Saving for Now & Saving for Later: Rainy Day Savings Accounts to Boost Low-Wage Workers’ Financial Security
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About Prosperity Now

Prosperity Now (prosperitynow.org) believes that everyone deserves the chance to prosper. Since 1979, we have helped make it possible for millions of people, especially people of color and those with limited incomes, to achieve financial security, stability and, ultimately, prosperity. We offer a unique combination of scalable practical solutions, in-depth research and proven policy solutions, all aimed at building wealth for those who need it most.
Introduction

Too many American households regularly live in a state of financial insecurity. Despite a national economy that has been showing signs of growth, too many families—especially those of color—still struggle to provide for their basic needs on a regular basis, let alone set aside money that allows them to dream about and plan for a better tomorrow.

To combat widespread financial insecurity, U.S. households need to be able to save for now, and for later.

Saving for now—building the nest egg needed to weather financial challenges in the short term—is critical to ensuring that minor financial setbacks don’t snowball into financial disasters with long-lasting effects. On the other hand, saving for later—putting aside enough money to purchase wealth-building assets over the long run—enables households to earn college degrees, buy homes, capitalize businesses and take other steps that promote lasting prosperity. The ability to save for both now and later can translate into a secure retirement that allows you to stop working when you want and still enjoy the quality of life you had during your working years.

Workplace-based “rainy day savings accounts” are a promising way to enable workers to meet the short-term needs that retirement saving plans are not designed to address. Although not currently offered in most workplaces, rainy day savings accounts can improve both short-term and, indirectly, long-term financial outcomes for workers while simultaneously serving employers’ interests.

This report explores the potential of rainy day savings accounts and concludes that there are a variety of ways such an account could be designed to boost workers’ financial well-being in the immediate and in the longer term. To make the case for rainy day savings accounts, this paper proceeds with five main sections. In the first section, we explore the ways in which both short- and long-term savings, though essential, elude far too many workers in the United States, as well as what that means for employers. In the second section, we identify the ways in which a rainy day savings account could help overcome the barriers identified and argue that a strong case can be made for businesses to invest in their workers by offering such an account. The third section outlines three potential models for rainy day savings accounts, and the fourth section suggests several steps key stakeholders can take to bring these accounts to fruition. Lastly, we discuss federal policy recommendations that can help move rainy day savings accounts forward, supporting their implementation, and that can more broadly encourage families to save.

The Problem:
Saving is Critical, But Eludes Too Many Workers

Evidence from researchers, experience working with community organizations and stories from families around the country reveal a fundamental truth: income helps people get by, but wealth helps people get ahead. Wealth—especially that which can help families weather financial storms and be passed from one generation to the next—comes in many forms. From earning a degree to owning a home to securing one’s retirement, wealth helps people balance today’s emergencies and realize tomorrow’s dreams.
We also know that despite the diverse range of ways in which families build and leverage their wealth, it all starts with savings. Whether it’s savings equal to three to six months of living expenses that financial planners recommend, or the automatic deposits employers make into a retirement account that many of us may not think about for decades, saving is critical to helping families transform income into wealth and wealth into prosperity. Yet too few families have the savings they need to manage the complexities of their financial lives.

**Saving for Now:**
**Short-Term Savings to Weather Today’s Emergencies**

*Households with emergency savings can better manage financial insecurity.* Research shows that even a modest amount of savings helps families handle their finances more effectively. One study by the Urban Institute showed that with liquid assets of $2,000 or even less, low-income families had fewer problems dealing with financial shocks related to housing, food, health care and other basic needs. Another Urban Institute study found that when families have even as little as $250-$750 in savings, they can handle financial emergencies—everything from missing bill payments to the stress and trauma of being evicted from their homes—with fewer disruptions to their lives. Families that build up even modest emergency savings—those that “save for now”—are also less likely to need public benefits, such as food stamps or housing assistance.

Furthermore, having short-term savings helps consumers avoid credit card debt and predatory products like payday loans. Without savings, families living paycheck to paycheck have trouble paying regular monthly expenses when faced with a financial shock. In a financial emergency, those without savings turn to credit cards, if possible, but doing so can leave families saddled with debt. The 2018 Prosperity Now Scorecard reveals that the most common type of debt in the United States is credit card debt: over a quarter of credit card borrowers have debt amounting to 75% or more of their credit card limit, with a median credit card debt of $2,241.

While credit cards can be problematic for financially insecure families, they’re often better than the alternative: payday or other high-cost, predatory installment loans that can devastate a household’s finances. Households are more likely to rely on such high-cost loan products that strip away their wealth when they are unbanked, without access to a checking or savings account. The 2018 Prosperity Now Scorecard finds that seven percent of households are in this category. This percentage increases with communities of color: 18.2% of Black households and 16.2% of Hispanic households are unbanked compared to 3.1% of White households.

![Racial Disparity in Unbanked Households](chart)

Payday loans are generally loans of $500 or less that must be repaid on the borrower’s next payday. If borrowers can’t repay by their next paycheck, they are slapped with high fees and interest rates that keep them trapped in a cycle of debt in which they borrow more money to cover the cost of their original loan. Research from the Pew Charitable Trusts shows that payday loan borrowers spend an average of $520 in interest to borrow an average loan of $375. But if workers have emergency savings accounts with just $500, they wouldn’t need to spend nearly $900 to cover that $375 emergency. Installment loans are also becoming increasingly common and give borrowers more time to repay. But, depending on the state, they can also be very high-cost and predatory.

Beyond managing financial challenges and avoiding predatory financial products, having short-term savings can minimize financial stress. A study by PwC found that 47% of employees report that they are stressed about their finances. Much of this financial stress comes from concerns about paying bills: one study indicates that 58% of workers say they are worried about being able to pay bills if they or someone in their family loses their job, and research from Prudential found that 73% of employees identify making ends meet as one of their top financial concerns. PwC reports that half of employees say they worry about not having enough emergency savings for unexpected expenses.

It’s worth noting that stress over financial issues isn’t just a problem for workers—it also negatively impacts employers, and more businesses are starting to take notice. Nearly all (96%) of the organizations that belong to the Society for Human Resource Management say that personal finance issues affect employees’ performance at work. Personal finance issues can distract workers from doing their jobs, thus inhibiting their productivity. PwC reports that a quarter of employees say that personal finance issues have been a distraction while working, and 18% of workers say that productivity at work has been affected by financial worries. Outside of time spent worrying, these personal finance issues can also mean that employees...
devote more company hours towards solving these problems instead of working. Research from Aon Hewitt, a human capital and management consulting firm, shows that almost half of workers say that they spend time at work dealing with personal finance issues. Absences from work are another result of worrying about one’s personal finances. PwC reports that 11% of workers say they have missed work due to financial worries.

