: Implications for Employment-Based Health Benefits Under the Biden Health Care Plan

Featuring:

Shaun O'Brien, Assistant Director for Research and Collective Bargaining Services, AFSCME
Paul Fronstin, Director of the Health Research and Education Program, EBRI
Holly Wade, Executive Director, NFIB Research Center
Neil Goldfarb, President and CEO, Greater Philadelphia Business Coalition on Health
Tami Simon, Senior Vice President, Global Corporate Consulting Business Leader, Segal, Moderator

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