

**BlackRock's  
Emergency  
Savings  
Initiative**



# **Emergency Savings Through a Pandemic**

A 2020 Report: Early Findings

# Executive Summary

Emergency savings are the first foundational step to building financial security, leading to better outcomes for individuals, employers, financial institutions, communities, and ultimately the economy as a whole.

When the COVID-19 pandemic hit in early 2020, it put an added spotlight on the lack of emergency savings for most American households. Policymakers recognized the crisis and acted to provide support in the form of stimulus payments, additional unemployment benefits, and opportunities to withdraw funds penalty-free from retirement savings.

We saw savings rates skyrocket as households experienced significant shifts in spending and also anticipated ongoing financial challenges as a result of the pandemic. At the same time, we saw employers and providers shift priorities to focus on savings.

In response to the pandemic, **BlackRock's Emergency Savings Initiative (ESI)** expanded research efforts to understand how the pandemic impacts people's financial lives and their ability and motivation to save. ESI has also focused its work on partners where interest in savings is strong, including W-2 employers, record keepers, payroll providers, and fintechs, to scale different models to offer savings solutions and encourage replication.

In this report, we highlight the early trends and findings gleaned from our research and activities with partners.

## WHO WE ARE

Founded in 2019 by the BlackRock Social Impact Team, the Emergency Savings Initiative (ESI) is a cross-sector collaboration among nonprofit experts, corporate partners, and fintechs working together with a mission to help people living on low to moderate incomes gain access to and increase usage of proven savings strategies and tools, helping them establish an important safety net. ESI's goal is to demonstrate that organizations can provide emergency savings at scale through a number of different channels. ESI's nonprofit industry experts include Common Cents Lab, Commonwealth, and the Financial Health Network.

“

**“As the COVID-19 crisis evolves, the country faces a profound decision: Do we continue to accept a reality in which two-thirds of people in America are not financially healthy? Or do we invest in solutions that help people lead financially healthy lives during the pandemic and beyond? These questions have always been important, but never more so than now.”**

Source: [U.S. Financial Health Pulse: 2020 Trends Report](#), Financial Health Network

## INDIVIDUALS

# Savings Gaps Widen Along Income, Racial Lines



# 167M

**People in the U.S. in 2020 who are not Financially Healthy,<sup>1</sup> and are struggling to spend, save, borrow, or plan in ways that allow them to be resilient and seize opportunities over time.<sup>2</sup>**

# 71%

**Of Black households earning \$60,000 or less cannot easily cover a \$400 emergency expense. That number is 55% for non-Black households in the United States.<sup>3</sup>**

# \$0

**One in four Black individuals between the ages of 18-36 reports having no personal savings. For White and Latinx young adults, 14% of individuals have no savings.<sup>4</sup>**

**The latest data shows that individual spending and savings behavior are shifting, while savings gaps widen along income and racial lines.** In the immediate aftermath of shutdown orders related to COVID-19, the personal savings rate surged to a historic level of 33% in April, according to the [Bureau of Economic Analysis](#), and has remained high. Many factors contributed, including dramatic changes in spending, stimulus, and the “[Hurricane Effect](#),” as noted by the Common Cents Lab. Data from Initiative fintech partner Qcapital — a customizable savings platform — revealed a [500% increase](#) in users creating an emergency savings goal in February and March, forecasting what would become the national trend.

However, as the months of the pandemic have worn on, two very different stories emerged for individuals — one about people who have been largely unaffected by reduced incomes and have been able to continue saving, and another about

people impacted by reduced incomes who have had to dig into their savings or had no savings to dip into at all.

ESI's focus is on low- and moderate-income earners (LMI) who have faced higher unemployment levels and [more financial volatility](#) because of COVID-19,<sup>5</sup> as Commonwealth's research has shown. Increased expenditures by lower-income segments of the population and necessary usage of savings have added to financial precarity this year.

This has accelerated existing racial gaps in savings. Service and hospitality industries, which comprise a disproportionate number of Black and Latinx individuals and women, [saw some of the highest unemployment rates from COVID-19](#).

August 2020 [analysis](#) by the Financial Health Network showed that Black individuals have fared much worse than White individuals in savings

<sup>1</sup> Financial health is a composite framework that considers the totality of people's financial lives: whether they are spending, saving, borrowing, and planning in ways that will enable them to be resilient and pursue opportunities over time. Using this framework, there are three tiers, including Financially Healthy, Coping, and Vulnerable. [Learn more at finhealthnetwork.org/score](#).