Savings can play a key role in improving financial well-being, which can lead to decreased stress over financial issues. The Consumer Financial Protection Bureau (CFPB) defines financial well-being as the ability—now and in the future—to have financial security as well as financial freedom with respect to life choices. Research conducted by Prosperity Now and commissioned by the CFPB identified four components of financial well-being: having control over finances, the ability to absorb a financial shock, being on track to meet financial goals and having the financial freedom to make choices that allow one to enjoy life. Having savings helps with each of these elements. With savings, individuals can more easily have control over their finances, better absorb financial shocks, have more financial freedom and perhaps even more easily meet financial goals. But mounting evidence suggests that it’s not just about a person’s financial well-being, but also their physical and mental well-being. Research confirms that scarcity of savings leads to stress, and no shortage of evidence from the medical field links stress to a series of poor health outcomes.

Thus, even having just enough savings to cope with what some might consider minor emergencies can alleviate financial stress and its associated threats to physical and mental health by increasing financial security, resilience and control. Increasing the ability of workers to save in the workplace with rainy day savings accounts can potentially decrease stress around finances.

Although relatively small amounts of savings—sometimes even as little as $500 or $1,000—can make a difference, higher savings are needed to deal with more significant financial shocks such as long-term unemployment, a significant medical emergency and the like. To deal with this kind of risk, financial planners often recommend having savings equal to three to six months of income. A family of four living at the federal poverty level for 2018 would need $6,275 in savings to replace their income for three months. For a family earning $60,000 per year, the corresponding savings target would be $15,000. To be sure, saving amounts...
SAVING FOR NOW AND SAVING FOR LATER

such as these can be a very high bar to set for low- and moderate-income families, but we identify this threshold in recognition of the wide spectrum of financial challenges and savings opportunities facing families at different income levels.

**Despite the many ways in which short-term savings boost financial security, too many barriers prevent households in the US from saving for emergencies.**

According to a survey from the Board of Governors of the Federal Reserve System, 40% of Americans reported that they could not come up with $400 without selling something or borrowing if an emergency were to arise.\(^{20}\) Another survey found that 50% of workers don’t have enough saved to handle unforeseen expenses.\(^{21}\) The 2018 *Prosperity Now Scorecard* reports that nationally, 56.3% of households in the US had not set aside money for an emergency in the past 12 months.\(^{22}\)

One underlying reason why households struggle to save even small amounts to cover an unexpected emergency has to do with volatility in income and expenses. According to the Pew Charitable Trusts’ 2015 Survey of American Family Finances, over half of Americans have unpredictable income and/or expenses from month to month,\(^{23}\) and 60% of respondents reported experiencing a financial shock within the past year.\(^{24}\) Low and stagnant incomes, rising debt loads and increasing costs of essential services such as health care and housing can be major barriers. When families are hit by a financial shock and don’t have savings, their finances can rapidly destabilize. Sudden medical expenses, an unexpected car repair, a reduction in or loss of public benefits, a gap in or loss of child care, and a job loss or reduced work hours can all wreak havoc on a person’s financial life.\(^{25}\)

Another contributor to the elusive nature of short-term savings is workers’ lack of access to the appropriate financial products and services that can help navigate choppy financial waters. We noted earlier that seven percent of U.S. households are unbanked. Additionally, a fifth of all households are underbanked,\(^{26}\) meaning they have a checking or savings account but continue to use higher-cost alternatives, such as payday loans and pawn shops. When a household must resort to such high-cost alternative services, its ability to save is diminished. Unsurprisingly, households of color are significantly more likely than White households to grapple with these challenges. More than three in 10 Black households (31%) and nearly three in 10 Hispanic households (29.3%) are underbanked, compared to just 15.6% of White households.\(^{27}\)
Finally, short-term saving eludes families—especially those with limited incomes—because of public policies that inhibit a family’s ability to cover today’s emergencies so they can focus on future needs. As discussed in greater detail below, savings penalties, otherwise known as asset limits, are caps on the amount of savings a family can have while remaining eligible for certain public benefits programs. They are intended to ensure that those programs are provided only to those in need, but they also act as a disincentive for families to save. Because families may worry about losing critical supports like Medicaid, TANF (Temporary Assistance for Needy Families) or LIHEAP (Low Income Home Energy Assistance Program), they are forced to choose between spending down what little savings they might have or risk losing the public programs on which they rely to keep from slipping deeper into the financial red zone.

**Saving for Later:**
**Long-Term Savings to Plan for the Future**

Just as short-term savings can help transform income into wealth, long-term savings can help transform wealth into economic mobility. Research shows that even for low-income households, saving is associated with higher chances of upward economic mobility. One study showed that children of low-income parents who were relatively high savers more frequently experienced upward economic mobility as adults than children of low-income parents who were also low savers. Another study, by the Pew Charitable Trusts, found that higher levels of liquid savings (for example, $10,000 rather than $1,000) were associated with a greater likelihood that a household would move up from the bottom to at least the middle of the income ladder. And the American Dream Demonstration, in which community-based organizations supported low-income individuals saving in Individual Development Accounts with matching contributions, found that low-income people can save when equipped with the right support. In that demonstration, individuals changed their behavior with respect to saving and reported changes in their outlook. Even savers in the lowest income brackets were able to save at least in the short term. As noted, families with savings can invest in longer-term, wealth-building assets—such as a home, education or a business—that enable upward economic mobility.

Unfortunately, however, too few Americans are saving for retirement. About a third of the U.S. workforce lacks access to a retirement plan at work. Of those who are eligible to participate in a 401(k) plan, about one fifth do not participate. A study conducted by PwC found that about 65% of nonparticipants reported that they are not saving for retirement because of the need to cover other expenses. However, as employers continue to back away from employer-funded pensions, workers are increasingly left on their own initiative to save if they hope to have a chance of a financially secure retirement.

These concerns can be especially daunting for young workers. In-depth interviews of young, low-income workers conducted by Prosperity Now found that these workers showed interest in saving for retirement but...
identified the necessity to cover other financial needs first as a significant barrier to achieving a secure retirement. These workers knew the benefit of starting while young and understood that tax deferrals and compounding interest really could build retirement assets in the long run, but many nevertheless viewed saving for retirement as an unrealistic goal when they couldn’t even save a few hundred dollars for emergencies.

That workers forgo saving for retirement even when their employers offer retirement plans is unsurprising, given the barriers to saving identified earlier in this section. Without $400 to replace that broken alternator, thinking about saving enough to enjoy a secure retirement can feel like a pipe dream, and even those families who can save for today struggle to save for tomorrow.

But an equally significant challenge is the fact that too few employers offer retirement plans to their workers. Although workers certainly can save for retirement absent an employer-sponsored program, doing so is significantly more challenging. The success of workplace retirement plans is based on key features, such as payroll deduction, tax-favored treatment and employer matching contributions, when available. The incorporation of behaviorally informed product features into retirement savings plans—such as automatic enrollment, default investments and escalating contributions—have also helped fuel uptake in recent years.

