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Emergency Savings: The Reality of Workers' Liquid Savings — *Evidence From the Survey of Consumer Finances*

By Craig Copeland, Ph.D., Employee Benefit Research Institute

AT A GLANCE

An important factor for a family's financial wellbeing is the ability to cover unexpected expenses, such as a car or furnace repair or something even more financially challenging such as a loss of a job.

- However, according to Federal Reserve data, only half of workers *say* they have a rainy day fund that could cover three months of expenses in case of sickness, job loss, economic downturn, or other emergencies.
- An even more dire picture is found after calculating how much savings families actually *report* is available to cover such expense levels:
  - Of all families with working heads, 20.1 percent had liquid savings of more than three months of their family income.
  - This went up slightly to 21.0 percent when certificates of deposit (CDs) were added to the liquid savings.
  - Even if the threshold is reduced to 75 percent of three months of family income, only 25.7 percent of families with working heads had liquid savings in excess of this amount.
  - Again, only a small increase resulted when CDs were added, bringing it to 26.7 percent.
- The families whose heads were defined contribution (DC) plan participants were found to be more likely to have sufficient liquid savings to cover three months of expenses than those with heads who were nonparticipants.
  - In fact, almost one-quarter (24.7 percent) of families with DC-plan-participant heads had more liquid savings than three months of their income, compared with 13.4 percent for families with DC-plan-eligible nonparticipating heads and 17.7 percent for families whose heads were not offered a DC plan.
  - A particular finding of interest was that families whose heads were eligible nonparticipants were less likely to have sufficient liquid savings to cover three months of expenses than those whose heads were not offered a plan.
- The relatively low percentage of families who had liquid savings that surpassed the three-months-of-income threshold held regardless of the family head's age or of the family's income. Consequently, the need for an emergency savings fund is *not* limited to just families with low incomes or with younger heads.
- Given the low percentage of workers and families who had sufficient savings to cover a loss of income for any extended period, emergency savings programs could be directly beneficial to workers and indirectly beneficial to employers through higher employee satisfaction. Despite employees preparing for retirement through their

participation in the DC plan, help is needed by a sizable share of these employees for short-term financial issues. The potential need is even more pressing for those who are eligible for the plan but do not participate. Consequently, addressing short-term financial issues could lead to even better long-term results through a reduced need for early withdrawals (and tax penalties) and potentially higher contributions to a DC plan after an account for short-term financial issues is funded.

Craig Copeland is senior research associate at the Employee Benefit Research Institute (EBRI). This *Issue Brief* was written with assistance from the Institute's research and editorial staffs. Any views expressed in this report are those of the author and should not be ascribed to the officers, trustees, or other sponsors of EBRI, Employee Benefit Research Institute-Education and Research Fund (EBRI-ERF), or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

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Emergency Savings: The Reality of Workers' Liquid Savings — *Evidence From the Survey of Consumer Finances*

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Introduction

An important factor for a family's financial wellbeing is the ability to cover unexpected expenses, such as a car or furnace repair or something even more financially challenging such as a loss of a job. However, many American families live paycheck to paycheck with limited savings, making these types of unexpected expenses a trigger for financial difficulties such as taking on debt or adding to their current debt level. Consequently, setting aside money for unexpected expenses or funding an emergency savings account can reduce the likelihood of families falling into serious financial difficulties.

One consideration families with limited savings capabilities face is whether to fund an emergency savings account or save for retirement through a defined contribution (DC) plan. Those with access to a DC plan with a matching contribution, for example, may reason that it is more attractive to save in it and obtain the match, especially since loans and withdrawals make the DC money accessible and the money can also be withdrawn upon job change. However, if an emergency happens, particularly a job loss, removing funds from a DC plan can result in tax penalties for early withdrawal from the plan.[1] Consequently, the choice to fund the DC plan may not be as attractive once accounting for the possibility of tax penalties when an emergency occurs.

Emergency Savings Accounts

The creation of emergency savings accounts through an employment-based arrangement, either in combination with a defined contribution (DC) plan or separately, has been suggested as a possible way to prevent workers from raiding their DC plans when emergencies arise. However, the implementation of such plans would be difficult given the rules surrounding DC plans; creative ideas are needed as well as willingness of employers to offer this type of benefit that could help workers with short-term financial issues. The Aspen Institute's "Short-Term Financial Stability: A Foundation for Security and Well-Being"[2] has a detailed discussion of the importance of having short-term financial stability in helping individuals remain in good financial standing.

A part of the policy discussion surrounding emergency savings is the quantification of the magnitude of the share of families who have sufficient (or insufficient) emergency savings. This issue has been addressed in different manners by various surveys. One approach is to simply ask whether a worker has the money or a fund to cover a certain level of expenses, such as $400 or three months of expenses in case of a job loss. An alternative approach is to calculate how much savings the worker has available to cover such expense levels. The results of these approaches show a much different picture of the ability to cover various expense thresholds, but the qualitative result that many families need to do a better job of saving for short-term financial issues does not change.

This *Issue Brief* examines data from the Federal Reserve on the likelihood of workers and families having sufficient emergency savings to cover three months of expenses in the case of a job loss. The *defined contribution plan status* (participant, eligible nonparticipant, nonparticipant) of *workers* and *family heads* are the focus of the study, as the choice of funding a DC plan can have confounding effects on funding emergency savings, while the infrastructure of the DC plan could allow for an employer to help with the establishment and potentially the financing of such an emergency fund. The study also assesses the potential impact of DC plan eligibility when it comes to having sufficient emergency savings.

Share of Workers Saying They Have a Fund to Cover Three Months of Expenses

The most commonly cited source for the share of workers saying that they have a rainy day fund to cover three months of expenses is the Federal Reserve's Survey of Household Economics and Decisionmaking (SHED).[3] The survey measures the economic well-being of U.S. households and identifies potential risks to their finances. The results in this *Issue Brief* are from the 2017 survey.[4]

Since the focus of this study was on defined contribution plan status, only workers were examined. A little over half (57 percent) of the workers reported being a DC plan participant (Figure 1).[5] DC plan participants were more likely to be ages 35–64 and have higher incomes than those who were not participants.

Figure 1

Distribution of Workers by Defined Contribution Plan Status and Age and Household Income, 2017

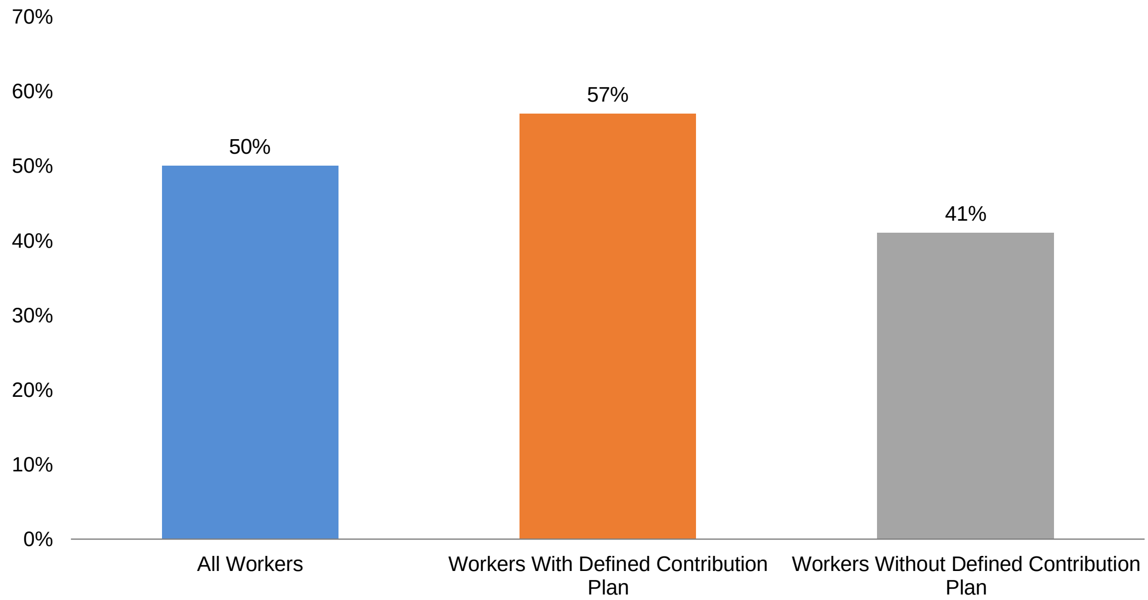
	All	Percentage With a Defined Contribution Plan	Of Defined Contribution Plan Participants	Of Defined Contribution Plan Nonparticipants
All	100%	57%	100%	100%
Age				
18–24	8	23	3	13
25–34	25	56	25	26
35–44	22	67	26	17
45–54	18	68	21	13
55–64	20	62	22	18
65–74	6	32	3	10
75 or older	1	12	0	3
Household Income				
Less than $10,000	3	18	1	6
$10,000–$24,999	7	23	3	13
$25,000–$49,999	17	40	12	24
$50,000–$99,999	33	59	34	32
$100,000–$199,999	31	72	39	21
$200,000 or more	8	74	11	5

