

EMERGENCY SAVINGS ACCOUNTS

**Enhancing retirement savings
with a new employee benefit**



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The importance of creating an emergency savings fund has never been more apparent. In 2022, the percentage of Americans who could cover a \$1,000 emergency expense from their savings was just 44%.¹

The good news: Employers are in a unique position to help with a workplace emergency savings account (ESA). In this paper, we'll discuss the need for a workplace ESA and what an effective program should include.

SECTION 1: THE NEED FOR A SAVINGS SOLUTION

The 56% of Americans who are unable to pay for a \$1,000 emergency may have little choice other than turning to credit, family, or their retirement plan to meet the expense. Each of these options has a downside:

- Credit is expensive and becomes more so during inflationary and rising-interest-rate environments. Borrowing for emergencies may push employees further from an adequately funded retirement, creating even greater problems in the years to come.
- Using the retirement plan as a source of cash limits its potential growth by depleting the amount available to benefit from compound interest — a significant aspect of structured investing. When the money comes from a pretax account, the withdrawal may also add to the employee's tax burden.
- Borrowing from relatives? That's a discussion for another time.

With the median retirement savings of \$67,000,² anything that keeps Americans from contributing to their employer plan — or worse, takes away money they have already saved — is detrimental to retirement.

On the other hand, retirement preparedness may improve when employees have another source of emergency cash. The Consumer Financial Protection Bureau found that just 9% of retirement account holders who had at least one month of income in a savings account withdrew funds from their retirement accounts, compared to 59% of those without emergency savings.³

Thanks to provisions in the [SECURE 2.0 Act](#), individual account plans, such as 401(k)s, can link to an emergency savings account beginning in 2024. This validates the importance of an ESA when preparing for retirement and increases the likelihood employers will begin offering one as a core employee benefit going forward.

Transamerica has ESA solutions today that will provide employees flexibility over their funds while requiring minimal administrative work for employers. To learn more about how the "in-plan" ESAs under SECURE 2.0 differ from the "out-of-plan" solutions available now, talk to your Transamerica representative.





SECTION 2: WHY EMPLOYEES ARE FINANCIALLY STRESSED — AND HOW EMPLOYERS FEEL IT

Employees are feeling financial stress. In their 2024 Wellness Barometer Survey, BrightPlan found a 19% jump in financial stress compared to 2022.⁴ It's no wonder. The cost of everyday products and services, from lunch meat to medical care, rose sharply due to persistent inflation.

Inflation in their everyday lives is not the only reason participants are feeling stressed. It's the big things that may force people to seek quick money. Among the top reasons people need extra cash are:⁵

- Medical emergencies
- Auto repairs
- Job loss
- Home repairs
- Unexpected move or life change
- Pet health emergencies

Where do they turn to pay these unexpected expenses when there isn't enough in their savings account? Many turn to their retirement plan. In fact, more than one-third (37%) of plan participants have taken money out of their 401(k) or similar retirement accounts through loans or hardship withdrawals. Of those who took a loan from the plan, 31% said it was to fund a financial emergency. Of those taking a hardship withdrawal, the most-often cited reason was paying off debt.⁶

Of course, high levels of financial stress can take significant physical and emotional tolls. Of those surveyed for the BrightPlan study, 72% said their deteriorating financial health is impacting their mental health, and 62% said it is affecting their physical well-being.⁴

WHAT HAPPENS AT HOME ALSO COMES TO WORK

The effects of financial stress don't stop when employees arrive at the workplace. The BrightPlan survey goes on to report that, on average, employees lose 7.3 hours in productivity every week due to financial stress. The cost to U.S. employers from the lost productivity amounts to a staggering \$3.5 billion weekly.⁴

An ESA can help by providing another way for employees to save for emergencies. When offered as an employee benefit, an effective program may reduce absenteeism, improve employee loyalty, enable better mental health, and protect the retirement plan's assets.

91%
of employees are
stressed about
their finances, up
from 72% in 2022⁴

SECTION 3: HOW EMERGENCY SAVINGS PROGRAMS MEET THE NEED

An effective ESA can help people pay an unexpected expense without borrowing or raiding their retirement savings. Knowing the money is available to meet surprise expenses can reduce financial stress and improve productivity, saving time and money for the employer. It can also give people confidence to make important decisions. They feel more relaxed knowing they can afford to take the dog to the vet or the car into the shop *now*, instead of later when delays may increase costs.

When offered as an employee benefit, an ESA may reduce turnover and serve to attract new employees — important in times of intense competition. Employees who are financially stressed may look for a better job elsewhere and the resulting turnover can be expensive. Along with the cost of recruiting replacement staff, it may result in lost productivity, missed deadlines, and even dissatisfaction among remaining employees, leading to further turnover.

IMPORTANCE OF DATA AND COMMUNICATION

People who know there is money available for emergencies may feel better equipped to tackle their financial well-being in other ways. For example, they may decide to use some of their emergency savings to purchase additional coverages — such as life or accident insurance — to further enhance their financial security.

Perhaps more important, feeling in control of their financial well-being may motivate employees to start, continue, or even increase contributions to their workplace retirement plan.

To help employees make the leap from emergency savings to further protecting their financial well-being, employers should examine their ESA data, including contributions, savings rates, and withdrawals. Doing so makes communicating with employees about other financial wellness opportunities available to them more effective.

