

BlackRock

Emergency Savings

Bridging the gap between short and long-term savings

commonwealth

**BlackRock's
Emergency
Savings
Initiative**

Emergency Savings Opportunity

1

Understanding the problem

2

Introduction to emergency savings solutions

3

Keys to evaluating emergency savings solutions

4

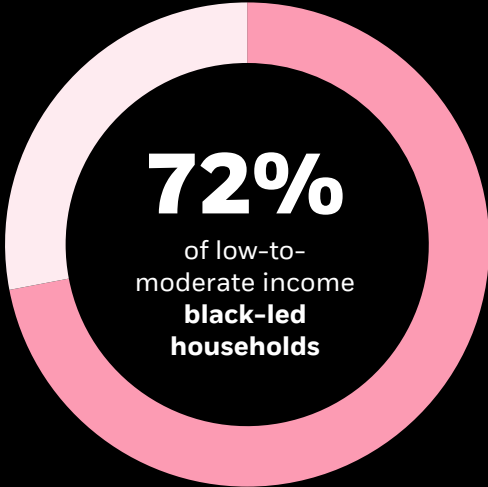
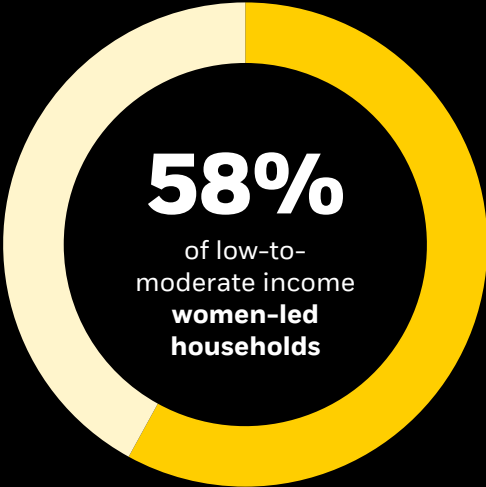
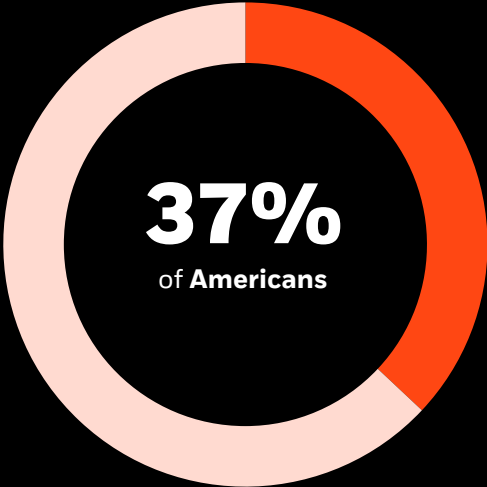
Case studies of successful implementations of emergency savings solutions

5

Emergency savings checklist for plan sponsors

Many Americans struggle to meet small, unexpected expenses

% of individuals without \$400 in liquid savings¹



(1) Federal Reserve, Report on the Economic Well-being of U.S Households, 2022

Plan sponsors have multiple incentives to help employees build emergency savings

1

Impact on retirement saving

- **Reduced leakage:** Employees with inadequate savings are **13x more likely to take a hardship withdrawal** from their retirement savings account¹
- **Greater participation:** People with emergency savings are **70% more likely to contribute** to their employer sponsored retirement plan²

2

Employees want employers to help

- **65%** of employees think employers should be doing more to address financial insecurity and inequality³
- **72%** of workers would participate in an emergency savings program if offered by their employer⁴

3

Momentum in the industry

- Several **large employers** are now offering emergency savings solutions



4

New emergency savings policies

- Two new Secure 2.0 provisions regarding emergency withdrawals (\$1,000) and an in-plan emergency savings program (Pension Linked Emergency Savings Account) took effect in **January 2024**
- **85%** of DC consultants believe that the adoption of in-plan emergency savings programs will increase in the next 3 years⁵

(1) Voya Financial, "Retirement at Risk: building Financial Resiliency With an Emergency Savings Fund", 2021 (2) Commonwealth and DCIA, "Emergency Savings Features that Work for Employees Earning Low to Moderate Incomes", 2022 (3) Commonwealth, "Perceptions of Financial Insecurity in America", 2020 (4) Commonwealth, "Incentives to Increase Emergency Savings Enrollment", 2023 (5) T. Rowe Price 2023 Defined Contribution Consultant Research Study