Source: Employee Benefit Research Institute estimates of the 2017 Survey of Household Economics and Decisionmaking (SHED).

Half of the workers (50 percent) in SHED said they had a rainy day fund that could cover three months of expenses in case of sickness, job loss, economic downturn, or other emergencies (Figure 2). DC participants were more likely to say that they had this fund (57 percent) than the workers who were not participants (41 percent).

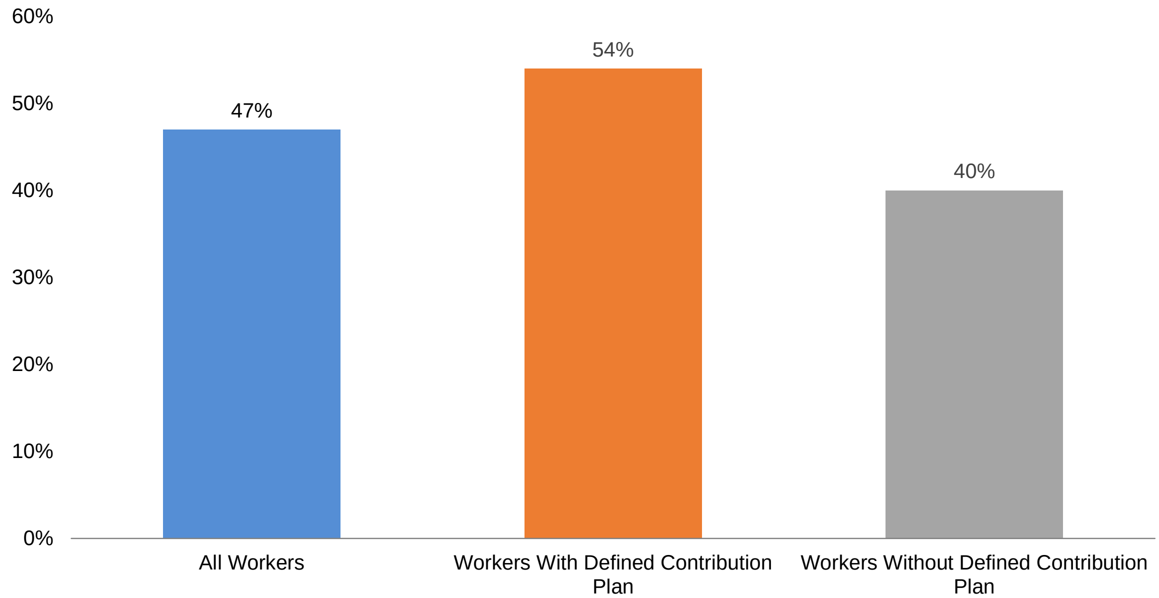
The survey went on to ask those who did not have the rainy day fund about whether they could cover the three months of expenses in some other manner if they lost their main source of income. Of the workers without the rainy day fund, 47 percent said they could cover the expenses in some other manner (Figure 3). Again, DC participants were more likely to be able to cover the expenses, as 54 percent said they could compared with 40 percent of nonparticipants.

Figure 2
Percentage of Workers Who Report That They Have a Rainy Day Fund to Cover Expenses for Three Months in Case of an Emergency, 2017



Source: Employee Benefit Research Institute estimates of the 2017 Survey of Household Economics and Decisionmaking (SHED).

Figure 3
Of Those Reporting Not Having a Rainy Day Fund, Percentage of Workers Who Could Cover Three Months of Expenses in Some Other Manner if Their Main Source of Income Were Lost, 2017



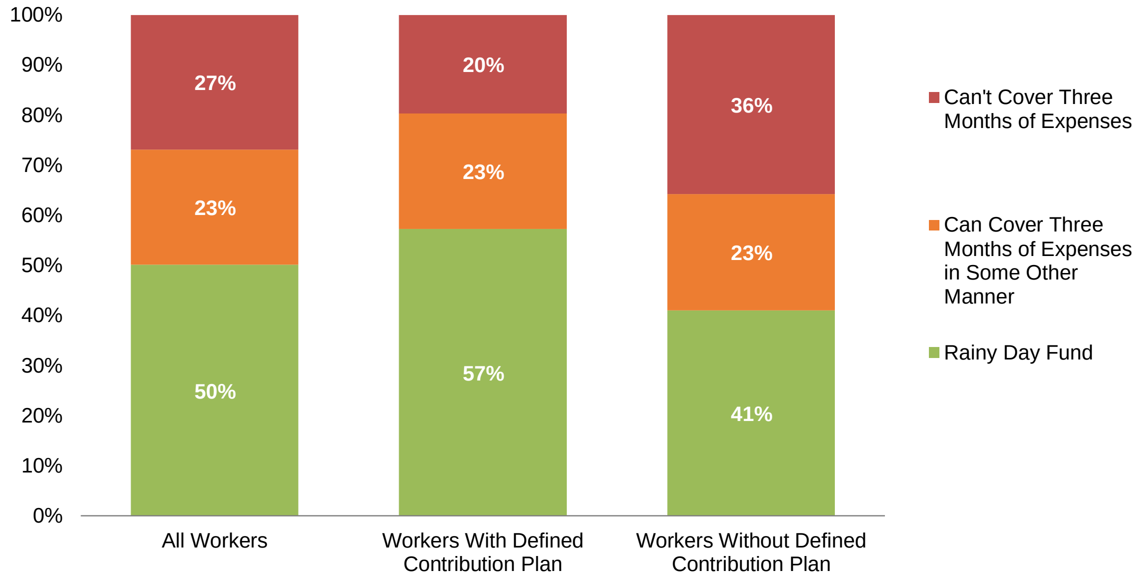
Source: Employee Benefit Research Institute estimates of the 2017 Survey of Household Economics and Decisionmaking (SHED).

Combining the prior figures with the base of all workers shows that 80 percent of workers who were DC plan participants said they would be able to cover the three months of expenses either from a rainy day fund (57 percent) or in some other manner (23 percent) (Figure 4). This is higher than the 64 percent of nonparticipant workers (41 percent and 23 percent, respectively).

In addition to DC participants being more likely to say that they have this rainy day fund, workers who are older or have higher household incomes were also more likely to report having it (Figure 5). For example, 85 percent of workers ages 55–64 who were DC participants said they could cover three months of expenses from a rainy day fund or by other means vs. 77 percent of those ages 35–44. Only 8 percent of those with $200,000 or more in household income said they couldn't cover the three months of expenses compared with 23 percent of those with incomes of $25,000–$49,999.

These findings are encouraging regarding DC plan participation's possible impact on emergency savings. However, in surveys, it can be important to dig deeper. In this case, it merits examining whether these general questions about emergency savings truly reflect individuals' understanding of their finances and what resources they actually have. Thus, the next section of this *Issue Brief* examines the actual assets held by families with working heads and whether there are differences in assets held by families who are headed by DC-eligible nonparticipants vs. those who are headed by those not offered a DC plan.

