EBRI

September 5, 2019, #337

FAST Facts

Emergency Savings: Differences Between Defined Contribution Plan Participants and Nonparticipants

How much do workers have in emergency savings? This is an important question, given that setting aside money for unexpected expenses or funding an emergency savings account can reduce the likelihood of families falling into serious financial difficulties.

A commonly cited source for the share of workers saying that they have a rainy day fund to cover three months of expenses in case of an emergency is the Federal Reserve's Survey of Household Economics and Decisionmaking (SHED). Half of the workers 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. Defined contribution (DC) participants were more likely to say that they had this fund (57 percent) than the workers who were not participants (41 percent).

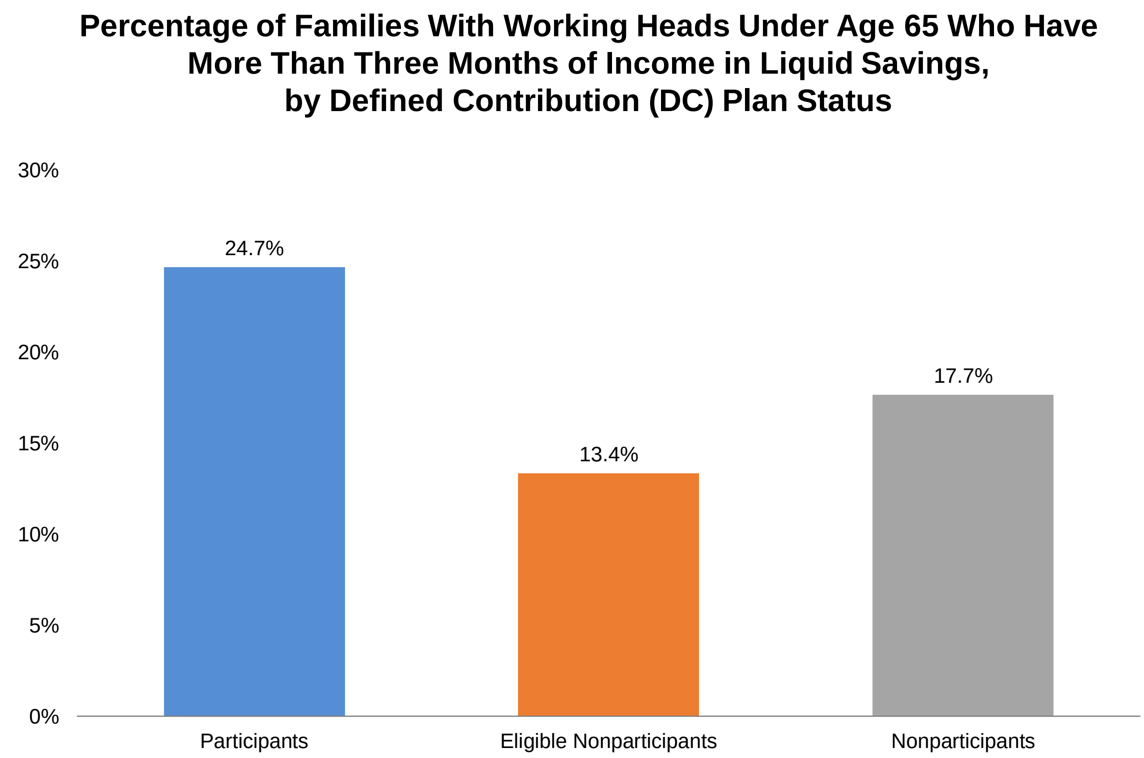
When looking at what families actually reported for emergency savings in the Federal Reserve's Survey of Consumer Finances (SCF), a less encouraging picture emerges. Emergency savings is defined here as monies most readily available in the form of liquid savings, which include checking accounts, savings 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. A threshold of comparison that can be used from SCF is three months of family income. Also, a threshold of 75 percent of three months of income can be used to compare with liquid savings to be closer to expenses, as families don't always have expenses that are equal to income.

Using these thresholds, the results show:

- Of all families with working heads under age 65, 20.1 percent had liquid savings of more than three months of their family income. 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 (26.7 percent).

If a family has a DC plan, they have at least some savings. Therefore, it is likely they have different levels of savings outside of DC plans than those without a plan. In fact, almost one-quarter (24.7 percent) of families headed by a DC plan participant had liquid savings in excess of three months of their income, compared with 13.4 percent for families headed by DC-plan-eligible nonparticipants and 17.7 percent for families headed by those not offered a DC plan. In other words, families whose heads were eligible for but not participating in a DC plan were *less likely* to have sufficient liquid savings to cover three months of expenses vs. those whose heads were not offered a plan.



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

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 even these employees for short-term financial issues. The potential need is even more pressing for those who have no DC plan access and for those who are eligible for the plan but do not participate.

The EBRI report, "Emergency Savings: The Reality of Workers' Liquid Savings — Evidence From the Survey of Consumer Finances," is published as the August 29, 2019, *EBRI Issue Brief* and is available online here.

The Employee Benefit Research Institute is a private, nonpartisan, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. The work of EBRI is made possible by funding from its members and sponsors, which include a broad range of public, private, for-profit and nonprofit organizations. For more information go to www.ebri.org or connect with us on Twitter or LinkedIn.

###