Employers are considering emergency savings solutions as a workplace benefit to help bridge the gap between short-term and long-term savings

Needs an emergency savings solution can potentially address

Focus of emergency savings solutions

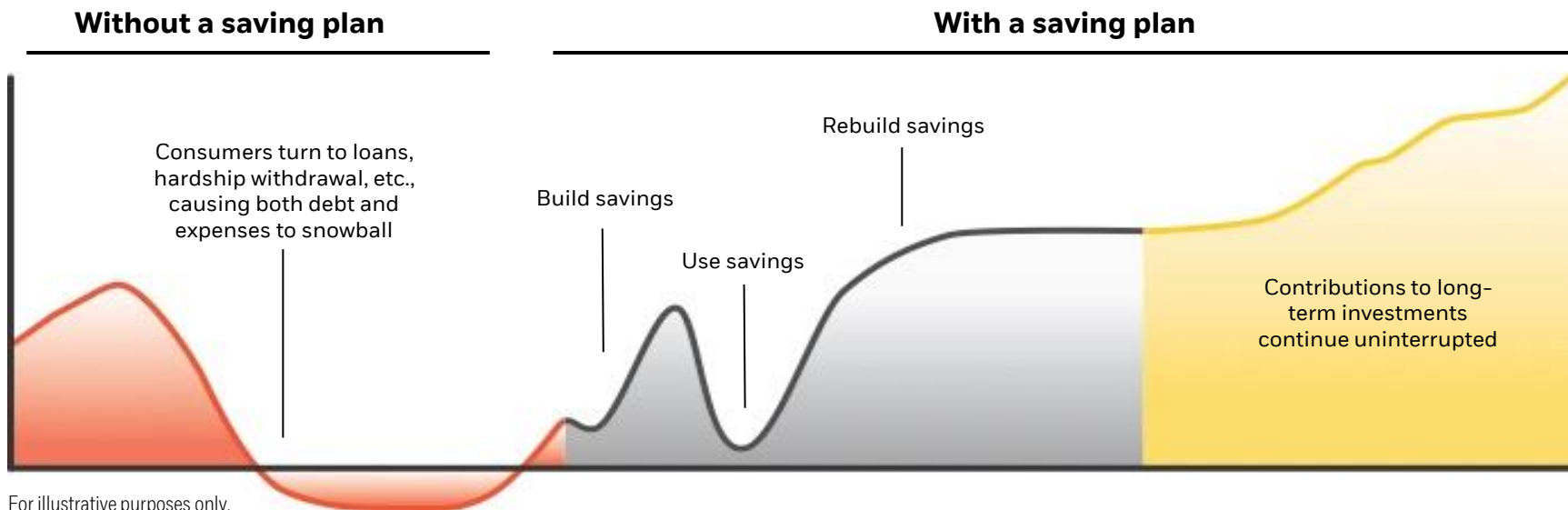
Income shock

In case of sudden job loss, experts recommend having three to nine months of liquid savings.

Expense shock

In case of unexpected expenses, experts recommend having \$500 to \$2,500 in liquid savings.¹

Positive results of an emergency savings solution



(1) Forbes, "How to Save Money Fast – Pump Up Your Emergency Fund to Prep For Hard Times, 2023

“

Emergency savings is important because it helps our people prepare in their financial wellness. We just want to make it easier for people to save for those emergency situations.”

B.J. Dorfman

Director, Global Retirement Strategy and U.S Benefits, UPS¹

(1) “Securing Americans’ Financial Future”, uploaded by Commonwealth, 2023, www.youtube.com/watch?v=aiUTgDXpDvs

Today, there are two main types of emergency savings solutions: In-plan and out-of-plan