Figure 4
Percentage of Workers Who Report That They Have a Rainy Day Fund to Cover Expenses for Three Months, Can Cover Three Months of Expenses in Some Other Manner, and Can't Cover Three Months of Expenses, 2017



Source: Employee Benefit Research Institute estimates of the 2017 Survey of Household Economics and Decisionmaking (SHED).

Figure 5

Percentage of Workers Who Report That They Have a Rainy Day Fund to Cover Three Months of Expenses, Can Cover Three Months of Expenses in Some Other Manner, and Can't Cover Three Months of Expenses, by Defined Contribution Plan Status and Age and Household Income, 2017

	All			Defined Contribution Participant			Defined Contribution Nonparticipant		
Age	Rainy Day Fund Available to Cover Three Months of Expenses	Can Cover Three Months of Expenses in Some Other Manner	Can't Cover Three Months of Expenses	Rainy Day Fund Available to Cover Three Months of Expenses	Can Cover Three Months of Expenses in Some Other Manner	Can't Cover Three Months of Expenses	Rainy Day Fund Available to Cover Three Months of Expenses	Can Cover Three Months of Expenses in Some Other Manner	Can't Cover Three Months of Expenses
18–24	40%	29%	31%	51%	27%	22%	37%	29%	34%
25–34	46	22	32	58	20	23	32	24	45
35–44	44	26	30	51	27	23	31	23	46
45–54	53	22	25	58	23	20	42	21	36
55–64	57	23	19	62	23	15	50	23	27
65–74	67	18	15	76	17	8	63	18	19
75 or older	76	17	7	92	8	0	74	19	8
Household Income									
Less than $10,000	40	29	31	51	27	22	37	29	34
$10,000–$24,999	46	22	32	58	20	23	32	24	45
$25,000–$49,999	44	26	30	51	27	23	31	23	46
$50,000–$99,999	53	22	25	58	23	20	42	21	36
$100,000–$199,999	57	23	19	62	23	15	50	23	27
$200,000 or more	67	18	15	76	17	8	63	18	19

Source: Employee Benefit Research Institute estimates of the 2017 Survey of Household Economics and Decisionmaking (SHED).

Liquid Assets of Families Relative to Their Income

In order to examine the actual assets held, the Federal Reserve's triennial survey of wealth — the 2016 Survey of Consumer Finances (SCF) — is used to determine the amount of liquid assets held by families whose working heads are under age 65.

About the Survey of Consumer Finances

The Survey of Consumer Finances (SCF) is a leading source of data on Americans' wealth, as it provides complete information on all the assets and debts held as well as more focused wealth information such as the incidence of retirement plan ownership and account balances. The financial information in SCF is collected at the family level, so all comparisons will be for families based on the characteristics of the family head. The actual basis of the SCF is what the Federal Reserve refers to as a primary economic unit (PEU), which is a subset of households and closely resembles families in its definition, although it is not precisely families. However, families are the closest concise terminology for the PEU, so families are used in this study.[6]

While SHED asked about covering three months of expenses from a rainy day fund, SCF has *reported* assets, debts, and income. In SCF, readily available monies in an event of an emergency are liquid savings, which include checking accounts, savings accounts, money market funds, call accounts, and prepaid accounts. Certificates of deposit (CDs) could also be included, as they typically can be accessed with only a small penalty. Furthermore, income does not equate to expenses but is used as a proxy for comparisons. Thus, for purposes of this *Issue Brief,* a baseline of "emergency savings" is liquid savings equal to three months of reported income. A threshold of 75 percent of three months of income is also used to compare with liquid savings.[7]

The families with working heads in SCF were almost evenly split into four age groups, from less than age 35 to ages 55–64 (Figure 6). In addition, 61.1 percent of the families had family incomes of $50,000 or more. SCF shows that 39.5 percent of the working heads were DC plan participants, 10.3 percent were eligible nonparticipants, and 50.2 percent were not eligible or offered (nonparticipants).

Figure 6

Distribution of Families With Working *Heads* Under Age 65, by Defined Contribution Plan Status and Age and Family Income, 2016

	All	Defined Contribution Plan Participants	Defined-Contribution-Plan-Eligible Nonparticipants	Nonparticipants
All	100%	39.5%	10.3%	50.2%
Age				
Less than 35	29.1	32.3	14.1	53.6
35–44	24.1	42.0	10.9	47.1
45–54	26.0	44.0	8.9	47.1
55–64	20.8	41.1	5.9	53.0
Family Income				
Less than $10,000	2.9	8.0	6.6	85.4
$10,000–$24,999	11.4	10.5	11.0	78.6
$25,000–$49,999	24.6	27.9	12.6	59.6
$50,000–$99,999	31.9	43.7	11.8	44.5
$100,000 or more	29.2	59.2	6.7	34.1

Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

Starting with all of the families with working heads, 20.1 percent had liquid savings of more than three months of their family income (Figure 7). This went up slightly to 21.0 percent when CDs were added to the liquid savings. Even if the threshold is reduced to 75 percent of three months of family income, only 25.7 percent of families with working heads had liquid savings in excess of this amount. Again, only a small increase resulted when CDs were added, bringing it to 26.7 percent.

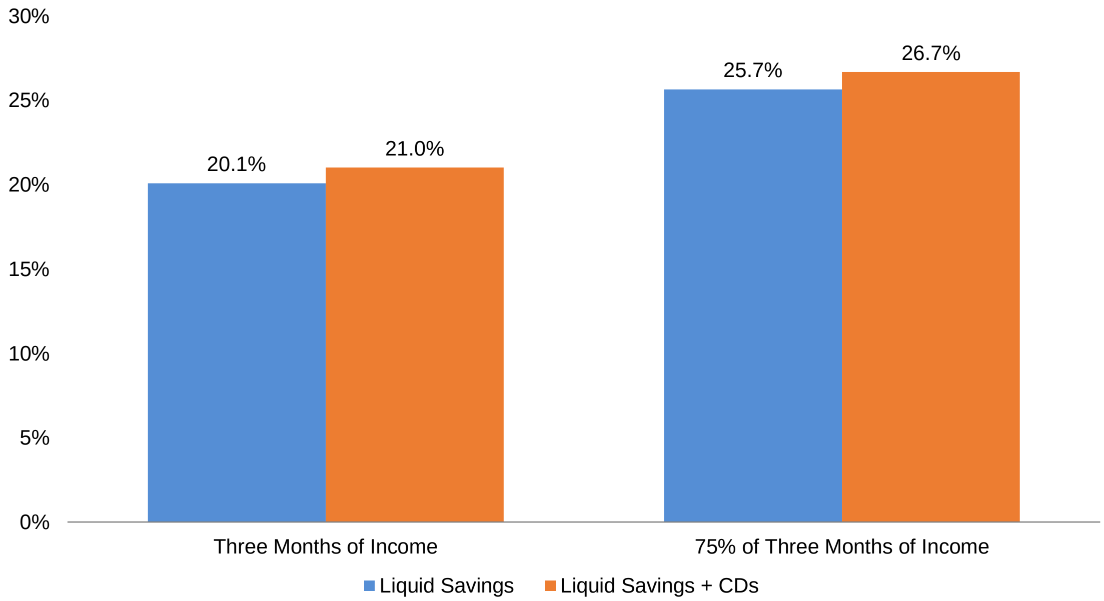
By using an either/or threshold, the share of families who may have been close to the threshold cannot be determined. Thus, the ratio of liquid savings to three months of income was calculated for each family with a working head. If the ratio is 3.00 or above, that means the family had three months of income or more in liquid savings, so any numbers close to 3.00 would signify that the family was actually close to the threshold.

