The Emergency Savings Act of 2022

Improving Financial Security by Reducing Retirement Leakage

Introduced by Senators Cory Booker (D-NJ) and Todd Young (R-Ind.)

The *Emergency Savings Act of 2022* would facilitate convenient and affordable access to workplace emergency savings accounts, improving financial security and reducing retirement leakage. Though individuals can save on their own, far too many fail to do so. According to a report by the Federal Reserve, almost half of Americans would struggle to cover an unexpected $400 expense. Many are forced to tap into their retirement savings. A recent study found that, in the past year, almost 60% of retirement account participants who lack emergency savings tapped into their long-term retirement savings, compared to only 9% of those who had at least a month of emergency savings on hand.

Separating emergency savings from one's retirement savings account will provide participants a better understanding that one account is for short-term emergency needs and the other is for long-term retirement savings, thus empowering employees to handle unexpected financial shocks without jeopardizing their long-term financial security in retirement through emergency hardship withdrawals. Moreover, a recent survey found that a third of individuals who had an emergency savings option paired with their retirement plan were *more* likely to save for retirement. Because of the low barrier to entry, emergency savings accounts are likely to expand savings for the lowest-income workers, and participation in such an account will bolster not only their short-term financial stability, but also their long-term retirement savings.

Summary of the Emergency Savings Act of 2022:

- An Emergency Savings Account is an optional feature that can be added to a plan sponsor's defined contribution plan.

- The maximum that can be saved in an Emergency Savings Account is $2,500. Plan sponsors may choose to set a lower cap.

- The savings in an Emergency Savings Account will be made on an after-tax basis and can be withdrawn tax penalty-free at any time (with permissible limitations on withdrawal frequency).

- Contributions to the Emergency Savings Account will be treated as elective deferrals for purposes of retirement matching contributions, with an annual matching cap set at the maximum Emergency Savings Account balance – i.e., $2,500 or lower as set by the plan sponsor.

- Plan sponsors may use automatic enrollment at up to 3% of a participant's salary to increase participation in the Emergency Savings Account. Employees can opt-out or adjust their contribution at any time.

- Retirement plan leakage often occurs when people change jobs, since separation from service is a distribution event. As such and to encourage people to preserve their retirement savings, participants may take their Emergency Savings Account as cash, roll it into their Roth defined contribution plan, or roll it into a Roth IRA at separation from service.