Automatic enrollment is a particularly powerful engine for saving. While allowing employees to opt out, it gets many workers saving and boosts participation rates by enrolling workers by default. For example, one study shows that automatic enrollment can increase participation rates from 40% to over 90%. Rather than delaying, often indefinitely, because of the need to sign up and decide how much to save and how to invest, workers with automatic enrollment are quickly and easily engaged in the program. As described in the volume Automatic: Changing the Way America Saves, automatic enrollment has been particularly helpful in encouraging 401(k) participation by lower-income workers, women and workers of color.

In addition to discouraging low-income workers from saving in the short term, savings penalties in public benefit programs can also discourage them from saving for the long term. Intended to ensure that public benefits would be provided only to the households with the greatest need, savings penalties in many programs treat a household as ineligible if it has as little as $1,000 in assets. Depending on the state, these assets can include the value of a vehicle, a college savings account or—notable in this context—a retirement account. Accordingly, savings penalties could discourage families receiving public benefits such as Medicaid, TANF and LIHEAP from saving for retirement.

Other recent federal government actions have also been counterproductive with respect to saving. The Trump Administration’s decision to discontinue the myRA program deprived non-savers—mainly low- and moderate-income workers who lack access to a 401(k) or other employer-sponsored plan—of a valuable
alternative. Launched in 2015, myRA was a Roth IRA account sponsored by the U.S. Department of the Treasury and invested solely in safe, affordable and user-friendly U.S. savings bonds. Designed to make saving simple and comfortable for risk-averse non-savers, myRA accounts charged no fees, had no minimum contribution or balance requirements, and involved no risk of investment losses. Like other Roth IRAs, it also permitted workers to withdraw the contributions they made without tax or penalty, providing a source of liquid savings to cover financial emergencies. Even though myRA was designed as a long-term, multi-year investment in making savings accessible to every American and promoting lifelong saving habits, the Trump Administration canceled the Obama Administration’s arrangements that would have made it available to more than nine million workers in Oregon, California and Illinois through their state automatic-enrollment programs. A few months later, in 2017, not long after myRA was launched, the Trump Administration terminated the program altogether, citing inadequate expected take up.

On occasion, state governments step in where the federal government has failed to invest in U.S. households' ability to achieve financial security. But legislation passed by Congress and supported by the Trump Administration last year attempted to discourage states from adopting automatic-enrollment programs helping millions of low- and moderate-income workers save in private sector IRAs. Nevertheless, California, Connecticut, Illinois, Maryland, New York and Oregon are moving forward with such payroll-deduction, automatic-enrollment IRA programs (known as “Auto-IRA” or, in some states, “Secure Choice” programs).37

### AutoSave: A Pilot Project for Facilitating Emergency Saving in the Workplace

Do programs helping lower-income workers save in the workplace have potential? Between 2010 and 2012, the New America Foundation and MDRC ran a feasibility pilot that they called “AutoSave” to see whether lower-income workers would save for the short term in the workplace if they had an easy-to-use savings mechanism. The feasibility pilot involved an opt-in program with seven employers, both local and national, and allowed employees to sign up for a short-term savings program to save in regular bank or credit union savings accounts. The pilot used insights from behavioral economics to inform program implementation and marketing. Key design features included: no or low minimum deposits, no monthly fees, portability for the employees, and easy enrollment with no limits on the ability to withdraw. Some of the reasons employees gave for signing up for the savings program included its automatic feature that allowed them to continue saving regularly once they began and the ability to have an account separate from their existing transactional accounts. Researchers involved in conducting this pilot concluded that short-term savings programs in the workplace had promise but regulatory issues at the state-level were problematic.
The Solution:
Rainy Day Savings Accounts for Now and Later

Despite challenges such as these, researchers, advocates and policymakers are seeing the potential for policy that coordinates short-term saving for emergencies (referred to here as “rainy day” saving) and long-term saving—saving for now and saving for later. Later in this report, we explore three potential models for a “rainy day savings account”. First, however, we consider how coordinating short- and long-term saving can have a meaningful impact for workers.

“Rainy day” accounts for short-term saving can also help clear the way for long-term saving. One key factor limiting 401(k) participation is workers’ concerns about the need for liquid savings that can be used in the short term in case of an emergency. Some employees are uncomfortable contributing to relatively illiquid long-term retirement accounts until after they have set aside at least some savings that can be called upon for emergencies or pressing needs in the shorter term.38

Rainy day savings accounts can also help contain current pre-retirement “leakage” of retirement savings. Long-term savings in many workplace-based plans are diminished by extensive early withdrawals, often for emergencies. A recent study estimated that annual pre-age-55 withdrawals (generally cash-outs upon termination of employment that are not rolled over, hardship and other early withdrawals, as well as unpaid plan loans that reduce savings) from defined contribution retirement plans such as 401(k)s and individual retirement accounts (IRAs) amount to 30%-40% of annual contributions.39 Given the tax-deferred treatment of earnings as they compound over the years, even small withdrawals can lead to large losses of retirement wealth.

From an employer’s point of view, this “leakage” can make retirement plans less effective and more expensive. From an employee’s point of view, leakage (including the associated taxes) can reduce savings available for retirement and can lead employees to postpone retirement longer than they would like.40 A rainy day savings account could provide a focused and limited source of emergency withdrawals and therefore make it easier for employees to keep their retirement savings accounts intact, protected from leakage.

By building on behavioral insights and creating separate “buckets” for different types of saving, an employer can encourage separate “mental accounting”. With this, employees might think of short-term saving as very different from long-term saving and therefore contribute to both without one crowding out the other (i.e., contribute more in the aggregate to the two separate accounts than they would to a single combined short- and long-term saving account). This mindset could make employees more comfortable
saving for the long-term because they would have designated liquid savings alongside their long-term savings. It could also reduce leakage of retirement savings because savers would have funds they could more easily access without penalty.

Another reason rainy day savings accounts are in both employees’ and employers’ interests is that they can help employees cope with financial stress. As discussed, stress associated with financial challenges not only takes its toll on workers, but also often distracts them during the workday, reducing productivity. A rainy day savings account can reduce financial stress and, consequently, the amount of time workers spend attending to financial challenges on their employers’ dime. This can also lead to lower employee turnover rates, which saves employers money given the costs of recruiting and training new employees.