Looking at the distribution of the ratios of liquid savings to three months of income, the median was at 0.83, indicating that the majority of families had liquid savings of less than one month of their income (Figure 8). Families in the top 25 percent — those with the most liquid savings — had just under two and a half months (2.31) of income saved. This demonstrates that even if the three-month threshold were lowered, it would not substantially increase the proportion of families with "sufficient" liquid savings. The distributions of the ratios of liquid savings to 75 percent of three months of income support this, as the median increased to only 1.11. Adding CDs to liquid savings had a minimal impact on the ratios. Therefore, when looking at the percentage of families with reported funds available to cover emergency expenses, it was significantly below the proportion of workers who claimed that they had a rainy day fund that would cover three months of expenses according to the SHED results.

Given the low liquid-savings-to-income ratios, it is not surprising that the median liquid savings would be considered rather modest at $4,500 (Figure 9). Even at the 75th percentile the liquid savings was only $16,300. Again, adding savings held in CDs did not appreciably increase the percentile values.

Figure 7

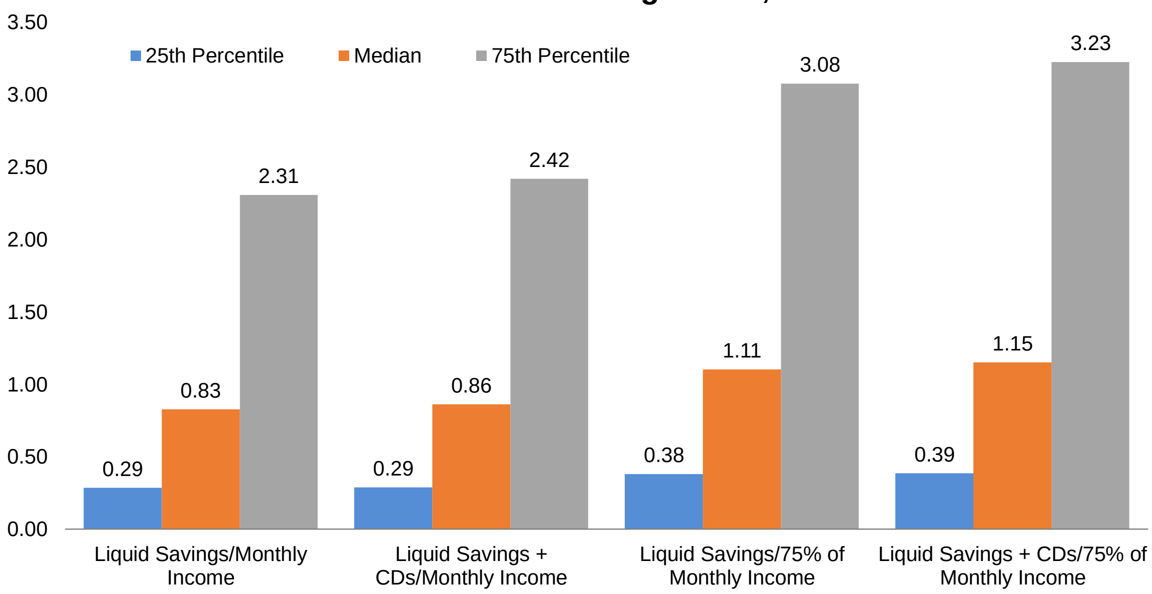
Percentage of Families With Working Heads Who Have More Than Three Months of Income and 75 Percent of Three Months of Income in Liquid Savings and Liquid Savings Plus Certificates of Deposit (CDs), 2016



Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

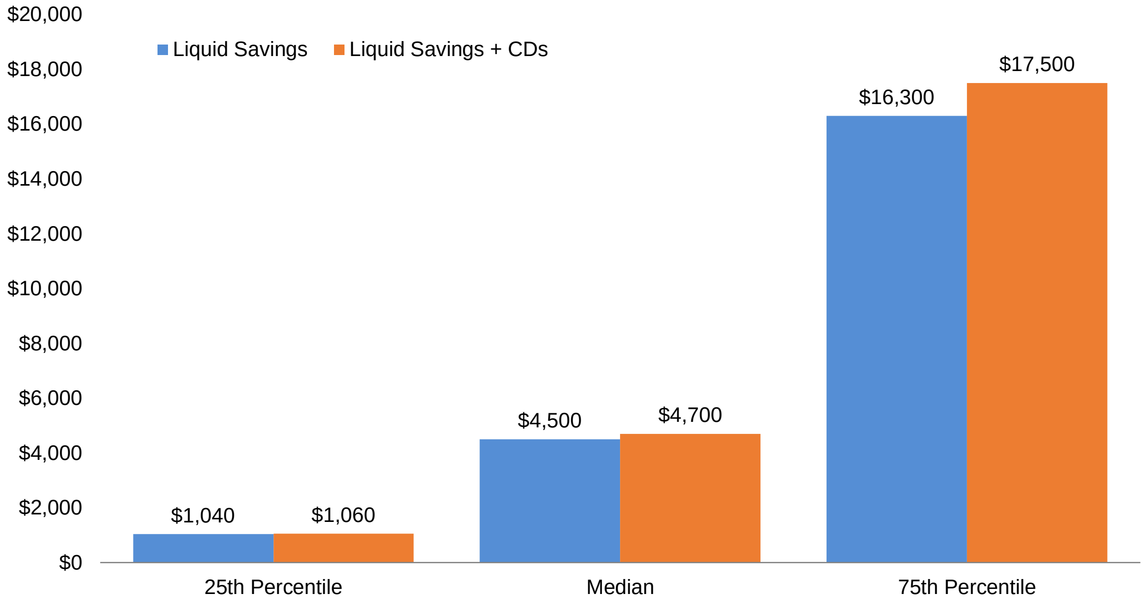
Figure 8

Ratio of Liquid Savings and Liquid Savings Plus Certificates of Deposit (CDs) to Monthly Family Income and 75 Percent of Monthly Family Income for Families With Working Heads, 2016



Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

Figure 9
Distribution of Liquid Savings and Liquid Savings Plus Certificates of Deposit (CDs) for Families With Working Heads, 2016



Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

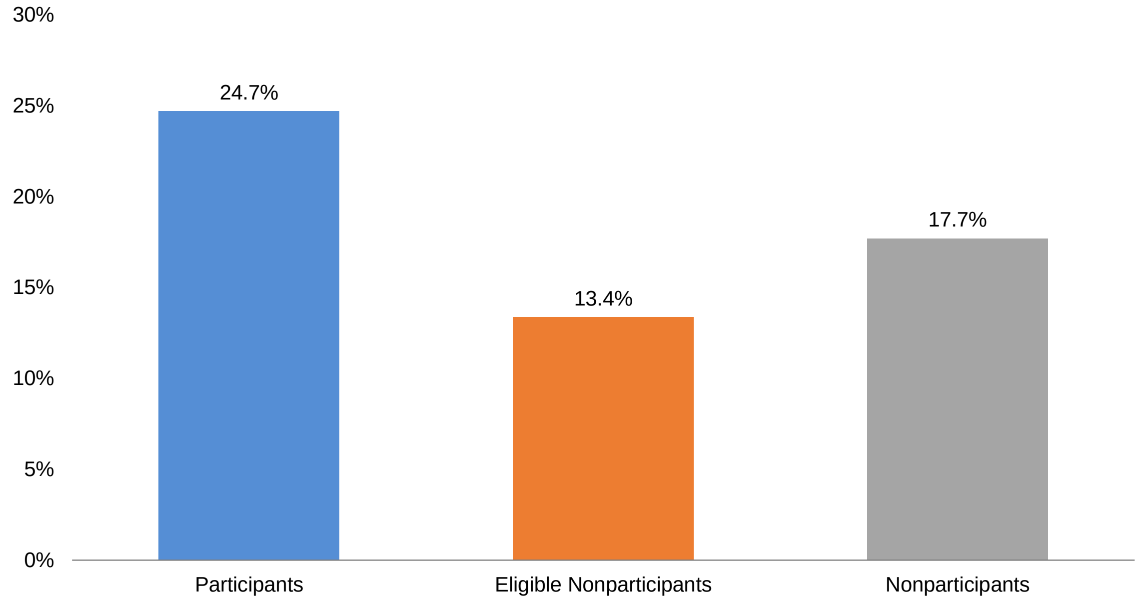
DC Plan Participation

Families whose heads were DC plan participants were more likely to have sufficient liquid savings to cover three months of expenses than those whose heads were nonparticipants (Figure 10). Almost one-quarter (24.7 percent) of families with a DC-plan-participant head had more liquid savings than three months of their income, compared with 13.4 percent for families with DC-plan-eligible nonparticipating working heads and 17.7 percent for families whose heads were not offered a DC plan. A particular finding of interest was that families with an eligible nonparticipant head were less likely than those whose head was not offered a plan to have sufficient liquid savings to cover three months of expenses. This shows that families with heads who are DC plan eligible — but who are not participating in the plan — may be more in need of savings outside of the DC plan to cover emergencies than families with heads who are *not* offered a plan.[8]

