

S. 1870, the Enhancing Emergency and Retirement Savings Act of 2021

Sponsored by: Senators James Lankford (OK) and Michael Bennet (CO)

On May 27, 2021, Sens. Lankford and Bennet introduced the *Enhancing Emergency and Retirement Savings Act of 2021*, legislation that will help Americans and their families better prepare for tomorrow's emergencies, while also promoting and protecting their long-term retirement security.

A Federal Reserve study¹ found that in 2019 a large share of adults were not prepared to withstand even the smallest financial disruptions – that nearly 4 in 10 would have difficulty covering a \$400 expense, with 12% unable to pay for the expense by any means. For many Americans, the COVID-19 pandemic has only exacerbated this issue – an October 2020 survey² from the National Endowment for Financial Education found that a lack of emergency savings was Americans' top financial stressor during the COVID-19 pandemic. This lack of emergency savings can have a number of adverse effects, including limiting individuals' ability to afford health care, maintain a stable lifestyle, and save for retirement.

The *Enhancing Emergency and Retirement Savings Act of 2021* leverages the success of the existing retirement system to help individuals and families better prepare for emergencies. Specifically, by allowing individuals to tap a very limited amount from their retirement account – penalty-free – for unexpected emergency expenses, this legislation provides much-needed flexibility. At the same time, it will encourage working families who may be hesitant to participate in a retirement plan, because it means losing immediate access to those funds, to start saving – or saving more – now. In the past, Congress has allowed similar penalty-free distributions for specified reasons, such as in the SECURE Act for birth and adoption expenses, as well as in the CARES Act for coronavirus-related distributions.

Specifically, under the legislation:

- Individuals are able to take one annual emergency distribution from an employer-sponsored retirement plan or IRA per calendar year to meet unforeseeable or immediate financial needs.
 - To provide quick access to funds, individuals may self-certify that the funds are for an emergency expense.
- The withdrawal is limited to vested amounts in the account above \$1,000, with an annual maximum withdrawal amount of \$1,000.
 - This way, an individual is encouraged to build up a base of retirement savings, cannot draw their account balances down to \$0, and are only able to withdraw amounts they are vested in.
- Unlike early distributions and some hardship distributions, the emergency distribution is not subject to a 10% penalty; however, it is subject to standard income tax, just as other withdrawals from traditional retirement accounts are taxed.
- Individuals may choose to recontribute the distribution (via a roll over) back into the same plan or an IRA within three years of the withdrawal.
- Before taking a subsequent emergency distribution from the same plan, an individual must replenish the previously withdrawn amount back to the plan and can do so through a lump sum contribution (mentioned above) or continuing to contribute to the plan as normal.

By providing quick access to a limited amount of emergency funds, with appropriate safeguards in place, the *Enhancing Emergency and Retirement Savings Act of 2021* will not only help families cope with emergency expenses, but also boost retirement plan participation overall by giving confidence to those not yet participating. In short, the peace of mind that comes with having a plan in the case of an emergency can lead to far more savings in retirement accounts and a more secure financial future.

Supportive organizations include: Nationwide Retirement Solutions, American Retirement Association, American Benefits Council, The ERISA Industry Committee (ERIC), State Street Global Advisors, LPL Financial, the National Association of Insurance and Financial Advisors (NAIFA), and the Women's Institute for a Secure Retirement (WISER).

Please reach out to Julia Prus (Julia_Prus@lankford.senate.gov) with Senator Lankford or Rachel West (Rachel_West@bennet.senate.gov) with Senator Bennet with any questions or to join as a cosponsor.

¹ See <https://www.federalreserve.gov/publications/2020-economic-well-being-of-us-households-in-2019-dealing-with-unexpected-expenses.htm>

² See <https://www.nefe.org/news/2020/10/survey-update-americans-still-experiencing-financial-stress.aspx>