<sup>2</sup> “U.S. Financial Health Pulse: 2020 Trends Report.” Financial Health Network. October 2020.

<sup>3</sup> “Real-Time Research That Sparks Action.” Commonwealth.

<sup>4</sup> “Low Savings Means Less Cushion for Black, Latinx Young People.” BlackRock's Emergency Savings Initiative.

<sup>5</sup> “A Tsunami of Volatility.” Commonwealth.

and financial health through the pandemic. Additional data from the [U.S. Financial Health Pulse: 2020 Trends Report](#)<sup>6</sup> showed that Black individuals and people identifying as mixed race experienced little improvement in financial health from 2019 to 2020, but White individuals experienced a significant increase.

Women, especially women of color, have also faced much [higher rates of unemployment](#)<sup>7</sup> through COVID-19 compared with men. Both unemployment in the service industries, along with women leaving the workforce to provide childcare and oversee education, have contributed to the trend. [Financial Health Network data](#) showed just 28% of women are Financially Healthy, compared with 40% of men in 2020.<sup>8</sup> And this trend could continue. One recent study from economists at Northwestern suggests [the wage gap could widen](#) by more than 2 percentage points after a pandemic recession.<sup>9</sup> This could have a lasting effect on women’s ability to both save for emergencies and build long-term savings.

## COVID-19 and Savings Takeaways

- If available, using accumulated savings was a primary coping strategy across the board for LMI households that lost income due to the pandemic.<sup>10</sup>
- Nearly half (48%) of Black individuals have spent down savings as a result of reduced income because of COVID-19, compared with less than one-third (30%) of White individuals.<sup>11</sup>
- More than a quarter (28%) of people with incomes below \$30,000 said they spent down their savings to cope with the ongoing effects of the pandemic.<sup>12</sup>

## Actions Taken for Coping with Reduced Income Due to COVID-19

Comparing Black individuals and White individuals, all income levels

	Applied for a new job	Spent down savings	Borrowed money from a retirement account	Borrowed money from friends and family	Applied for other government benefits (SNAP, WIC, etc.)
White, Not Latinx	21%	30%	3%	10%	7%
Black, Not Latinx	36%	48%	9%	25%	26%

Source: “COVID-19 Exacerbates Already Stark Savings Gap Between Black and White Americans,” Emergency Savings Initiative.

“

**“COVID made me dip into my savings so much that I couldn’t have any more savings ... but I am hopeful by the end of the year I will.”**

**Dee\*, 23, hourly worker in Georgia**

*\*Name changed to protect privacy*

<sup>6</sup> “U.S. Financial Health Pulse: 2020 Trends Report,” Financial Health Network, October 2020.

<sup>7</sup> “COVID-19 recession is tougher on women,” U.S. Bureau of Labor Statistics, September 2020.

<sup>8</sup> “U.S. Financial Health Pulse: 2020 Trends Report,” Financial Health Network, October 2020.

<sup>9</sup> “The First Female Recession Threatens to Wipe Out Decades of Progress for U.S. Women,” Bloomberg, September 30, 2020.

<sup>10</sup> “Financial Coping Strategies: How Households Are Staying Afloat During COVID-19,” Commonwealth.

<sup>11</sup> “COVID-19 Exacerbates Already Stark Savings Gap Between Black and White Americans,” Emergency Savings Initiative.

<sup>12</sup> “U.S. Financial Health Pulse: 2020 Trends Report,” Financial Health Network, October 2020.



## Field Research: Top Household Coping Strategies During COVID-19

Commonwealth conducted interviews with 56 households from 24 states, across the continental United States, with a median annual income of \$50,500, starting in June 2020. Households spoke about a range of coping tactics, but the most common and impactful on household budgets were:

### Using Savings

Tapping saved money had the most impact on households' ability to stay afloat – but only 50% of the households had savings. In this survey, households that had accumulated savings before the crisis did not have to borrow, accumulate debt on their credit cards, or postpone bills.

### Strategic Bill Payment

Almost 30% of households decided not to pay certain bills as a coping strategy, prioritizing some expenses over others. Electricity, water, and phone/internet were the most common bills people decided not to pay, because they had seen public statements that late fees would be waived and disconnections would be paused.

### Decreasing Expenses

Decreasing expenses was the most-used coping strategy (40%), but it had less impact on households' finances. Households started by cutting subscriptions (such as video streaming services) and shopping at lower-cost grocery stores, followed by changing the food they bought.

