Responses to Questions for Neil Lloyd:

Do any of the researchers have any specific examples of how employers are helping employees address emergency savings in terms of product solutions or financial wellness offerings?

- *Two specific examples:*
  - *There are a few recordkeepers offering a structure where the first $XXXX goes into an after tax account in the 401(k) plan for emergency savings and once the $XXXX is in place the balance goes into the more traditional pre tax 401(K) plan. There are some challenges with this approach if you want to auto-enroll people into this but it can be helpful on an opt-in basis.*
  - *We have seen a few companies create an emergency savings fund that can be accessed when their employees need it. This is not utilizing their funds or a loan but an ex gratia payment.*
- *A slightly different but related option is some of the loan companies who will deduct repayments directly from salary. The key advantage here being that the interest on the loan is far lower than a typical pay day loan.*

About 20% of retirement savings plan eligibles don't save. About 33% of eligibles who save don't save enough to get the full employer contribution (Vanguard, How America Saves 2020). Many are in the group most likely to be challenged by debt, most likely to be financially "unwell". Shouldn't employers prioritize retirement savings plans — ensuring they can do "double duty" — offering "liquidity without leakage" along the way to retirement?

> *I think this is a really interesting point. While the CARES Act provisions for 401(k) loans and distributions were of great relief to some people, those provisions were only helpful if you had DC retirement savings. Certainly, I feel that it was a great example of why retirement savings is important, in that the 401(k) or similar plan could address short-term emergency needs. What's a different issue though is whether this was the best way to address short-term emergency needs. One of the problems with 401(k) loan and distributions in for example March was that people were cashing in potentially at a time when asset values were depressed. There is an argument that monies that may be used for short-term emergency savings should have been invested in something less volatile. It is also challenging because the financial needs that surfaced in the COVID crisis for many people were far more extreme than what would have been provided by a short-term emergency savings account. Ultimately the answer may be something in between. The idea of an integrated short-term savings account with a 401(k) plan could help and at least address more typical short-term emergency needs. But in times of extreme stress (e.g. COVID, hurricanes, wildfires) retirement plans may need to be a source of additional liquidity.*

Responses to Questions for Chantel Sheaks:

How can policymakers facilitate better financial wellness for employees? Are there initiatives that you think are particularly valuable that they could support or incentivize?

> *Because financial wellness is so broad, there is no one initiative that encompasses all of it. For example, a number of think tanks, associations and retirement plan service providers are working on making it easier for employers to assist employees in establishing emergency savings accounts. Here is an article from The Bipartisan Policy Center discussing some private sector and state initiatives and national proposals. Other initiatives, such as the one at the Brookings Institute, are looking at policy options that would make it easier to create emergency savings accounts both inside and outside of retirement plans.*

One of the barriers for employers as plan sponsors is the liability associated with providing individualized investment advice to participants, even though most surveys find that is what participants want. Although the PPA changes with respect to robo-advice and level fee arrangements were helpful, many employers are still leery of fiduciary liability with respect to the selection of a third party financial adviser (especially in the current environment where excess fee fiduciary litigation is on the rise). As such, further legislation is needed that will encourage plan sponsors to provide individualized investment advice with respect to the ERISA plan as part of a financial wellness program.

Responses to Questions for Lisa Margeson:

7685/year is per person, not per couple, right?

Based on recent studies, $7685 is the total average annual expense paid by an employee each year for healthcare costs comprising of $5,547 (average employee contribution of cost of family health coverage) plus average out of pocket expenses (co-pays, etc.)

What do you recommend to educate people about saving in HSAs for retirement?

Education programs that position HSAs as a building block for a long term retirement strategy. They are a critical tool in saving for healthcare costs today and later in life. They have a unique benefit of triple tax savings — pre-tax contribution, grows tax free, tax-free withdrawals when taken for a qualified medical expense. If communicated alongside the 401(k) — the power of two! – they are often more easily understood as a planning vehicle.

What percentage of men are alone in the last years of their lives?

I don't have the exact equivalent stat, but a recent study of aging singles (age 45+) from Collaborata shows 65% (and trending up) are women / 35% (and trending down) are men.

What does BofA recommend when it comes to deploying automatic features with regard to HSAs enrollment, escalation, and investment?

Bank of America offers two investment paths — auto investment or manual investments. Auto invest requires the participant to enroll in investments (set account cash threshold and set fund elections) and then funds will automatically move between cash and investments to maintain the cash threshold as contributions and withdrawals are made. For manual, the participant transfers funds between cash and investments on an ad hoc basis.

Do any of the researchers have any specific examples of how employers are helping employees address emergency savings in terms of product solutions or financial wellness offerings?

Bank of America is looking at this more formally as a component of our financial wellness offering. Sponsors tell us they have assumed dramatically more responsibilities for their employees' well-being — both finances and more holistically. Offerings need to be more holistic and consider employees' lives beyond retirement…and beyond employment…such as wanting help with saving for emergencies. We have many benefit clients who are bringing our corporate employee banking and investing services into their workplace discussions as a way to have holistic conversations across complete financial life needs.

Responses to Questions for Craig Copeland:

Plan loans require individuals to first save. Plan loans are not leakage, unless not repaid. Loan principal remains an asset from the plan. So, not sure why you position plan loans as a negative, since it is the "Bank of Craig" or "Bank of Chantel" In fact, where the interest rate on plan loans is less than the interest rate on debt from commercial sources (credit cards, payday loans, pawn, etc.) and where the interest rate on plan loans is greater than the rate of return on other fixed income assets in the plan, the individual can, through a plan loan, improve both her retirement preparation and household wealth. Shouldn't you have asked about pre-retirement distributions instead?

> *I agree that a loan from a 401(k) plan may be a better option. However, the necessity of the loan tells an important story about the participant's finances — they aren't in good shape. Getting the individuals into better financial shape should be a goal through some means other than having a 401(k) plan loan patch over some troubles. In some cases, these loans will lead to leakage at just the wrong time — at a job loss. They can be hit with a penalty and the tax on the distribution, which could lead to more distributions. Consequently, more comments were more directed at the symptom of the need for the 401(k) plan loan of bad financial situations and minimizing them/preventing them from occurring.*

What portion of retired workers are taking loans from their 401k?

> *The question in the survey refers to if they have ever taken a loan from a 401(k) plan, so the retiree most likely took the loan from the 401(k) plan before they retired. We cannot differentiate between current loans and past loans, given the question.*