Differences in the percentage of families with liquid savings existed across all age cohorts when considering those whose heads were DC plan participants vs. those whose heads were eligible nonparticipants. However, it was most pronounced when it came to families with heads in the ages 35–54 cohorts. While 23.7 percent of families with working heads who were DC plan participants in the ages 35–44 cohort had more than three months of income in liquid savings, that dropped to 8.0 percent for those with heads in the same age cohort who were eligible nonparticipants. Likewise, while 24.0 percent of families with working heads who were DC plan participants in the ages 45–54 cohort had more than three months of income in liquid savings, that dropped to 9.4 percent for those families with heads in that age cohort who were eligible nonparticipants (Figure 11).

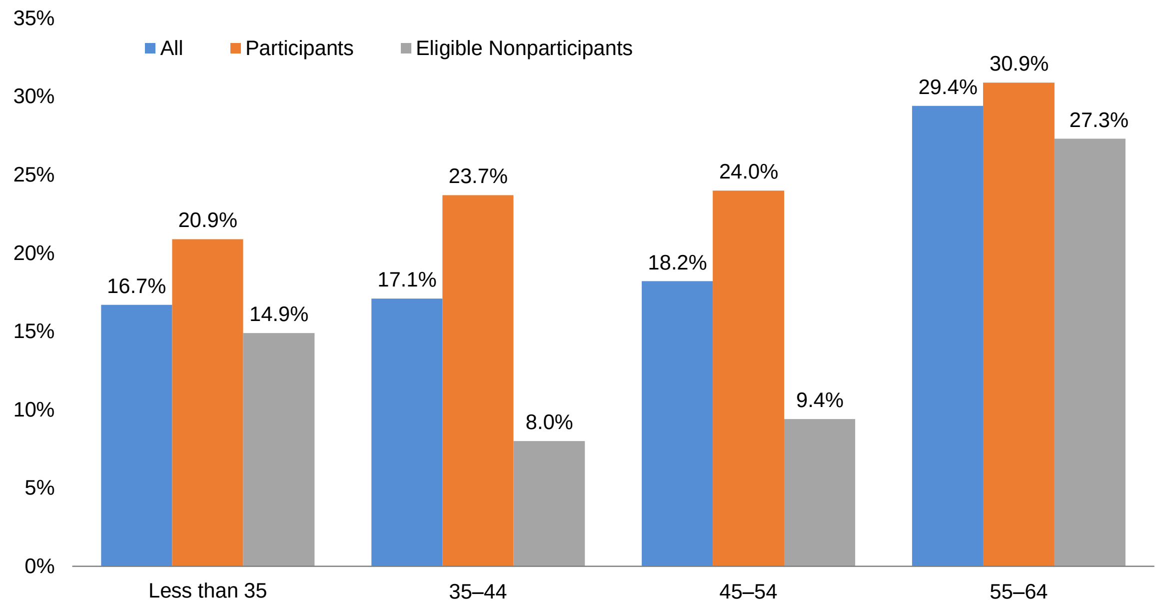
Supporting the threshold cutoff results are the distributions of the ratios of liquid savings to income by age. The distributions of the ratios in the three lowest age groups were similar at around three-quarters of a month of family income in liquid savings at the median. The ratio increased for the ages 55–64 cohort but still remained well below 3.00 at 1.22 (Figure 12).

Figure 10
Percentage of Families With Working Heads Under Age 65 Who Have More Than Three Months of Income in Liquid Savings, by Defined Contribution (DC) Plan Status, 2016



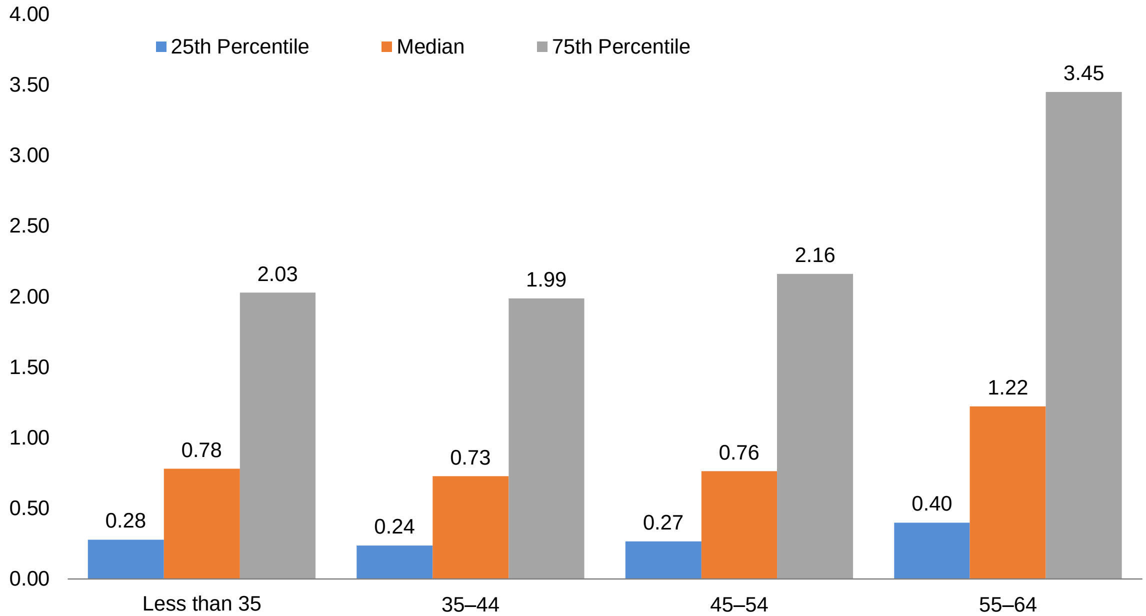
Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

Figure 11
Percentage of Families With Working Heads Who Have More Than Three Months of Income in Liquid Savings, by Age and Defined Contribution (DC) Plan Status, 2016



Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

Figure 12
Distribution of the Ratio of Liquid Savings to Monthly Family Income for Families With Working Heads, by Age, 2016



Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

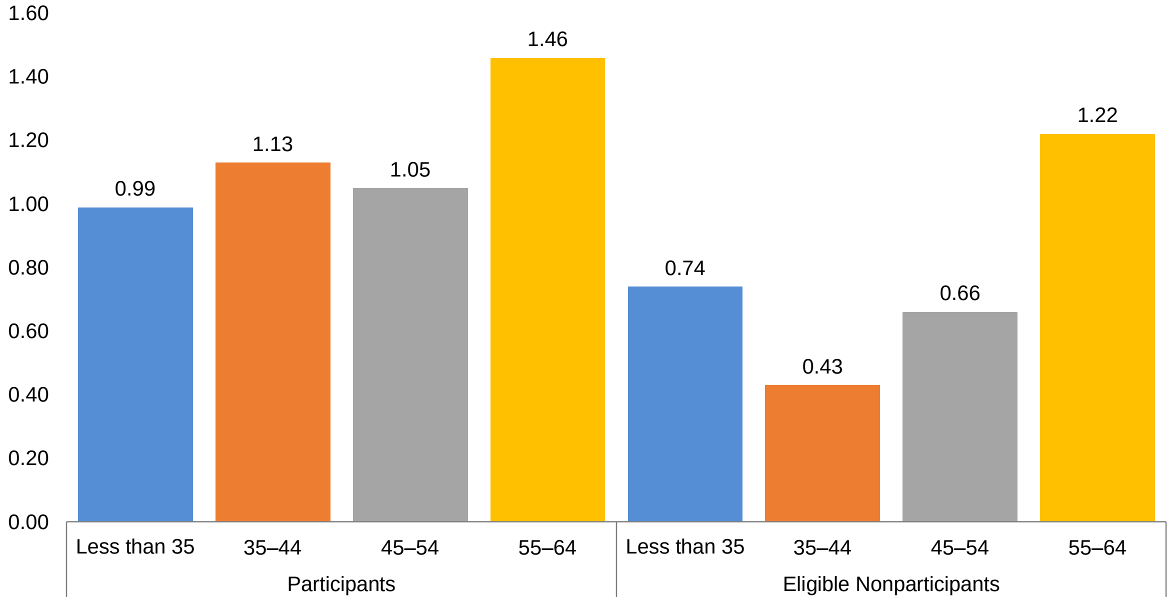
Examining the ratio of liquid savings to monthly family income by age and DC plan status, the median ratios for the families with DC-participant heads were found to be higher in each age group than for families with eligible nonparticipant heads (Figure 13). The median liquid savings ratios for families with DC-participant heads who were less than age 55 ranged from 0.99–1.13 before jumping to 1.46 for those with heads ages 55–64, while the median ratios of families with younger eligible nonparticipant heads extended from 0.43–0.74 and reached 1.22 for the families with heads ages 55–64.[9]

The families with working heads whose family incomes were $100,000 or more were more likely to have liquid savings greater than three months of their income than these families with less than $100,000 of income (Figure 14). Still, the families with DC-participant heads were more likely to have this level of savings than the families who had eligible nonparticipant heads across each income group. Of the families with incomes of $100,000 or more, 30.4 percent (31.1 percent with participant heads and 18.8 percent with eligible nonparticipant heads) had liquid savings exceeding the three-month threshold compared with 17.6 percent (21.2 percent with participant heads and 13.3 percent with eligible nonparticipant heads) of those with incomes of $50,000–$99,999 (the highest percentage for the families with incomes below $100,000).

In Figure 15, the pattern of the median ratio of liquid savings to monthly family income is shown to consistently increase with family income. The median liquid-savings-to-income ratio for families with incomes of $10,000–$24,999 was 0.44. The median for each subsequent income group increased, reaching 1.44 for families with incomes of $100,000 or more.

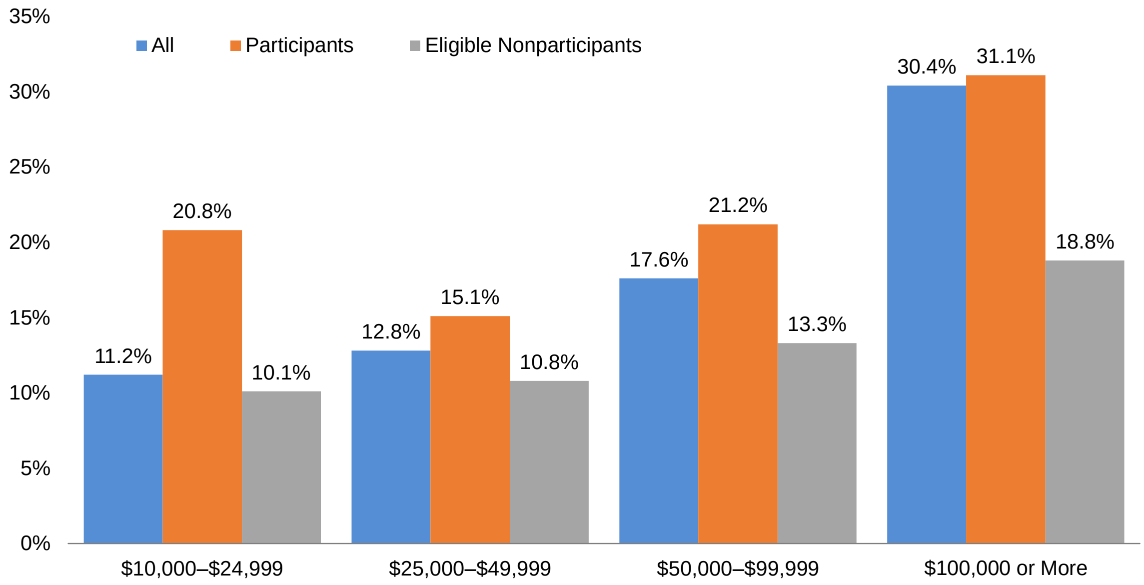
However, the consistent upward pattern of the distributions of the ratios does not hold when the families are broken out by the DC plan participation of their heads. The median liquid-savings-to-income ratio was lower for families (both with DC-participant heads and eligible nonparticipant heads) having incomes of $25,000–$49,999 compared with families having incomes of $10,000–$24,999 (Figure 16). For families with incomes of $50,000 or more, the median values increase with income, where the median ratio for families with DC-participant heads reached 1.50, compared with 0.66 for families with DC-participant heads having incomes of $25,000–$49,999.[10]

Figure 13
Median Ratio of Liquid Savings to Monthly Family Income for Families With Working Heads, by Age and Defined Contribution Plan Status, 2016



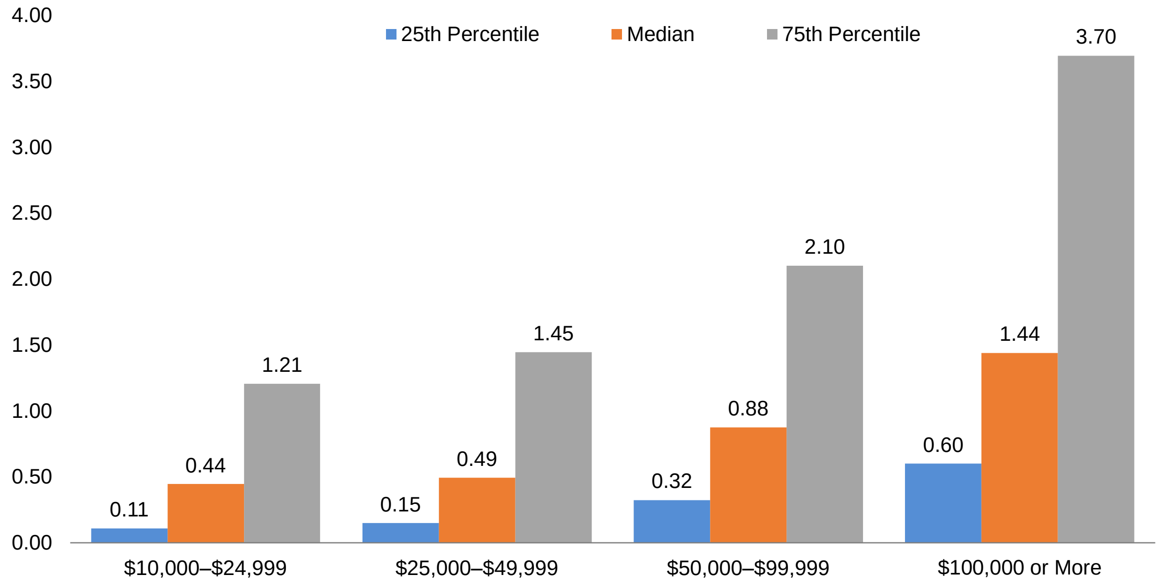
Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

Figure 14
Percentage of Families With Working Heads Who Have More Than Three Months of Income in Liquid Savings, by Family Income and Defined Contribution (DC) Plan Status, 2016