### LEARN MORE

- Dig deeper into the financial coping strategies households are using to stay afloat during COVID-19 in Commonwealth's recent report.

**Read the report: [“Financial Coping Strategies: How Households Are Staying Afloat During COVID-19”](#)**

As a part of exploratory research for two large savings pilots with Mastercard partners, Urban FT and Branch, still in design, Common Cents Lab conducted a survey of 1,042 respondents and a series of in-depth interviews to better understand people's current savings habits and their perceptions of some different types of savings approaches. Those responses echoed many of Common Cents Lab's previous and ongoing learnings.

### Survey and interview findings included:

#### ■ **Desire to Save Easily**

People desire to save more, and already believe and understand that leveraging automaticity<sup>13</sup> is the most reliable approach to saving. For example, round-ups<sup>14</sup> were the savings mechanism respondents were most interested in, were also perceived to be the easiest, but were importantly perceived to be least effective at actually accruing savings.

#### ■ **Reluctance to Lose Control**

People simultaneously express reluctance to relinquish control of their money over to an automated savings system. When surveyed about what

pre-commitment<sup>15</sup> devices they would be willing to enroll in to successfully reach savings goals, no form of pre-commitment was found to be broadly attractive; in interviews, respondents described pre-commitment devices as a sort of last resort to successfully build savings only when no other choice was left to them. People wanted to save but wanted to retain control over those savings.

#### ■ **Bridging The Gap with Behavioral Science**

Savings design needs to bridge this gap. Taking findings from both the survey and interviews together, it is possible that the choice of how people move money into savings and how people keep money in savings are not dependent on each other. Behavioral science can bridge the paradoxical relationship between interest in automaticity and reluctance about loss of control by confronting the challenge of designing automatic, pre-commitment accounts. The best of these accounts would enable quick access to savings for emergencies while discouraging savings leakage, and would preserve the personal control that comes from empowering people to make savings pre-commitments.

## ESI Research

We are creating new tests, fostering innovative learnings, and driving research with diverse partners to help individuals save even small amounts.

[Learn about our work.](#)

## Case Study

Design changes are an opportunity for small-dollar saving. Adding language into a teller's script and improving signage led to an uptick in savings behavior by customers using coin-exchange machines, according to a test run by Common Cents Lab and Digital Credit Union.

[Read the case study.](#)

<sup>13</sup> Automaticity is the ability to get things done without getting caught up in complicated details.

<sup>14</sup> Round-ups transfer small increments of money into a savings account every time a purchase is made on a linked account.

<sup>15</sup> Pre-commitment means agreeing in advance to leverage certain funds toward savings, like a portion of income or rebates.



## LANDSCAPE

# Growing Opportunity for Emergency Savings Products

The marketplace for emergency savings involves actors from multiple sectors encouraging others to take part in solving this issue. W-2 employers, fintechs, record keepers, and payroll firms all have a role to play. Technology and infrastructure innovations can deliver scaled solutions for better emergency savings outcomes.

Of course, employer-sponsored emergency savings products were needed long before COVID-19,<sup>16</sup> and employers and their service providers recognized this need. The pandemic has underscored and exacerbated the detrimental impact that financial insecurity can have on employee performance and retirement readiness, however.

In October 2020, ESI partner UPS launched a new internal program to provide more than 90,000 employees with better access and information about emergency savings options through its retirement plan provider, Voya.

Historically, retirement plans have been plagued with hardship withdrawals and 401(k) loans as plan participants tapped their retirement plans for financial emergencies. In response to the pandemic, the CARES Act of 2020 allowed retirement plan participants to make penalty-free withdrawals from their retirement accounts.

Few LMI individuals used this temporary rule change, largely because few even have access to 401(k) plans to begin with, but it did make clear that the policymakers see the 401(k) as a de facto emergency savings tool.

A series of surveys conducted in May and July 2020 by Commonwealth examined how 500 LMI plan participants were saving through the pandemic,<sup>17</sup> in partnership with the Defined Contribution Institutional Investment Association's (DCIIA) Retirement Research Center.