Finally, rainy day savings accounts can appeal to employers because they enhance the power of existing workplace-based financial wellness programs, which are increasingly gaining traction. In 2016, 17% of companies offered workers incentives to participate in their financial wellness programs, up from 11% in 2014. This increase can be attributed to greater awareness of the benefits of making such investments in workers. Rather than focusing only on one aspect of a worker’s personal finances, financial wellness programs look at how all the pieces of a complex puzzle fit together to enhance financial well-being. Programs can connect workers with helpful services and products that might not ordinarily be easy for them to access. Financial wellness programs can include services such as online financial management and budgeting tools, financial counseling and short-term loans, and safe and affordable ways to save (including retirement plans). Prosperity Now’s report, Beyond the Next Paycheck, found that young workers tend to worry about short-term financial issues and want financial wellness services that are interactive, individualized, simple and secure. As part of financial wellness programs, rainy day saving accounts could be designed to meet these criteria and, ideally, could help enhance the impact of other financial wellness services.
Potential Models of a Rainy Day Savings Account: Coordinating Short-Term and Long-Term Savings

There are several promising approaches to providing rainy day savings accounts. With a view to piloting and eventually implementing rainy day savings accounts at scale, at least three different models or design approaches have been identified that could be at least partially implemented under current law. A draft working paper, “Building Emergency Savings Through Employer-Sponsored Rainy Day Savings Accounts” by John Beshears, James J. Choi, J. Mark Iwry, David C. John, David Laibson and Brigitte C. Madrian, was released as a preliminary National Bureau of Economic Research discussion draft for comment in connection with an October 2017 conference on rainy day savings at the Brookings Institution. That draft describes and evaluates three models that could be adopted to help workers save for short-term purposes at the workplace:

1. **Rainy Day Savings Account Within the 401(k):**
   Uses employee after-tax contributions to the 401(k)-type retirement saving plan as a separate emergency saving account within the plan, coordinated with the plan’s pre-tax contribution accounts.

2. **Rainy Day Savings Account Alongside the 401(k):**
   Uses a “deemed” or “sidecar” Roth IRA as a separate emergency saving account attached to the 401(k)-type retirement saving plan.

3. **Rainy Day Savings Account Separate from Any 401(k):**
   Uses a savings account or a payroll or prepaid card, provided in either case by a bank or credit union, separate from and unrelated to any retirement plan the employer might offer.

The first two models are connected to a 401(k) or similar plan. In these approaches, the short-term savings component is offered either as part of the retirement savings plan or alongside it. The rainy day savings account would enjoy some of the tax advantages currently afforded to tax-qualified retirement savings and would make use of existing plan and workplace infrastructure, ideally including employer matching contributions. Contributions could be made initially to the emergency savings account until a predetermined target amount was reached (e.g., $2,000). These would be after-tax contributions (but, in one case, with
Roth IRA tax treatment) and preferably made by automatic enrollment in payroll deduction. Ideally, after the target balance was reached, further contributions could automatically go to the 401(k) plan’s pre-tax employee contribution account, and, at some point, if a withdrawal was made from the rainy day savings account, contributions to that account would resume until they had replenished the target balance.

The third approach would encourage emergency saving for workers whether or not they have access to an employer retirement plan. If a 401(k) plan was available, it would be separate from the rainy day savings account, which could be coordinated with the plan. Under this approach, the rainy day savings account would be provided by a bank or credit union through either a traditional savings or transaction account, or a prepaid debit card or payroll card.

There will not necessarily be only one effective or best approach to emergency saving, but below is a brief summary of the three potential models and an overview of the major benefits and drawbacks of each, as laid out in the draft working paper. Other approaches may be worth considering, including combinations of features in the following models.45

**Rainy Day Savings Account Within the 401(k):**

**After-Tax Employee Contributions to Retirement Plan**46

This model structures the rainy day savings account within the retirement savings plan so that workers can make pre-tax elective contributions and after-tax elective contributions under the same 401(k) plan umbrella. The after-tax contributions accumulate earnings on a tax-deferred basis and an amount equal to the employee’s contributions can be withdrawn tax free and penalty free. The underlying investment for the after-tax contributions would be relatively safe and conservative so the value does not vary too much if needed eventually for an emergency. The pre-tax employee contributions would be separate and would function as part of the traditional 401(k).

**Potential Benefits:**

- Logistically would be the easiest of the three models for employers that already sponsor a workplace-based retirement plan. Can be designed as a relatively seamless addition to a 401(k) plan using existing retirement plan and human resources infrastructure, including the payroll deduction mechanism and third-party account recordkeeping.
- After-tax employee contributions are already a feature of many 401(k) plans. Where they are not already part of the plan, adding them would not require significant changes to existing plan infrastructure for retirement plan providers.
- Leverages mental accounting to make it easier for employees to separate their long-term savings from their short-term savings because of the well-established separate plan accounting between pre-tax and after-tax employee contribution account "buckets".
- Can use automatic enrollment available to 401(k) plans for the rainy day savings account with an option to opt out.
- Extends existing tax-favored treatment of qualified retirement saving to emergency saving. Earnings can grow tax free until withdrawn.
• Withdrawals from the rainy day savings account are very liquid and, to the extent attributable to workers’ previous contributions (as opposed to earnings on those contributions), withdrawals would be tax free.
• Plan sponsors would be free to leave withdrawals from this account unrestricted.
• Employers can match their employees’ contributions to the rainy day savings account—just as they are currently able to do for pre-tax retirement accounts—to give employees an additional incentive to contribute.
• Savings can later be converted into a Roth IRA when the employee leaves the job, so that former employees can continue saving and benefiting from the rainy day savings account.

Possible Drawbacks:

• Plans that have after-tax employee contribution accounts do not commonly use them for this purpose, so it would take resources and time for plan providers to add or repurpose after-tax employee contributions, effectively roll them out, educate employees, and take them to scale if successful.
• Employers need to determine how best to comply with Employee Retirement Income Security Act (ERISA) fiduciary standards and avoid possible criticism for auto-enrolling employees into conservative, low-expected-return investments for the emergency account. Employers also would need to get comfortable with automatically enrolling employees into accounts that do not have as many tax advantages as pre-tax accounts or Roth IRAs (which can make distributions of earnings tax free if the following Roth IRA conditions have been met: 1) five years since the individuals made the initial contribution and 2) individuals are at least 59 and a half years old).
• Withdrawals from after-tax employee contribution accounts are required to consist of proportional amounts of contributions and earnings, so every withdrawal will involve tax consequences. The portion of every withdrawal that is attributable to earnings will be taxable and subject to 10% additional early withdrawal tax and 20% tax withholding. This would involve some administrative steps and explanations to workers.
• Withdrawals from 401(k) plans often take several days because the plans are not geared to immediate responsiveness for short-term needs—they are designed for longer term savings. This could be an issue for many low- and moderate-income workers who value immediate liquidity in an emergency.
• Employers wishing to make matching contributions might consider whether they need to 1) prevent workers from manipulating the match by repeatedly withdrawing and recontributing matched employee contributions and 2) deal with the possibility that the plan qualification rules would impose six-month suspensions of contributions following withdrawals in order to limit to some degree an employee’s ability to withdraw matched contributions.
• After employees leave their jobs, their rainy day savings account would not be as portable as a number of alternatives. An employee changing jobs might not be able to seamlessly continue accumulating, using and replenishing the employee’s rainy day account. Especially early on, the odds might be small that subsequent employers will have adopted similar arrangements.
• Employees might have to pay additional administrative fees, although employers could choose to bear at least some of this cost.
Rainy Day Savings Account Alongside the 401(k): Deemed/Roth Sidecar IRAs

A second approach that “Building Emergency Savings Through Employer-Sponsored Rainy Day Savings Accounts” proposes for consideration is the repurposing of deemed IRAs, otherwise known as Roth sidecar IRAs, for emergency saving. A Roth sidecar IRA, a relatively lesser known option for tax-qualified employer-sponsored retirement plans, is an IRA owned by a participant in an employer-sponsored plan such as a 401(k) and is essentially attached to and offered through the employer plan. It retains the character of an IRA but can enjoy economies of scale through commingled investment with the employer plan that has potentially lower costs for the individual and other possible administrative efficiencies. To facilitate emergency savings, the IRA in this case would be a Roth IRA. Like the after-tax employee contribution account, the Roth sidecar IRA would probably be invested conservatively to minimize volatility in value.