	In-plan	Out-of-plan
Overview	<ul style="list-style-type: none"> Offered within a DC-plan Subject to ERISA Requires an employer to offer a retirement plan 	<ul style="list-style-type: none"> Are not connected to an employer-sponsored retirement plan Not subject to ERISA Does not require an employer to offer a retirement plan
Access	Only available to employees participating in an employer sponsored retirement plan. May have income restrictions depending on the solution.	Can be available to all workers
Auto-enrollment eligible	✔	✘
Contribution & account balance limits	Solution-dependent (ex: PLESA has \$2,500 balance limit)	✘
Immediate liquidity	Solution-dependent	Solution-dependent
Implementation	Leverages current retirement plan and current recordkeeper ¹	May require a third-party vendor, such as a fintech offering a savings account, bank, or credit union; cost is solution-dependent
Examples	<ul style="list-style-type: none"> After tax 401(k) Deemed Roth Account (ex: PLESA) 	<ul style="list-style-type: none"> Cash management account Saving account Payroll-led (ex: cards, mobile apps, split deposit)

⁽¹⁾ If a plan sponsor wants to implement a PLESA, it would require their current recordkeeper to build it.

In-plan solutions: Two new aspects of Secure 2.0 allow for employees to manage their emergency expenses and savings in tandem with their retirement savings¹

\$1,000 annual withdrawal for unexpected family expenses

- Penalty-free
- Must be repaid in 3 years²
- Limited to one distribution per year

Pension Linked Emergency Savings Account (PLESA)

- Roth account tied to retirement savings account
- \$2,500 balance limit; employer can match contribution in retirement savings account
- Auto-enrollment eligible at up to 3% of paycheck

(1) There are many outstanding regulatory questions, and DOL and IRS continue to provide guidance and invite comments. **(2)** Can be repaid in less than 3 years. If withdrawing from a Roth account, not taxed upon withdrawal. If withdrawing from non-Roth account, subject to tax upon withdrawal but if the money is paid back tax is no longer owed.

PLESAs offer plan sponsors a standardized way to give employees access to an emergency savings solution¹



Eligibility

Only offered to non-highly compensated employees



Implementation

Requires a recordkeeper to build.

Investments are subject to ERISA guidelines.



Contribution

Employees can contribute up to \$2,500

Employers can match contributions, but not directly in PLESA



Access

Employees are allowed a minimum of one distribution per month

All assets are eligible for rollover

⁽¹⁾ Given the need for a product build and outstanding regulatory questions, PLESAs will likely not be implemented until later in 2024

“

If you have an account through your workplace, and you just allocate \$25 each paycheck or \$50 each paycheck, or whatever it may be, it's easier to just set and forget and have the money available when you need it.”

Curtis

Participant in emergency savings testimonial video¹

⁽¹⁾ “The Power of Emergency Savings”, uploaded by Commonwealth, 2023

Employers should consider multiple factors when selecting an emergency saving solution



Product features

Make it easy for employees to start saving with a high-quality solution

(1) BlackRock Emergency Savings Initiative, "Impact and Learnings Report: 2019 -2022"



Key considerations

- **Enrollment:** Median uptake rates are 4x higher for solutions with auto-enrollment relative to solutions requiring employee opt-in¹
- **Fees:** A fee may cause the immediate cost of the account to feel more salient than the future benefit of the account, which may discourage participation
- **Account minimum:** Having an account minimum means an additional detail for employees to remember, which may cause the solution to feel “too complicated” for some
- **Withdrawals:** Emergency savings funds are supposed to be used in an emergency, which requires the money to be readily accessible on demand



Questions to ask an emergency savings provider

- How will employees access the funds?
- Is there a time delay or cost for funds to be available?
- What is the cost structure?
- Will there be an account minimum?
- How easy or difficult is the sign-up process?
- Is it possible to integrate with payroll?
- Is it possible to use auto-enrollment?

For illustrative purposes only.

Incentive structure

Maximize employee interest

(1) AARP Public Policy Institute, "Saving at Work for a Rainy Day. Results from a National Survey of Employees", 2018



Key considerations

- **Employer matching:** 87% of people would participate in an emergency savings solution if an employer match was offered¹
- **Reward for opening account:** Offers an immediate incentive for participation in an emergency savings solution, often helping overcome initial friction to sign up
- **Reward for consistent savings:** Offers an incentive to build initial savings and to stay enrolled in an emergency savings solution
- **Reward for reaching a target amount:** Offers an incentive to encourage employees to maximize the potential of an emergency savings solution



Questions to ask an emergency savings provider

- Is it possible to provide an employer match? If so, how large?
- Is it possible to offer a monetary incentive? If so, how large?
- What monetary incentive(s) will be most effective?
Ex: seed fund, employer match similar to 401(k), goal or milestone based [ex: reach \$500 balance, or account active for 6 months]
- Is it possible to run small tests with different incentive structures to see effectiveness before scaling up?

