AB 1247 (Alvarez): Emergency Savings Act

Bill Summary

AB 1247 would establish the Emergency Savings Account Commission for the purpose of conducting, by contracting with one or more entities with appropriate expertise, and delivering an analysis on the extent of the problem of Californians who do not have access to sufficient funds when faced with financial emergencies, causes of the problem, solutions for fixing it, and the state's role in those solutions.

Background

Californians need to increase their personal savings so that they are better positioned to handle emergencies and major purchases, as nearly 40% report they would struggle to cover an unplanned $400 expense. Most workers have the option to put aside savings in a bank account of their own, but far too many fail to do so. Insufficient short-term savings can lead households to draw down their retirement savings prematurely and, in turn, incur costly taxes and penalties. While dipping into retirement savings might help address an immediate financial squeeze, it jeopardizes long-term financial security as Americans plan for retirement.

Conclusion

Payroll-deduction emergency savings can provide relief. As a workplace benefit, these plans allow employees to select a portion of each paycheck to deposit into an emergency account, similar to and alongside their 401(k) election. But in the case of these accounts, workers can access the funds quickly and penalty-free at any time. Some employers have already begun offering short-term savings accounts on an opt-in basis, but participation remains low. Given the power of automatic enrollment in workplace retirement savings plans—which has shown to dramatically increase plan participation—lawmakers have an opportunity to replicate this successful policy to help workers save for short-term emergencies.

AB 1247 will ensure that the Commission oversee the convenient and affordable workplace short-term savings accounts options with the help of various agencies and programs for the purpose of protecting vulnerable consumers.

Some of the policies that would be analyzed would include:

A) Account balances that could be funded by a combination of either employee or employer contributions with the option of adjusting the amount that each can contribute to their savings.

B) No minimum balance requirements, have a maximum account balance that does not exceed $2,500 (after which contributions would stop or be invested in retirement savings), and be readily available to individuals with limited withdrawal restrictions.

C) Employee contributions (up to the maximum account balance on an annual basis) would be considered elective deferrals, meaning that employers would be required to match those contributions into the retirement account in the same way as they would participant contributions to retirement accounts.

D) The protection of participants when they switch jobs by rolling their ESA into a Roth defined contribution account or a Roth IRA.

E) The regulation of the emergency saving accounts with the modified version of ERISA regulations with fewer requirements

For More Information

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