Potential Benefits:

- The addition of a Roth sidecar IRA might be feasible without requiring extensive changes to existing 401(k) plan infrastructure and systems.
- Liquid because withdrawals during employment are not subject to the usual 401(k) restrictions.
- Withdrawals are tax free and penalty free until an employee has withdrawn an amount equal to all employee contributions to the Roth sidecar IRA (often most of the account balance). This is simpler and easier to explain to workers because taxable withdrawals of earnings are not considered to occur until after all employee contributions have been withdrawn (and earnings also would be distributed tax free if the individual meets the Roth IRA conditions noted earlier).
- Ability to use automatic enrollment, which is proven to increase participation in savings plans, is not explicitly prohibited and most likely allowable.
- Having two very different kinds of accounts, emergency versus retirement, allows workers to have separate “mental accounting” for short-term versus long-term funds in their plan.
- Employers can match their workers’ contributions on a tax-favored basis by depositing the match in regular 401(k) employer matching accounts (depositing in the Roth sidecar IRA could be problematic).
- When workers leave their jobs, they can continue saving and benefiting from rainy day savings accounts in standalone Roth IRAs.

Possible Drawbacks:

- Not currently commonly offered, so it would take additional resources and time for plan sponsors and recordkeepers to implement.
- Annual IRA contributions must be limited to $5,500 ($6,500 for those age 50 or older), and eligibility to contribute is subject to income limits (in 2018, to contribute to a Roth IRA, single filers and married taxpayers filing jointly must have household income below $135,000 and $199,000, respectively). These income limits, while irrelevant to most workers, must be communicated to all employees eligible for the account and could affect administration of the account with respect to some eligible employees.
- Withdrawal of earnings will ordinarily be subject to tax and an additional 10% early withdrawal tax, although this could often be avoided by withdrawing all but the earnings portion of the account.
• Because the Roth IRA is designed for long-term savings, withdrawals could take several days to implement, which is an issue for many low- and moderate-income workers who value immediate liquidity in an emergency.

• Employers wishing to make matching contributions might consider whether they need to add administrative procedures or restrictions to prevent workers from manipulating the match by repeatedly withdrawing and recontributing matched employee contributions.

• Employers need to determine how best to comply with ERISA fiduciary standards and avoid possible criticism for auto-enrolling employees into conservative, low-expected-return investments with respect to the Roth sidecar IRA. Employers would also need to get comfortable with the relatively novel practice of automatically enrolling employees into both pre-tax contributions and Roth IRA contributions.

• Employees might have to pay additional administrative fees, although employers could choose to bear at least some of this cost.

Rainy Day Savings Account Separate from Any 401(k):
Bank or Credit Union Account Independent of the Retirement Plan

An external emergency savings account that is not tax favored could be made available to the tens of millions of workers who have no access to an employer-sponsored retirement plan as well as to workers who do have such access. The account could be established by an employer in cooperation with a bank or credit union for the benefit of employees. This approach and some of these variations are currently being implemented by a number of employers and third-party financial providers. This approach could take the form of either a traditional individual savings account or a reloadable prepaid or payroll card tied to a pooled bank account administered by a bank, credit union or payroll card provider retained by the employer. When an employer-sponsored plan is available, the rainy day savings account would remain separate from the plan but could be coordinated with it; a single third party could administer both or a different entity could administer each.

Potential Benefits:

• Can be available to workers regardless of whether they are eligible for an employer-sponsored retirement plan so could be more accessible to low- and moderate-income populations who are less likely to have access to a retirement plan at the workplace.

• Most liquid and portable model of the three models discussed here because the funds will be held directly with a bank or credit union instead of a retirement plan sponsor or provider.

• There would be no ERISA fiduciary liability issues, tax-qualification withdrawal restrictions and other rules, or legal limits on eligibility or amount of contributions.

• Similar to the other models, if workers have long-term savings, this can help them mentally separate short-term savings from long-term savings by having separate buckets for these different purposes.

• Employers could contribute, including by matching workers’ contributions, though not with the tax preferences available through retirement plans.

• Funds would be FDIC (Federal Deposit Insurance Corporation)-insured because they would be held in an insured financial institution.50 This protection of investments of up to $250,000 is important for
low- and moderate-income workers, many of whom are more risk averse and are particularly interested in added security for their savings.

Possible Drawbacks:

- Contributions are not tax-favored, and earnings are taxed in the year earned. Depending on the employee’s tax bracket, this may or may not be a drawback.
- Many state anti-garnishment wage laws might be interpreted to prohibit the use of automatic enrollment in rainy day savings accounts that are not part of an ERISA-governed plan.
- Additional compliance would be needed with Know Your Customer rules, especially when using automatic enrollment (potentially a second reason why automatic enrollment into these accounts may be impractical).
- For employers that also sponsor a retirement plan, contributions to an unrelated bank or credit union savings account could be administratively challenging to coordinate with contributions to the retirement plan.
- Employers would need a separate system from any existing retirement plan for this model.
- Employers would need to ensure compliance with the Federal Reserve’s Regulation D that limits savings account (not checking or other transactional account) withdrawals to six transactions per month, subject to certain exceptions.
- Could make it harder for employers that have a retirement plan to comply with ERISA nondiscrimination standards to the extent contributions to emergency savings crowd out 401(k) contributions.
- Depending on the financial institution and account used, employees might have to pay fees, although the employer could choose to bear at least some of the cost.

The Path Forward to Rainy Day Savings Accounts in the Workplace

Depending on the employees, the industry, or the currently available benefits, different approaches might work better in different cases. Separate research, experiments and pilot projects may be helpful to share lessons and best practices. Given multiple uncertainties affecting policy, product design and impact, as well as questions about employer and employee demand, much work remains with respect to any of these rainy day savings account approaches, including research and experimentation to determine proof of concept. If results are favorable, further work will be needed to take the concept to scale.