## Key Survey Takeaways

- **Plan participant respondents used their emergency savings.** The data showed that 42% of respondents who saved for emergencies used those funds in the first seven months of 2020; those who had lost income were twice as likely to have done so.
- **Non-savers were more likely to tap retirement funds.** Relatively few people took early withdrawals or 401(k) loans in the July survey (8%); however, that number was much higher (16%) for people who had not saved for emergencies.
- **People want more savings help from employers.** Nearly half (46%) of survey respondents said they are “very” or “extremely interested” in a workplace emergency savings program, but few employers offer one today.

<sup>16</sup> “Employers Help Workers Build Household-Emergency Funds,” Wall Street Journal, June 13, 2019.

<sup>17</sup> Complete findings from these surveys can be viewed on Commonwealth's blog under “Saving Through a Crisis.”

Record keepers have an especially vital role in helping plan participants build a financial cushion by offering highly liquid short-term savings solutions structured either as in-plan or out-of-plan.

A growing number of record keepers are offering emergency savings tools.<sup>18</sup> So far, at least three providers offer solutions: John Hancock (out-of-plan), MassMutual (out-of-plan), and Prudential (in-plan).

Out-of-plan solutions connect with employees who opt-out of retirement plans, and who are more often LMI and/or non-White employees. Both in-plan or out-of-plan options benefit record keepers, plan sponsors, and employees alike. Primary benefits include 1) decreasing leakage in the form of hardships and loans, 2) improving employee productivity and retention,<sup>19</sup> and 3) tackling employee stability needs first to improve potential retirement savings outcomes.

Fintechs and other providers have put renewed emphasis on savings in their product roadmaps as a result of the pandemic. Working with ESI, fintech partners are conducting research to design optimal savings behavior.



## ESI Webinars

We are connecting private-sector decision-makers and providers to collaborate and socialize ideas around emergency savings. More than 1,200 people have attended virtual events organized by ESI this year.

**Watch the webinar: “How Record Keepers Can Address Emergency Savings”**

### LEARN MORE

- Commonwealth has been leading efforts with record keepers to offer emergency savings in order to mitigate this leakage from retirement accounts.

**Read the report: “The Critical Role of Record Keepers in Solving the U.S. Emergency Savings Crisis”**

<sup>18</sup> “Leveraging Retirement Platforms for Emergency Savings: Three Industry-Leading Products.” Commonwealth, August 20, 2020.

<sup>19</sup> “Financial Security in the Workplace.” Commonwealth.

# Regulators Remove Barriers to Savings



## CFPB Leans into Evidence-Based Strategies

In the years leading up to the pandemic, many LMI Americans already struggled to pay bills and tackle emergencies, especially for housing and health care. For the most Financially Vulnerable (those struggling with all, or nearly all, aspects of their financial lives), the CARES Act of 2020 provided necessary, temporary relief to help people pay for housing and other bills, according to a Financial Health Network [analysis](#).<sup>20</sup> Yet the need to pass an emergency relief bill so quickly also cast into sharp focus the dire state of savings in the American household and the inadequacy of the social safety net, especially as the disbursement of unemployment insurance has lagged in many states.

### Key Findings about Stimulus Payment Usage<sup>24</sup>

- 91% of Financially Vulnerable people used the \$1,200 Economic Impact Payment to cover essential bills, such as rent, mortgage, and utilities.
- 87% of Financially Vulnerable people used the money to pay for basic necessities, such as food and medicine.
- The funds were especially useful in supporting the financial health of individuals who had lost jobs.

Other parts of the government also mobilized on savings. Both before and as part of ESI, Commonwealth has worked with the Federal Reserve Bank of Boston and banks in the Boston FED footprint on a rule change around savings account access. At the end of April 2020, the Federal Reserve announced a [rule change](#),<sup>21</sup> which removed limits on accessing funds in a savings account. The Fed cited the economic events related to the pandemic among the reasons for changing the limit. The limit had long been part of [Regulation D](#),<sup>22</sup> the regulation that governs reserve requirements for depositories. ESI has called for [banks and credit unions](#)<sup>23</sup> to remove any fees or restrictions on withdrawals from savings accounts in light of this rule change.

A Consumer Finance Protection Bureau (CFPB) report published in July by the agency's office of research, "[Evidence-Based Strategies to Build Emergency Savings](#)," demonstrated explicit efforts to use and promote savings research.

The CFPB also provided new policy guidance in September through its Compliance Assistance Sandbox Program about how employers can automatically enroll employees in an emergency savings account, similar to the way people are enrolled in retirement accounts.

<sup>20</sup> "The Case for Stimulus: New Pulse Data Show Stimulus Payments Provided Valuable Lifeline to Unemployed Workers," Financial Health Network, July 9, 2020.