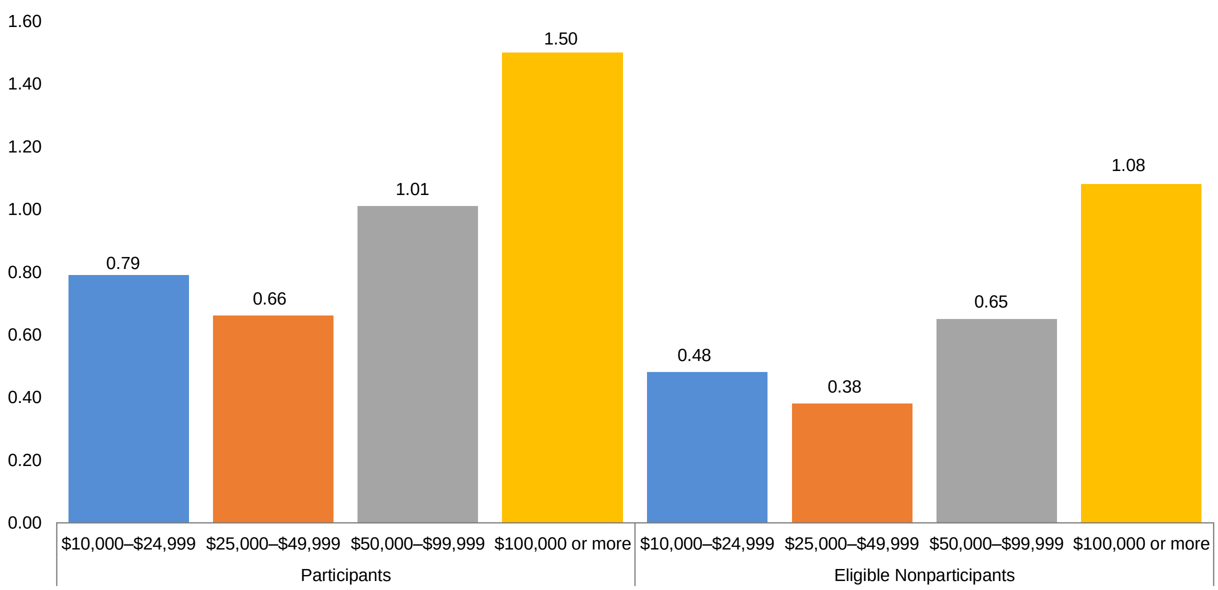
Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

Figure 15
Distribution of the Ratio of Liquid Savings to Monthly Family Income for Families With Working Heads, by Family Income, 2016



Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

Figure 16
Median Ratio of Liquid Savings to Monthly Family Income for Families With Working Heads, by Family Income and Defined Contribution (DC) Plan Status, 2016



Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances (SCF).

Conclusion

The ability to cover short-term financial needs can have long-term financial consequences, so the establishment of an emergency savings fund to protect against financial emergencies is important to overall financial health. However, when workers were asked if they had a fund to cover three months of expenses, only about half said they had such a fund. This relatively low number existed regardless of whether workers said they had established savings in a defined contribution plan.

While not an exact comparison, when looking at what families had in liquid savings, or savings that can be immediately accessible, the results look even more dire, with only around 20 percent reporting liquid savings that equal three months of income and only approximately a quarter reporting liquid savings equal to three-quarters of that amount.

Further, the data suggest that families whose heads are eligible to participate in a DC plan — but who don't — may be in the worse shape in regard to having sufficient savings for an emergency. While a quarter of families with working heads who were DC plan participants had more than three months of income in liquid savings, only 13.4 percent of eligible nonparticipants did. That was even lower than the 17.7 percent of families with working heads who were not offered a DC plan. This lack of savings was not limited to just families with low incomes or younger heads. It was across both the age and income spectrums.

Given the low percentage of workers and families who had sufficient savings to cover a loss of income for any extended period, emergency savings programs could be directly beneficial to workers and indirectly beneficial to employers through higher employee satisfaction. Employers who already offer a DC plan are likely to have the infrastructure to provide such a benefit, despite the fact that, as was shown, while some preparation for retirement is occurring for those participating in the DC plan, help is needed by a sizable share for short-term financial issues. The potential need is even more pressing for those who are eligible for the plan but do not participate. Consequently, addressing short-term financial issues could lead to even better long-term results through a reduced need for early withdrawals (and tax penalties) and potentially higher contributions to a DC plan after an account for short-term financial issues is funded.

American workers are facing many financial issues, and helping to establish a method to address short-term financial stability could result in long-term benefits. In particular, the workers starting out with student loan debt are already in a tough position, so helping with budgeting and saving in the short term can help address this issue.[11] As result of these short-term issues and the longer-term issue of retirement, addressing the funding of these accounts in coordination could be an option that provides the highest overall benefit to workers.[12]

Note on the Ability to Cover a $400 Emergency Expense

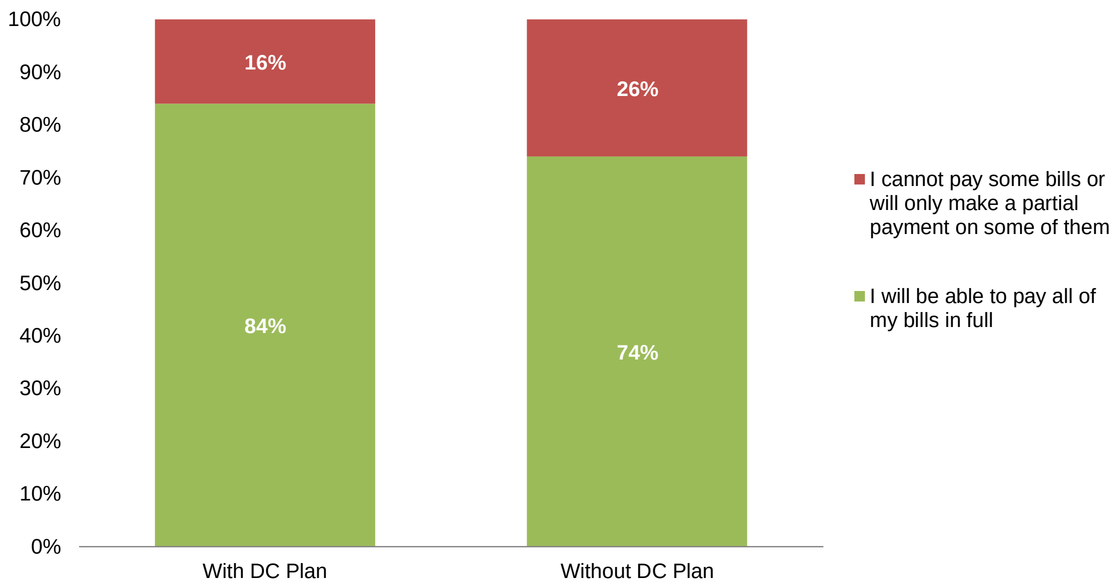
The other main question on SHED pertaining to emergency savings is the ability of individuals to cover a $400 emergency (unexpected) expense. The question has been on prior SHEDs in addition to the 2017 survey, so the result has been mentioned many times in the media. However, it is not as simple as not having $400; individuals are making choices on how to spend their money that may make it seem like they cannot afford the expense, or the individuals have already reached the point where debt has accumulated to the extent that a significant amount of their income is going to service debt. Thus, any additional expenses are added to their debt. Consequently, what this result is showing is that some individuals are not able to pay their expected expenses, let alone any unexpected expenses. Again, there is a difference in the share of workers with and without a DC plan in terms of their ability to cover expected and unexpected expenses — but the inability to cover unexpected expenses is not limited to only those without a DC plan.

In fact, when workers were asked about which description best describes their ability to pay all their bills, 16 percent of workers with a DC plan and 26 percent of those without a DC plan said they cannot pay some of their bills or will only make a partial payment on some of them (Figure N1). The remaining workers said they would be able to pay all of their bills in full. Consequently, a sizable percentage, particularly of those without a DC plan, weren't going to pay their bills in full regardless of having an additional $400 expense.[13]

The question then becomes, of those who can pay their bills in full currently, how many can cover an additional $400 expense? The fraction of these workers who said they cannot handle the additional expense is lower than those who could not cover their expected expenses, but it is still not insignificant, particularly for those without a DC plan (Figure N2).