Legislation and regulatory guidance might be helpful and, in some respects, important, but unless done carefully, could also prove to be counterproductive. In particular, legislation clearing the way for certain rainy day savings account practices or approaches could be drawn too narrowly given later progress in developing alternative approaches. The unintended consequence of premature legislation could be to cast doubt by implication on the permissibility of other options that might prove equally or more effective. In addition, even legislative proposals seeking to confirm that certain specified practices would be permissible could chill the
use of those practices in the market pending enactment of the legislation or promulgation of final regulations called for by the legislation.

The following are key activities, some of them already under way, that would move this work forward in tandem with the federal policies recommended in the following section:

Discussion among key stakeholders regarding the design, deployment and scaling of rainy day savings account approaches. Nonprofit organizations, think tanks, researchers and others have begun to think through these ideas. The potential models outlined above reflect initial efforts to explore possible approaches to rainy day savings accounts. This work would benefit from more time, energy, expertise and other input from a diverse range of stakeholders, including:

- Workers, especially low- and moderate-income workers, and their representatives—to identify workers’ specific needs and help design user-friendly approaches to meet those needs effectively.
- Employers—to identify the concerns, advantages, disadvantages and impact of implementing various rainy day savings account models, including advice on administrability of various designs and the usefulness of having separate accounts, or buckets, for retirement and emergency savings.
- Retirement plan providers—to advise on how best to integrate rainy day savings account strategies into or alongside workplace-based retirement plans and their recordkeeping systems.
- Regulators and policymakers—to better understand and help resolve policy/regulatory issues and potential barriers as well as collaborate in considering the potential need for legislation and regulatory measures.
- Banks and credit unions and other financial institutions—to think through the operational issues involved in developing, implementing and expanding various rainy day savings account models.
- Nonbank financial service providers (prepaid debit card companies, payroll card companies and financial technology startups)—to work together in designing approaches that are best for both employees and employers and can also integrate smoothly with retirement plans.
- Researchers, think tanks and professional advisors—to develop and provide data regarding the benefits and challenges of rainy day savings account approaches, provide insights, and help develop policy solutions, including a focus on how to target rainy day savings accounts to low- and moderate-income workers and workers of color.

Further research is needed to resolve key questions regarding the rainy day savings account approaches outlined above and other possible options. These questions include:

How do we design rainy day savings accounts to best meet the needs of employees, in particular low- and moderate-income workers and workers of color who may need additional support?

More research is needed to investigate which approaches would work best for workers in various circumstances. Any approach needs to be accessible and easy to use, low cost, promptly accessible in an emergency and facilitate saving in a behaviorally informed manner. Various behaviorally-informed features may be useful to support rainy day savings accounts, such as automatic enrollment, automatic contribution escalation or employer contributions.
How do we design rainy day savings accounts to best fit the needs of employers?

Employers are looking to offer benefits that can help attract and retain talented employees, increase worker productivity and easily integrate into their current benefits without involving high costs or significant additional risk/uncertainty. Further research and experimentation is needed to explore how the models outlined above and other possible approaches might address employers’ needs. Pilots can provide data and metrics to demonstrate these benefits to employers. For the concept and practice of rainy day savings accounts to gain an initial foothold, only some employers need to take an interest. Broader acceptance by employers may follow initial pilots and demonstrations providing proof of concept.

How should employee and employer contributions be coordinated between a rainy day savings account and a 401(k) plan?

Using an employee-focused, human-centered design can encourage employees to participate and save for emergencies, for retirement and for both at the same time. There is significant need to study which of these allocations of contributions best meets the needs of workers of different types (e.g., occupation, income level, age) and in different circumstances.

From the employer’s perspective, options for designing the default allocation of contributions might include sequential or simultaneous allocation. Under sequential allocation, contributions would be allocated first to the rainy day savings account and then, once a target threshold balance was reached, would shift to retirement savings. Following withdrawals of rainy day savings account amounts, further contributions would be directed back to the rainy day savings account until the target balance had been restored. Under simultaneous allocation, contributions would be divided between the retirement accounts and the rainy day savings account in accordance with a specified formula. Once the target rainy day savings account balance was attained, all contributions would be directed to the retirement account until there were withdrawals of rainy day savings account amounts. At that point, the replenishment of the rainy day savings account target balance would again involve a division of contributions between the short-term and the long-term accounts. If either of these were the default arrangement, plan participants who preferred something different could elect out of it and choose explicitly the amount and timing of their retirement contributions and their rainy day savings account contributions.

Some plan sponsors might be confident that all of these procedures would be permissible under the 401(k) rules. As the legal analysis is further refined, plan sponsors interested in having further reassurance could seek confirming guidance from regulators. Assuming these procedures—automatically replenishing and switching contributions back and forth—are permissible, a separate and significant question for plan sponsors and their recordkeepers is whether the procedures are also operationally practical and cost-effective. To the extent that some of these steps present challenges, the rainy day savings account models could still proceed in a simpler form. For example, when a rainy day savings account has been depleted by withdrawals, instead of being replenished automatically, it could be left up to employees to take the initiative to replenish that account.
Given the growing interest in financial wellness programs, how can employers best integrate rainy day savings accounts with those programs?

As noted earlier, financial wellness programs have been building momentum in the workplace, and their usefulness might be significantly enhanced with the addition of rainy day savings accounts. Financial capability services such as financial coaching and counseling, online financial and debt management and budgeting tools, and other services could be joined with a rainy day savings account in a mutually reinforcing financial wellness program. For example, as noted, rainy day savings accounts could be a key part of a financial education strategy designed to discourage the use of payday loans and predatory products. Further research and experimentation could explore how best to integrate financial capability services with rainy day savings accounts.

How could automatic enrollment in bank or credit union rainy day savings accounts (separate from a retirement plan) comply with the Know Your Customer Anti-Money Laundering regulations under the Bank Secrecy Act and with state anti-garnishment wage laws that might be interpreted as prohibiting such auto enrollment?

Depository institution rainy day savings accounts using auto enrollment outside of an ERISA-governed retirement plan would not be covered by the special ERISA plan exemption from the Know Your Customer rules. Automatic enrollment of employees into such accounts would raise questions about how the bank or credit union could obtain the information about employees that is required by the Know Your Customer rules. So long as the deposits to the account are made solely via payroll deduction, would the Know Your Customer rules permit the depository institution to comply by obtaining from the employer—and would the employer be permitted to share—the required information about each customer/employee? The Treasury Department could issue helpful guidance on this issue, in conjunction with other relevant federal financial regulators, or could be directed to do so by Congress. Each of these issues is addressed in the next section on potential regulatory, legislative or other policy measures.

