New bill proposes auto-enrolling workers in short-term savings plans

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These "side-car" accounts should produce new saving and protect retirement assets

An unusual flurry of activity in Congress is aimed at helping Americans save for retirement. The **Retirement Enhancement and Savings Act** (RESA), jointly sponsored by Senators Orrin Hatch (R-UT) and Ron Wyden (D-OR), has received the most publicity. This legislation, among other things, would: 1) make it easier for small businesses to use multiple-employer plans or MEPs; 2) protect employers that want to offer annuities in their 401(k)s; and 3) let people over 70½ continue to contribute to IRAs. Other legislation would amend the Employee Retirement Security Act (ERISA) to require pension benefit statements to include a lifetime income disclosure at least once a year. And many other pieces of legislation are bouncing around.

My favorite proposal, however, is introducing "side-car" accounts that would enable people to save for rainy days through a workplace savings account. Currently a lot of cumbersome regulations make it difficult for employers to enroll their employees into one account for retirement and another account for short-term savings. The recently proposed legislation "**Strengthening**

Financial Security Through Short-term Savings Accounts Act of 2018" aims to clear away the red tape. Funds in the savings account would be accessible without penalty at any time to cover emergencies.

Two types of evidence have underscored the need for some type of liquid account. First, survey after survey has revealed that many people do not have the cash on hand to cover a $2,000 expenditure. That means that a car breaking down or a furnace needing repair is a financial catastrophe. Employees living on the edge experience serious financial stress. Second, an enormous amount of money going into 401(k)s leaks out. **Our estimate** is the leakages amount to 1.5 percent of assets each year, reducing final balances by about 25 percent. Clearly, this type of leakage is undermining retirement security for many households.

The idea behind the current legislation is that hardship withdrawals from 401(k)s would be unnecessary if workers had another, more appropriate, pool of money set aside for emergencies. Indeed, **a HelloWallet study** found that workers who lack emergency savings were more likely to breach their 401(k)s than those with these savings, even when controlling for characteristics like age, education, income, and debt-to-income ratio. At the same time, workers have trouble accumulating liquid assets that can be used in an emergency because of a preference for instant gratification that leads liquid funds to be quickly spent.

The effort to increase so-called "precautionary savings" has generated two approaches for accounts: 1) stand-alone precautionary accounts; and 2) precautionary accounts within a workplace retirement plan. The proposed legislation includes both options. That is, the short-term savings account could be in the form of an account at an insured depository institution or a short-term savings account within a retirement plan. Both options would rely on employers as the facilitator, with employers allowed to automatically deduct contributions from employee paychecks with the ability for the employee to opt out. Clearly, the retirement plan would have to be a Roth so that people could take out their contributions without paying taxes.

Either approach sounds fine to me. Let’s get on with it.