EMPLOYEES WANT A NEW WAY TO SAVE

Employees say they want an ESA as a workplace benefit. In fact, such programs are cited as the top choice for a new employee benefit by 43% of employees, according to SecureSave.⁷ The Financial Health Network's survey notes similar enthusiasm. They found 57% of employees without access to an emergency savings program would be somewhat or very likely to use one. The figure is higher when the program includes an employer contribution. In that case, 66% said they are somewhat or very likely to use it. Among those with outstanding debt of \$25,000 or more, 68% said they would be somewhat or very likely to use an emergency savings program.⁸

An employer that responds by adding an ESA to its employee benefits may thus inspire greater loyalty.

The effects of financial stress on employees are also felt by employers. U.S. employers lose **\$3.5 billion** weekly to lost productivity.⁴

57%
of employees without an emergency savings program would be somewhat or very likely to use one offered at work⁸



SECTION 4: HOW TO STRUCTURE AN EMERGENCY SAVINGS PROGRAM

When creating an ESA, there are several key elements to consider, including:

- **Easy enrollment:** Whether through an app or a website, it should be fast and easy for an employee to sign up and start saving.
- **Automatic payroll deduction:** Money directed via payroll into an ESA tends to stay there until it is used for its intended purpose. On the other hand, relying on ourselves to save money we already have in hand is less certain.
- **Employer contributions:** Even small contributions can motivate employees to save. When employers “seed” the fund with small, regular matching contributions, savings accumulate faster, encouraging employees to continue. Even after the matching period ends, employees may have adjusted their budget to allow their contributions to continue.
- **Ability to contribute a flat amount per paycheck:** Some employees are more comfortable directing a flat amount than a percentage of pay to the account. Having that ability could encourage them to save when they might not otherwise.
- **Quick, easy withdrawals:** Taking a withdrawal when there is a need should not be difficult or time-consuming.
- **Flexible timing:** An ESA can be implemented any time of year, not just at open enrollment, so providing information to all employees throughout the year can be helpful.
- **After-tax contributions:** When employees use after-tax dollars to save, there is no need to worry about complexities of the Employee Retirement Income Security Act of 1974 (ERISA).

SECTION 5: HOW EMPLOYERS CAN TAKE ACTION

It’s important to find the right vendor to help you with an ESA. Look for one that has a track record of success and the key features your employees value. For example, make sure the tools offered to enroll and participate are easy and intuitive. Reporting should be clear and detailed, helping the employer understand how employees are using the ESA. Using data-driven insights, employers can make changes to their benefit offerings and target communications to encourage further financial wellness activities.

ABOUT OUR ESA PARTNERS

INSPIRA FINANCIAL

Inspira Financial's Emergency Savings Fund allows your employees to use payroll deduction to regularly save for unexpected expenses. It's easy for employees to set up and use and it includes robust call centers for employee support.

For employers, Inspira Financial's ESF features:

- A dedicated onboarding team to help you successfully implement and manage the program
- Comprehensive engagement campaigns that effectively educate your employees and optimize account adoption
- Easy-to-navigate websites to help you efficiently manage the program and your employees efficiently manage their account



SCAN THE QR CODE
TO VISIT THE INSPIRA
FINANCIAL WEBSITE

SECURESAVE

[SecureSave](#) allows employees to easily set aside post-tax money into an ESA through its purpose-built application — accessible by mobile or desktop. SecureSave empowers employees to automatically save right from their paycheck into an FDIC-insured account with matching employer incentives — at no cost to them. Employers pay a nominal, per-employee fee.

- Over 50% of employees sign up and put money into their SecureSave ESA when offered⁹
- Over 90% of funds stay within SecureSave and most users have \$400 saved after four months⁹
- Over 50% of users access the application each month⁹



SCAN THE QR CODE
TO VISIT THE SECURE
SAVE WEBSITE

It's easy for employers to manage the SecureSave ESA program and deployment can take place in under a week. SecureSave is solely focused on emergency savings and provides monthly reporting that proves how they drive savings behavior and form savings habits for employees.

ABOUT TRANSAMERICA

Transamerica is one of the largest and most trusted retirement plan providers in the industry with more than 85 years helping employees achieve a more secure retirement. Our integrated approach provides employers and their advisors with a variety of programs to enhance the financial and personal well-being of employees.

Contact your Transamerica representative for more information.



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¹ "Less than half of Americans have savings to cover a \$1,000 surprise expense," Bankrate.com, January 2022

² "Emerging From the COVID-19 Pandemic: Four Generations Prepare for Retirement," nonprofit Transamerica Center for Retirement Studies, October 2022

³ "Emergency Savings and Financial Security," Consumer Financial Protection Bureau, March 2022

⁴ "The State of Financial Well-Being," BrightPlan 2024 Wellness Barometer Survey, April 2024

⁵ "Most Common Financial Emergencies," SecureSave, April 2022

⁶ "Post-Pandemic Realities: The Retirement Outlook of the Multigenerational Workforce," nonprofit Transamerica Center for Retirement Studies, July 2023

⁷ "Insight Report 2022: Emergency Savings at Work," SecureSave, 2022

⁸ "Helping Employees Manage Debt: Designing Debt-Related Benefits to Match Employee Needs and Preferences," Financial Health Network, 2022

⁹ "SecureSave: The Emergency Savings Program for Greater Productivity and Retention," SecureSave, 2022

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