Pilot projects to test and demonstrate the effectiveness of these rainy day savings account models. Despite some unknowns and barriers, each of the models can currently be piloted in at least some form. This will illustrate more on how effective these models might be and how they might best be designed and deployed. A pilot to test the use of these approaches could also help get the rainy day savings account concept into the mainstream and shed light on their potential benefits and effectiveness as well as on their challenges. A series of pilots can help answer a number of questions highlighted above and shed light on promising practices, such as determining which models work best for different segments of workers and in which circumstances; identifying behaviorally effective strategies and design features; seeing which approaches boost financial wellness; and further pinpointing the most important regulatory issues and how might they be addressed. Learnings from pilots and associated clarification of unknowns should be important in shaping thinking about how to design and eventually scale up this vehicle to help low- and moderate-income workers.
Policy Measures to Scale Rainy Day Savings Accounts and Encourage Savings

While the previous activities are taken, the federal government should establish policies that take rainy day savings accounts to scale as well as policies that encourage families to save. These policies should raise awareness for rainy day savings accounts, remove legal barriers and provide greater clarity for all stakeholders. Broader policy measures should be enacted to get families to save for both their long- and short-term needs.

Policy Measures to Promote Rainy Day Saving Accounts in the Workplace:

- **Raise awareness of and promote rainy day savings accounts.** Despite emergency savings accounts in some forms already being available and allowable under current law, they have not been used before in this manner at any level of scale. Therefore, it would be useful for the U.S. Department of the Treasury and financial regulators, such as the Consumer Financial Protection Bureau, the Federal Reserve System, the U.S. Department of Labor, the U.S. Securities and Exchange Commission and the Federal Deposit Insurance Corporation, to issue joint guidance providing clarification on their usage in this manner to help make it easier for more financial institutions, startups and employers to offer and adopt them. It would be particularly helpful for regulators to provide guidance on how to offer automatic enrollment in the third rainy day savings accounts model, while still maintaining compliance with the Know Your Customer rules.

- **Ensure that automatic enrollment of employees into stand-alone rainy day savings accounts offered by banks or credit unions will not run afoul of state anti-garnishment wage laws.** As noted earlier, laws in various states prohibit deducting amounts from an employee’s pay without the employee’s written consent or special statutory authorization. (Federal law has exempted ERISA plans from these state law restrictions.) Also as noted, in various states this could be interpreted as prohibiting automatic enrollment in programs, such as stand-alone rainy day savings accounts provided by banks or credit unions, which are not ERISA plans and therefore do not benefit from ERISA’s preemption of such state laws. One option in certain states might be to bargain successfully to provide for automatic enrollment into rainy day savings accounts in collective bargaining agreements because that would come within an exception under certain state laws that treats collective bargaining as employee consent. Alternatively, unless a permissible method can be found to automatically enroll employees, legislation might be sought in each relevant state to amend such state laws—or, more efficiently, Congress might enact legislation to preempt them—to the extent they would prevent such automatic enrollment into rainy day savings accounts outside of ERISA plans.

- **Ensure that automatic enrollment into such rainy day savings accounts will not fail to comply with the Know Your Customer requirements.** Depository institution rainy day savings accounts using auto enrollment outside of an ERISA-governed retirement plan would not be covered by the special ERISA plan exemption from the Know Your Customer requirements. Automatic enrollment
of employees into such accounts would raise questions about how the bank or credit union could obtain the information about employees that the Know Your Customer rules require. So long as the deposits to the account are made solely via payroll deduction, would the Know Your Customer rules permit the depository institution to comply by obtaining from the employer—and would the employer be permitted to share—the required information about each employee? The Treasury Department could issue helpful guidance on this issue, in conjunction with the other relevant federal financial regulators. Or, Congress could establish a legislative exception to facilitate Know Your Customer compliance by rainy day savings accounts, possibly directing the Treasury Department to provide or implement it through administrative guidance.

Policy Measures to Promote Saving, Especially by Low- and Moderate-Income Households:

- **Enact the proposed nationwide Auto-IRA program.** Proposed congressional legislation would give low- and moderate-income workers who are ineligible to participate in employer-sponsored retirement plans an easy way to save at work by automatically enrolling them in payroll deduction Roth IRAs. This proposal would require employers that have more than ten employees and have been in business more than two years without offering a qualified retirement plan to enroll employees automatically into Roth IRAs. Employers would simply serve as a conduit between the employee’s paycheck and the employee’s IRA, not making contributions and not selecting investments (therefore protected from fiduciary liability), but smaller employers would receive a tax credit to help offset any costs of offering this new program to their employees. As noted, a number of states are leading the way with state-based automatic IRA programs, which are expected to auto enroll an estimated 13 million employees. Congress should encourage these efforts (instead of making them more difficult, as it has done previously) and finally enact a national Auto-IRA program that builds on and incorporates the state pilots. This would provide nationwide uniformity, achieve greater economies of scale and give tens of millions of working households who are ineligible for employer-sponsored plans a safe and convenient way to save in the workplace. Auto-IRAs could be coordinated with a future rainy day savings account strategy to help workers save for retirement and for emergencies.

- **Allow families to save for emergencies and retirement without losing public benefits.** Most public assistance programs have asset limits (which have the unintended effect of acting as savings penalties) that can be a strong deterrent to families who are thinking about saving for their futures. In addition, different asset limits apply depending on what state a household lives in and which public benefit they are using. This is confusing for families, and many will default to not saving at all just to be safe. Congress already permits families to save for retirement without losing their ability to access the Supplemental Nutrition Assistance Program (SNAP). Congress should extend similar policies to other programs and allow families to save in retirement accounts without losing access to TANF, Medicaid, LIHEAP or SSI and allow families to save in short-term savings accounts without losing access to these programs and to SNAP. Congress should remove savings penalties, or at least determine a reasonable amount (indexed for inflation) consistent across these public benefit programs that families can save without losing program eligibility, so that workers can be
comfortable saving in rainy day savings accounts in the workplace. Efforts to raise the asset limits of public benefit programs have had bipartisan support. In 1992, President George H. W. Bush tried to raise the asset limits of the Aid to Families with Dependent Children (AFDC) benefit from $1,000 to $10,000. President Barack Obama also proposed raising asset limits to $10,000 for all federally funded-means-tested programs serving low-income families, including SNAP, TANF and LIHEAP in his Fiscal Year 2011 budget. However, Congress has yet to act.

• Reform incentives to save for low- and moderate-income workers by making the Saver’s Credit more robust. Those who have the highest incomes generally receive the most benefit from investing in workplace retirement plans while low- and moderate-income workers receive far less. In 2018, according to the most recent estimates provided by the Treasury Department, the US is expected to provide $198 billion to help individuals and families save for retirement through tax expenditures. Currently, if taxpayers’ income is below a specified level, they can receive a non-refundable tax credit, called the Saver’s Credit, as a financial incentive to contribute to IRAs (both traditional and Roth) or tax-favored employer-sponsored retirement plans. In addition to other proposals to expand the Saver’s Credit in ways that would encourage retirement savings, such as making it fully refundable to benefit the lowest income workers and making it a single 50% credit, Congress should also consider the possibility of extending a version of the Saver’s Credit to provide an additional incentive to saving in an appropriate emergency savings account. Restrictions and limits on withdrawals could be considered that would include flexibility to use the funds for emergencies. Since higher-income households are disproportionately White and low-income workers are more likely to be Black and Latino, extending this credit to low-income workers can also help to modestly reduce the racial wealth divide.