For illustrative purposes only.

Awareness & engagement

Ensure employees are aware of the solution you are offering

(1) Commonwealth and DCIA, “Emergency Savings Features that Work for Employees Earning Low to Moderate Incomes”, 2022



Key considerations

- **Method of communication:** While email is the primary place that workers look for workplace communication about benefits¹, not all employees are on their computers often and some may not have access to a computer – multiple forms of communication may be most effective, i.e., in-person communication, flyers, in-app messaging, etc.
- **Frequency of communication:** People may need multiple reminders to take action
- **Targeted communication:** Targeted communications about emergency savings may be more effective than including it in a list of other benefits announcements
- **Language:** Plan sponsors may need materials in multiple languages depending on their geography and plan demographics
- **Messaging:** Peer-to-peer or employer-led messaging may be more impactful than product-led messaging



Questions to ask an emergency savings provider

- How will information about the emergency savings solution be communicated to employees? Will the message reach all employees?
- How frequently will employees receive communication regarding the emergency savings solution?

For illustrative purposes only.

Demographics

Align impact with intent

(1) TIAA, "State of Financial Preparedness in a Diverse America", 2024. (2) "Voya Financial, "Steps employers can take to narrow the racial retirement wealth gap", 2022. (3) Voya Financial, "Bringing greater financial equity to the workplace to support everyone's opportunity for a better financial future", 2023.



Key considerations

- **Access to retirement funds:** 52% of Hispanic households and 49% of Black households have some retirement funds, compared to 76% of white households¹
- **Retirement participation:** Despite similar rates of eligibility, 48% of eligible black employees participate in employer-sponsored retirement plans compared to 55% of eligible white employees²
- **Hardship withdrawals:** Black employees are more than 2x as likely to take a loan or hardship withdrawal from their retirement plan as white employees; Latino employees are 1.5x as likely³
- **Communication channels:** Black and Latino employees tend to lag behind white and Asian employees in using digital engagement tools³



Questions to ask an emergency savings provider

- What are the demographics of the plan participants?
- Does the solution target a subset of employees or is it designed for all?
- Who will this solution work for?
- Will any employees be left out?

For illustrative purposes only.

“

We saw a trend that more and more employees are looking to their employers to help them save...we learned our population has very different needs and views on what [a] good, beneficial program for them would look like. We hope that everyone can find a program that will fit their needs.

Nancy Weis

Senior Director, Retirement, Benefits Financial Reporting and Relocation, Automation¹

⁽¹⁾ Commonwealth and BlackRock's Emergency Savings Initiative, "How Payroll Providers Can Advance Worker Emergency Savings" [webinar], 2022
<https://info.buildcommonwealth.org/120822-how-payroll-providers-can-advance-worker-emergency-savings-webinar>

Case study: Enabling \$15 million in new savings with a multi-channel messaging campaign¹



Challenge

- UPS saw data on their employee's financial needs and recognized that offering an emergency savings solution would improve employee's financial security
- UPS collaborated with Commonwealth and Voya to create a high-quality emergency savings program for 100,000 non-union UPS employees



Approach

- Leverage an existing feature of the UPS 401(k) plan, administered by Voya
- Participants can make after-tax contributions in excess of the annual contribution threshold
- The after-tax contributions can be deducted from employee pay and can be withdrawn anytime without penalty²



Action

- New landing page with information about emergency savings and details about the after-tax option
- Direct mail pieces and multiple emails to employees and retirement plan participants
- Pop-up nudges about after-tax option
- New educational content for webinars



Results

- **\$15 million** in new savings
- **>25%** increase in overall assets
- **40% increase** in participation in the after-tax account
- Employees were **2x** as likely to increase contribution to retirement account if participating in emergency savings program



We've seen, since inception of the program from about September/ October of 2020 through June of 2022, \$15 million in contributions to the after-tax source, which is really remarkable."

-B.J. Dorfman, Director, Global Retirement Strategy and U.S Benefits, UPS

(1) Commonwealth, "A Case Study in Workplace Emergency Savings: How UPS and Voya Designed a Solution Resulting in \$10 Million in Savings," 2022. (2) There is a 10% penalty on earnings.