However, when looking at the SCF data on liquid savings, workers at the 25th percentile had roughly $1,000 in liquid savings. That indicates there is some ability for those with the least amount of assets to cover an additional expense. Therefore, the $400 question may have more to do with money management and less to do with emergency savings. Workers are having a hard time determining what they can spend and how to allocate what they do have across expenses. This suggests that not only is emergency savings a potential need for workers but also basic money management.[14, 15]

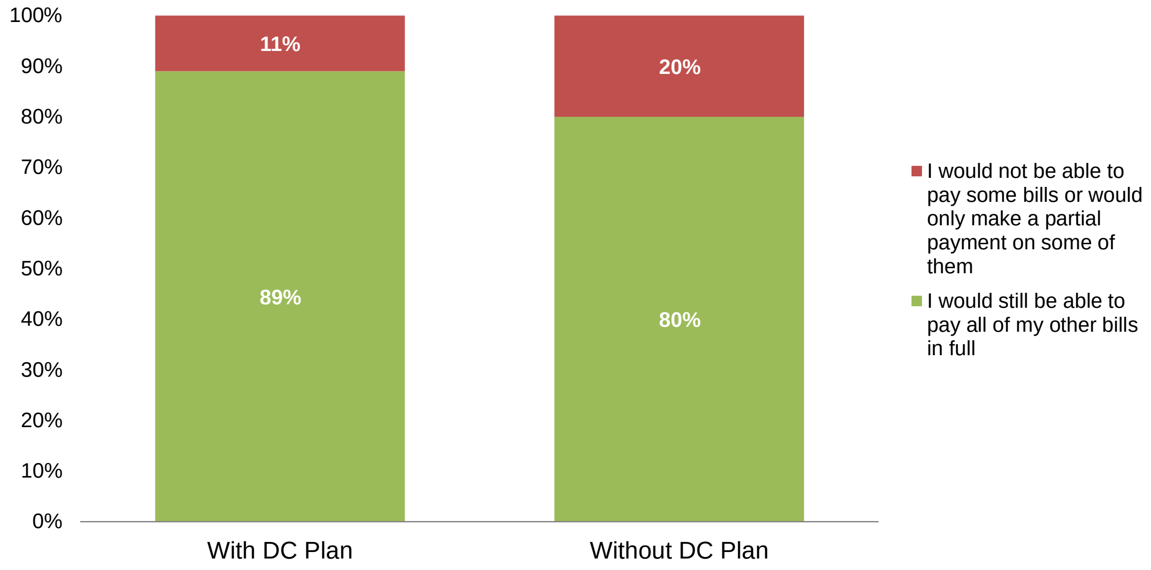
Figure N1
Which Best Describes the Worker's Ability to Pay All Bills in Full This Month, by Defined Contribution (DC) Plan Status, 2017



Source: Employee Benefit Research Institute estimates of the 2017 Survey of Household Economics and Decisionmaking (SHED).

Figure N2

Of the Workers Who Could Pay Their Bills in Full, if They Experience an Emergency Expense of $400, the Percentage Who Could Still Pay All of Their Bills in Full, by Defined Contribution (DC) Plan Status, 2017



Source: Employee Benefit Research Institute estimates of the 2017 Survey of Household Economics and Decisionmaking (SHED).

Appendix Figure 1

Distribution of the Ratio of Liquid Savings to Monthly Family Income for Families With Working Heads, by Defined Contribution Status and Age and Family Income, 2016

	Defined Contribution Plan Participants			Defined-Contribution-Plan-Eligible Nonparticipants		
Age	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
Less than 35	0.39	0.99	2.54	0.29	0.74	1.73
35–44	0.44	1.13	2.73	0.14	0.43	1.12
45–54	0.41	1.05	2.81	0.20	0.66	1.22
55–64	0.59	1.46	3.51	0.48	1.22	3.92
Family Income						
$10,000–$24,999	0.15	0.79	2.45	0.17	0.48	1.24
$25,000–$49,999	0.25	0.66	1.76	0.13	0.38	1.02
$50,000–$99,999	0.38	1.01	2.59	0.29	0.65	1.58
$100,000 or more	0.66	1.50	3.75	0.65	1.08	2.37

Source: EBRI estimates of the 2016 Survey of Consumer Finances (SCF).

Endnotes

[1] A tax penalty for early withdrawal from a defined contribution plan only applies to individuals under the age of 59 ½.

[2] The Aspen Institute Financial Security Program, "Short-Term Financial Stability: A Foundation for Security and Well-Being," The Aspen Institute, (April 2019) https://www.aspeninstitute.org/publications/short-term-financial-stability-a-foundation-for-security-and-well-being

[3] Other sources have also gauged the emergency savings issue. For example, see Catherine Harvey, David John, and S. Kathi Brown, "Saving at Work for a Rainy Day: Results from a National Survey of Employees," AARP Public Policy Institute (September 2018) https://www.aarp.org/content/dam/aarp/ppi/2018/09/rainy-day-national-survey.pdf

[4] For more details about the Survey of Household Economics and Decisionmaking (SHED), see https://www.federalreserve.gov/consumerscommunities/shed.htm

[5] In SHED, workers are only known to be participants or nonparticipants in DC plans, as the eligibility of nonparticipants is not investigated in the survey.

[6] For further information about this issue as well as about SCF in general, see Jesse Bricker, et al. "Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances," Federal Reserve Bulletin, vol. 103, no. 3 (September 2017): 1–40, https://www.federalreserve.gov/publications/files/scf17.pdf

[7] Other percentages of income could be used, but 75 percent represents a reasonable amount of expenditures relative to income for many families. Other thresholds could be used, as well as varying the threshold percentage by income, where higher-income families would be expected to spend less of their income than those with lower incomes. The alternatives would not affect the qualitative results of the study. Furthermore, the distributions of the ratios of liquid assets to family income are also provided to show the full range of savings relative to income across all families with a working head under age 65. This helps show the robustness of the results.

[8] While this finding may not be statistically significant, the direction of the result is interesting.

[9] Appendix Figure 1 contains the 25th percentile and 75th percentile values for each age group.

[10] Again, see Appendix Figure 1 for the rest of the distribution for each income group.

[11] See Craig Copeland, "Student Loan Debt: Trends and Implications," *EBRI Issue Brief* no. 453 (Employee Benefit Research Institute, July 9, 2018) for a discussion of the extent of the student loan debt issue and Lori Lucas, "How Employers Are Tackling Student Loan Debt: Evidence From the EBRI Employer Financial Wellbeing Survey," *EBRI Issue Brief* no. 479 (Employee Benefit Research Institute, April 18, 2019) for a discussion of the programs employers are offering to their workers to address the student debt issue.

[12] See Craig Copeland, "Perceived Helpfulness of Financial Well-being Programs: Results From the 2017 and 2018 Retirement Confidence Surveys," *EBRI Issue Brief* no. 457 (Employee Benefit Research Institute, August 20, 2018) for the perceived helpfulness of various employer-provided financial wellbeing programs on employees' retirement preparations.

[13] These results are different from the more widely published results for the percentage of all individuals, as the results in this *Issue Brief* only include workers so that the distinction between DC participants and nonparticipants can be shown.

[14] See Anqi Chen, "Why Are So Many Households Unable to Cover a $400 Unexpected Expense?" Center for Retirement Research at Boston College, no. 19-11 (July 2019) https://crr.bc.edu/wp-content/uploads/2019/07/IB_19-11.pdf for more discussion on how the SHED question on the ability to cover a $400 emergency expense relates to overall finances.

[15] The Retirement Confidence Survey has found that younger workers and workers who have not saved would consider help with basic budgeting to be able to lead to better retirement preparation. See Craig Copeland (2018) (see endnote 12) for this result and others regarding the perceived helpfulness of financial wellbeing programs offered by employers.

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