• Restore the myRA. While a nationwide Auto-IRA program would be the most powerful means of expanding coverage and saving, a concurrent, smaller step would be reinstating the myRA. As a safe, simple, affordable account without fees, risk of loss, or any required minimum contribution or balance, the myRA promised to be user-friendly, especially to low- and moderate-income households. The myRA was poised to perform a variety of useful roles in private-sector retirement and saving systems: promoting saving for both retirement and emergencies; providing a key element of state Auto-IRA programs and state marketplace programs (for which it was statutorily prescribed under state law as one of the main marketplace options); potentially serving as a solution to the problem of dwindling automatic rollover IRA accounts; potentially providing one important solution to the longstanding problem of lost participants as well as orphan and abandoned retirement accounts; providing an easy “starter account” to for saving by freelance, self-employed and “gig” economy workers; and serving as a useful component of the proposed nationwide automatic IRA program. Two separate accounts could be created with the myRA to serve the same purposes of the rainy day savings account. Congress should reinstate the myRA or authorize a similar savings vehicle based on the myRA.
Conclusion

With appropriate incentives, supports, products and education, U.S. workers of all incomes can successfully save and improve their financial well-being. There are multiple avenues for helping Americans save, which include retirement saving plans, tax-time saving, and safe and affordable homeownership. But the retirement savings system needs to do more to meet our nation’s needs for short- and long-term savings and the needs of low- and moderate-income workers. In addition to expanding the private retirement system to cover tens of millions of households that are currently left out, workers, especially those with low and moderate incomes, also need easier ways to save for emergencies. With an infrastructure for retirement savings already in place, many employers are in a prime position to help their workers save for the short term as well. Creating rainy day savings accounts alongside retirement savings vehicles or independent of them would build upon existing practices and infrastructure in the workplace and go far toward addressing the need for short-term savings.

Helping workers save for the short term as well as the long term would benefit businesses and, most importantly, could be life changing for working families. Piloting different models and identifying promising practices through research, experimentation and collaboration will provide further evidence and increase our understanding of what works to promote shorter-term saving for various populations. This expanding knowledge base can then be leveraged into effective action in both the private and public sectors.


13 Ibid.


SAVING FOR NOW AND SAVING FOR LATER

25 Ibid.
27 Ibid.
34 In this study, 49 young, lower-income workers, ages 19 to 29, in four major cities (Chicago, IL; Houston, TX; Philadelphia, PA; and Portland, OR) were interviewed. The details of this study were presented in the report, Beyond the Next Paycheck: Creating Opportunities for Young Workers to Thrive. See Pamela Chan and Joanna Ain, “Beyond the Next Paycheck: Creating Opportunities for Young Workers to Thrive,” CFED, April 2017, https://prosperitynow.org/files/resources/beyond_the_next_paycheck_04-2017.pdf, 9.


As noted, the descriptions of these models in this report are based on and informed by a preliminary discussion draft of the following working paper: John Beshears, James J. Choi, J. Mark Iwry, David C. John, David Laibson and Brigitte C. Madrian, “Building Emergency Savings Through Employer-Sponsored Rainy Day Savings Accounts,” *National Bureau of Economic Research*, October 2017, https://scholar.harvard.edu/files/laibson/files/2017-10-25_rainy_day_paper_final_2.pdf. That discussion draft was presented at a conference on rainy day savings at the Brookings Institution in October 2017.

One might identify two natural goals or targets for emergency saving. The more ambitious target is to accumulate enough to fund three (or better, three to six) months of basic expenses to protect against job loss, for example. For a low-income household, the goal could be to get out of liquid asset poverty (i.e., to save enough to cover basic living expenses for three months at the poverty level). In 2018, a family of four with liquid assets less than $6,275 is considered liquid asset poor. An alternative target could be to save enough to handle a financial shock—Pew estimates that the median cost of a household’s most expensive shock would be $2,000. This might be viewed as a realistic preliminary goal, well worth achieving in its own right, but, for many, a first step toward the more ambitious goal of accumulating enough emergency savings to live on for three to six months. For more information, see “The Role of Emergency Savings in Family Financial Security: How Do Families Cope With Financial Shocks?,” *The Pew Charitable Trusts*, October 2015, http://www.pewtrusts.org/#/media/assets/2015/10/emergency-savings-report-1_artfinal.pdf, 2.
One possible combination of the models below could be a rainy day savings account Roth IRA separate from any 401(k). Combining the second and third models described could create stand-alone Roth IRAs (as opposed to deemed or sidecar IRAs attached to a 401(k) plan) as external emergency savings accounts, especially for those who have no access to an employer-sponsored retirement plan. Like the external bank or credit union account, this could be a portable account established by an employer in cooperation with a depository institution for employees or by financial providers without necessarily involving employers or connecting to the workplace. Unlike the separate bank or credit union savings account, the separate Roth IRA would be tax-advantaged but would be subject to the Roth IRA contribution and income eligibility limits.


ERISA was enacted in 1974 to protect the interests of employee benefit plan participants and their beneficiaries by requiring those with fiduciary responsibilities to follow minimum standards. For more information, see “Fiduciary Responsibilities,” United States Department of Labor, March 28, 2018, https://www.dol.gov/general/topic/retirement/fiduciaryresp.

Addicted to the tax code by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the “deemed IRA”—often referred to as a “Roth sidecar IRA”—is a traditional or Roth IRA that can be offered in conjunction with an employer-provided retirement plan such as a 401(k). By making these IRAs available to employees together with its 401(k) plan, an employer could potentially realize economies of scale and related efficiencies on behalf of its employees. However, relatively few plan sponsors have adopted the Roth sidecar IRA.

Funds held in a 401(k) plan are subject to different protections under ERISA.

Know Your Customer rules are how a business or financial institution identifies and verifies their customers, governed by bank and anti-money laundering regulations. For more information, see Iza Wojciechowska, “What is KYC and why does it matter?”, Fin, accessed March 18, 2018, https://fin.plaid.com/articles/kyc-basics.


62 Retirement tax expenditures counted in this total include those for defined benefit employer plans; defined contribution employer plans; Individual Retirement Accounts; low- and moderate-income savers credit; self-employed plans and employee stock ownership plans. The Treasury Department also provides an alternative estimate—based on the present value of these tax preferences—to reflect the fact that the conventional ten-year budget estimating window fails to take into account activity (especially revenues received from tax-favored retirement plans) in later years. The tax expenditure estimate (as conventionally estimated) for retirement security and savings, for the year FY 2018, is approximately $198 billion, as noted, and the present value tax expenditure estimate (which is available for FY 2017) is approximately $122 billion. See “Fiscal Year 2019 An American Budget: Analytical Perspectives, Budget of the U.S. Government,” Office of Management and Budget, https://www.whitehouse.gov/wp-content/uploads/2018/02/spec-fy2019.pdf, 153-154, 159, 176.