Case study: Producing \$1.35 billion in new savings through scaled implementation of proven savings strategies¹



Challenge

- ADP customers have the option to pay their workers through the Wisely® card, and cardholders receive access to the myWisely® mobile app to see account activity and financial resources
- ADP wanted to test if adding new savings functionalities to the myWisely® solution would drive value for employer clients and drive worker financial wellness through increased savings



Approach

- Commonwealth research identified key features of a successful solution: no fees for account opening, immediate access to savings, no minimum balance, and savings automation
- The myWisely® emergency savings option already included most of these features, providing a solid foundation for Commonwealth and ADP to make it a stronger tool



Action

- Multiple, customizable savings “envelopes”
- Customized scheduling of savings transfers
- Gamification – turning cash rewards from card use into savings
- Automated payday transfers into savings
- Marketing campaign to increase awareness



Results

- Additional **\$1.35 billion** in savings envelopes -- **7.8x** increase in savings
- **>600%** increase in overall assets
- **3.5x** increase in monthly average of new users of savings envelopes
- **2.7x** increase in net savings (savings less withdrawals)



We believe that emergency savings continues to be a major pillar of our financial wellness strategy, and we will continue to work with our employer clients to help educate them about the capabilities that they can offer their workers ”

-Anurag Chandra, Senior Division Vice President of Strategy, ADP

⁽¹⁾ Commonwealth, “How ADP’s Solution Facilitated \$1.5 Billion in Emergency Savings”, 2022

Emergency Savings Checklist for Plan Sponsors



Learn about emergency savings landscape



Determine your employees' needs



Identify the solution that is most suitable for your plan¹



If pursuing an in-plan solution, begin conversation with plan recordkeeper surrounding product build



If pursuing an out-of-plan solution, explore solutions already in marketplace, including any offered by your existing vendors – recordkeeper, payroll provider, student debt or HSA vendor, banking partners, etc.

For illustrative purposes only.

⁽¹⁾ Refer to slides 11-15 for select considerations when evaluating a solution

About Commonwealth and BlackRock's Emergency Savings Initiative



Commonwealth is a national nonprofit dedicated to building financial security and opportunity for financially vulnerable people through innovation and partnerships. For nearly two decades Commonwealth has designed effective innovations, products, and policies enabling over 2 million people to accumulate more than \$8 billion in savings. Commonwealth works closely with leading employers, recordkeepers, workplace infrastructures solutions, and policymakers to improve the financial wellness of US workers. To learn more, visit: www.buildcommonwealth.org



In 2019, BlackRock's Social Impact team launched the Emergency Savings Initiative – a \$50 million philanthropic commitment to help millions of people living on low-to-moderate incomes establish a financial safety net through proven savings strategies and tools. Since its inception, the Emergency Savings Initiative has reached 10 million people with an emergency savings solution and has helped create \$2 billion in savings. BlackRock's Emergency Savings Initiative is a frequent collaborative partner of Commonwealth. To learn more, visit www.savingsproject.org.



Be sure to check out new research from Commonwealth and BlackRock's Emergency Savings Initiative! "Impact and Learnings Report 2019-2022"

Important notes

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Appendix

Considerations for the designated investment option for PLESAs¹

1

The investment objectives are capital preservation and liquidity consistent with immediate access to savings to respond to unexpected financial needs.

2

Investment products that contain liquidity restraints, such as surrender charges are incompatible with this objective.

3

PLESA contributions must be held as cash, in an interest-bearing account deposit account, or in an investment product designed to “maintain over the term of the investment the dollar value that is equal to the amount invested in the product and preserve principal and provide a reasonable rate of return, whether or not the return is guaranteed, consistent with the need for liquidity.”

4

PLESAs cannot generally be invested in the plan’s QDIA unless the plan fiduciary has designed a limited duration QDIA pursuant to 29CFR§2559.404c-5(e)(4) (iv)

5

Investment product must be offered by a state-regulated or federally-regulated financial institution and may be subject to, as permitted by the Department, reasonable restrictions.

⁽¹⁾ U.S. Department of Labor, “FAQs: Pension-Linked Emergency Savings Accounts”, 2024