The Emergency Savings Act of 2022
Myth vs. Fact

MYTH	FACT
The bill will require employers to offer an Emergency Savings Account to their employees.	The proposal is *completely optional*. Employers are free to add an Emergency Savings Account feature to their defined contribution plan if they so choose.
Employees will be able to save unlimited amounts in their Emergency Savings Accounts.	Contributions to an Emergency Savings Account will be capped once the account reaches $2,500 (or less, if the employer sets a lower limit). The JP Morgan Chase Institute found that even the lowest-income households need at least $2,500 to weather the typical income and expense shocks. Again, if an employer feels that $2,500 is too high for their workforce, they can set a lower limit.
Employees will no longer save for retirement.	Because of the proposal's auto-enrollment feature, it is likely that most people will not divert any of their retirement savings to the Emergency Savings Account and will instead opt to put additional wages from their paycheck into their Emergency Savings Account. Indeed, an existing emergency savings product piloted by Voya Financial found that increased emergency savings did not crowd out retirement savings. Similarly, a national survey recently found that 61% of those with access to a workplace retirement plan said they would like to make emergency savings contributions *in addition* to any retirement contributions they are already making. Finally, recordkeepers, other benefits providers, and plan sponsors will have choice in how to design the emergency savings feature—they will not want to provide a product that significantly reduces retirement savings.

Employees will "churn" their Emergency Savings Accounts to get the employer match in their retirement accounts and then drain their Emergency Savings Accounts, without actually saving for an emergency.	While such churning could occur in theory, in practice there is no evidence of churning where it is already allowed in 401(k) plans. The proposal also caps the employer match at the Emergency Savings Account limit – i.e., $2,500 or lower, if the employer sets a lower limit. This disincentivizes churning so that emergency funds are only used for real emergencies.
This will cause leakage from the retirement system.	Evidence shows that when people lack emergency savings, they often tap into retirement funds. The proposal provides protection *against* retirement leakage by creating an emergency bucket of funds that must be tapped before touching one's retirement savings via loans or hardship withdrawals. Additionally, separation from service is a distribution event for defined contribution plans. The Joint Committee on Taxation estimates that approximately 22% of contributions made by those under the age of 50 leak in a given year, and most of that is attributable to separation from service. At separation from service, an employee would have the opportunity to take the Emergency Savings Account in cash, which will likely mitigate the leakage due to a change in jobs. An employee would also have the option to roll the Emergency Savings Account into a Roth account within the defined contribution plan or a Roth IRA.
This policy conflicts with the $1,000 penalty-free retirement account access option, as proposed by Senators Lankford and Bennet.	Employers know their workforce best, and may choose to offer either proposal – or both!