<sup>21</sup> "Why the Fed's Rule Change to Increase Access to Savings Accounts is a Good Idea," BlackRock's Emergency Savings Initiative, May 11, 2020.

<sup>22</sup> "Regulation D Reserve Requirements," Federal Reserve.

<sup>23</sup> "Towards Changing Savings as Usual," Payments Journal, May 14, 2020.

<sup>24</sup> "U.S. Financial Health Pulse: 2020 Trends Report," Financial Health Network, October 2020.



As a result, the agency approved Commonwealth's Autosave application template for use with employers, which will make it easier for employers to apply for and get approval from the CFPB to add an Autosave program to their benefits offerings. The template helps employers successfully design an Autosave program in compliance with Regulation E, which implements the Electronic Fund Transfer Act and defines consumer protections with regard to the movement of funds electronically.

At the statewide level, there is also new momentum for better savings programs. As of June, 10 states have enacted programs to help people save for retirement<sup>25</sup> and dozens of others are considering legislation. While their focus has been on long-term savings, some states are looking to ESI research on emergency savings to help savers.

## What's Ahead

Through ESI's work, led by Commonwealth, the CFPB issued policy guidance in July and created a clear path for employers to test Autosave for Emergency Savings.

**[Learn more about the policy.](#)**

“

**“Over decades of research and pilot studies, we know that ‘opt-out’ automatic enrollment is an effective way to help people build savings. Many people are familiar with being automatically enrolled in 401(k) deductions and electing to opt out. This same option has not been applicable to savings accounts until now.”**

**Commonwealth Co-Founder and Executive Director,  
Timothy Flacke**

<sup>25</sup> [“The Current State of State-Sponsored Retirement Programs.”](#) Guideline.

# Conclusion

COVID-19 has made it clear that emergency savings are important, and people are impacted very differently depending on their employment status, race, ethnicity, and gender. From the research and partnerships highlighted above, we've learned much about the roles individuals, private sector institutions, and public activities are playing this year.

We need to continue focusing on improving financial security for all. This moment in time represents a key turning point, where private and public actors have an opportunity to truly move the needle on improving the financial security of all Americans.

In 2021, ESI will continue to build on our momentum by providing stakeholders with the tools to act effectively. Behavioral research conducted through experiments with partners will tell us more about how to balance individuals' need between automation and control; engagement with myriad actors in the marketplace — including fintech companies, record keepers, payroll providers, W-2 employers, and more — will continue to push innovation.

Get the latest research and news at [SavingsProject.org](https://www.savingsproject.org).



**Common Cents Lab** is a financial behavior research lab within the Center for Advanced Hindsight at Duke University. CCL gathers and develops insights about what influences decisions to spend, save, borrow, and earn, and then leverages those insights to encourage behavior that aligns with people's financial goals. In the last three years alone, CCL has partnered with over 50 organizations including Credit Unions, Banks, Tech Companies, Non-profits, local governments, and more, to re-design their product and services to measurably improve the financial health of more than half of a million people in the United States. Together we help their customers lead happier, healthier, and wealthier lives.



**Commonwealth** strengthens the financial opportunity and security of financially vulnerable people by discovering ideas, piloting solutions, and driving innovations to scale. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling over a half a million people to accumulate more than \$1 billion in savings. Commonwealth understands broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policy-makers and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them.



**The Financial Health Network** is the leading authority on financial health. We are a trusted resource for business leaders, policymakers and innovators united in a mission to improve the financial health of their customers, employees and communities. Through research, advisory services, measurement tools, and opportunities for cross-sector collaboration, we advance awareness, understanding and proven best practices in support of improved financial health for all.



## BlackRock's Emergency Savings Initiative

BlackRock announced a \$50 million commitment to help millions of people living on low to moderate incomes gain access to and increase usage of proven savings strategies and tools — ultimately helping them establish an important safety net. The size and scale of the savings problem requires the knowledge and expertise of established industry experts that are recognized leaders in savings research and interventions on an individual and corporate level. Led by its Social Impact team, BlackRock is partnering with innovative industry experts Common Cents Lab, Commonwealth, and the Financial Health Network to give the initiative a comprehensive and multilayered approach to address the savings crisis. Partners including UPS, Mastercard, MX, and Self have joined BlackRock's Emergency Savings Initiative to help their employees and customers take the essential first step toward long-term financial well-being.