SECURE 2.0: a case study

Learnings from the U.S.'s experience of legislating to include emergency saving alongside retirement saving

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About this report

This paper summarises the emergency saving provisions of the SECURE 2.0 Act passed in the US in 2022.

For more information and other reports, visit **nestinsight.org.uk/research-projects/workplace-emergency-savings**

About our programme partners

The **BlackRock**. Foundation

Our strategic partner, The BlackRock Foundation, provides support for our workplace emergency savings research as well as the wider Nest Insight programme. More information about BlackRock's Emergency Savings Initiative can be found at **savingsproject.org**

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The Money and Pensions Service (MaPS) vision is 'everyone making the most of their money and pensions'. MaPS is an arm's-length body committed to providing access to the information and guidance people across the UK need to make effective financial decisions over their lifetimes. For more information, visit **maps.org.uk**

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Nest Insight is a public-benefit research and innovation centre. Our mission is to find ways to support people to be financially secure, both today and into retirement. We conduct rigorous, cutting-edge research, working collaboratively with industry and academic partners to understand the financial challenges facing low- and moderate-income households. We use these data-driven insights to identify and test practical, real-world solutions. Our findings are shared widely and freely so that people around the world can benefit from our work. For more information, visit: **nestinsight.org.uk**

About Nest Insight's strategic partners

BlackRock is a global investment manager serving the UK market for more than 30 years with a purpose to help more and more people experience financial well-being. BlackRock's Emergency Savings Initiative is made possible through philanthropic support from The BlackRock Foundation. The initiative brings together partner companies and non-profit financial health experts to make saving easier and more accessible for low- and moderate-income earners across the US and UK, ultimately helping more people to establish an important financial safety net. For more information, visit: **blackrock.com/corporate/about-us/social-impact**

Nest was set up by the Government to give every UK worker somewhere good to save, and it aims to provide members with a bigger pension in a better world. It's now the largest workplace pension scheme in the country, with 13.7 million members. One in three of the working population is expected to have a Nest pension pot by the late 2020s. Nest's members benefit from an award-winning responsible investment strategy and one of the most diversified DC portfolios in the industry. By the end of the next decade Nest will have close to £100bn assets under management. In 2016, Nest established Nest Insight as a public benefit research and innovation centre. Nest's purpose is financial peace of mind for all, and Nest is a proud supporter and the home of Nest Insight. For more information, visit: **nestpensions.org.uk**

Background

The emergency savings need

A quarter of UK adults have less than £100 in savings[1] and almost two thirds (65%) wouldn't be able to last three months without borrowing if they lost their income.[2]

The US has been grappling with a comparable issue. A significant proportion of people have no or very low levels of accessible cash savings leaving more than a third (37%) unable to cover an unexpected expense of $400.[3] This has prompted an increased focus on solutions and interventions that might increase emergency savings.

It was against this backdrop that organisations on both sides of the Atlantic began work to address the need for increased emergency savings. In the UK, Nest Insight has been exploring the impact that payroll-linked saving schemes can have on financial wellbeing and resilience since 2018. And in the US, BlackRock's Emergency Savings Initiative (ESI) was established to tackle the financial precarity facing low- and middle-income households. Nest Insight is proud to be the UK partner in BlackRock's ESI and this paper has been developed through transatlantic dialogue and discussion as part of this initiative.

The retirement system link

The US has added reasons to address the issue. People's low levels of cash savings are widely seen as a key driver of leakage out of the defined contribution (DC) retirement system.[4] DC savings in the US are accessible via various routes, including job-change cashouts, loans and hardship withdrawals which often attract both penalties and tax obligations. In addition, without anything equivalent to mandatory auto enrolment driving universal or near universal coverage of retirement plans in the US, emergency savings provisions are seen as a way to encourage downstream take-up of retirement savings for those whose immediate needs might require more liquidity.

Retirement accounts are seen by many as an inefficient way to deliver short-term liquidity, not least because of the apparent inconsistencies of this use case with a long-term retirement-driven investment strategy for the underlying assets. More broadly, leakage from the retirement system is seen as a cause of retirement savings inadequacy in the system as a whole. It is thought that 47% of working households in the US do not have enough saved for retirement.[5] For these reasons, much of the impetus to address low financial resilience in the US has come from those operating in and around the retirement system.

While leakage (at least before the age of 55 years old) is not such an issue in the UK due to tighter restrictions on withdrawals, it is still widely accepted that people are not saving enough for retirement in part due to a lack of short-term financial resilience. In the US, UPS employees were twice as likely to increase contributions to a retirement saving account if participating in the in-plan emergency savings programme.[6] Indeed, amongst UK adults in their 30s and 40s, short-term financial resilience has been found to be the single biggest predictor for additional saving for retirement.[7]

With this in mind, it has been observed that the plumbing of the retirement system – payroll linkage and automatic enrolment, in particular – may represent a good way to also address people's short-term savings needs.

These issues and the related debate culminated in 2022 in the US with the inclusion of a set of emergency savings provisions in a major piece of Federal retirement legislation – the Setting Every Community Up for Retirement Enhancement II (or SECURE 2.0) act (following on from the original SECURE legislation).

This discussion paper describes these provisions, considers their impact so far and reflects on key lessons for the UK in considering how we might address low levels of saving and financial resilience here.

[1] Money and Pensions Service (2022). **One in six UK adults have no savings**

[2] Money.co.uk (2024). **UK Savings Statistics 2024: Saving facts and stats report**

[3] Board of Governors (2024). **Economic well-being of US households in 2024**

[4] Commonwealth (2021). **Research conducted over the last 18 months highlights key role of recordkeepers in employee emergency savings**

[5] Center for Retirement Research at Boston College (2024). **The National Retirement Risk Index: version 2.0**

[6] Commonwealth, UPS, Voya (2022). **A case study in workplace emergency savings: How UPS and Voya designed a solution resulting in $10 million in savings**

[7] Suh, E. (2020). **Younger adults' retirement saving and wealth accumulation in Britain**

SECURE 2.0: linking emergency savings and retirement saving

Retirement saving provisions

Most of the SECURE 2.0 Act is made up of retirement-saving provisions. Many of the changes were intended to increase levels of retirement saving, through improving retirement rules and reducing the cost to employers of offering retirement saving to their employees. In addition the Act contained a number of small or technical changes to how 401k plans are administered.

Much of the innovation in US retirement policy in recent years has taken place at the state level, with a large and growing number of states enacting automatic enrolment legislation to mandate enrolment into a retirement plan for all or most workers.[8] These initiatives are largely focused on the same challenges as the UK's automatic enrolment mandate – how to ensure broad-based participation in private pension saving in a world where access to provision is intermediated at the employer level, and where there are significant barriers to individual take-up even where plans are offered. State-level auto enrolment programmes differ in detail, but all are broadly similar to workplace auto enrolment in the UK.

At the same time, federal efforts have focused instead on how to shore up the voluntary occupational pensions sector, including how to make it easier for smaller firms to offer plans and how to encourage the use of auto features such as automatic enrolment and automatic escalation.

The main pensions-specific provisions of SECURE 2.0 follow this trend, with, for example, a requirement that all new pension plans[9] are offered on an automatic enrolment basis (with offering a plan remaining optional, at least at the federal level).

Emergency savings provisions

SECURE 2.0 also incorporated two measures to try to facilitate employer-sponsored retirement plans to also support worker's emergency savings and liquidity needs:

1. Provision for record keepers (who administer plans for sponsors) to create Pensions Linked Emergency Savings Accounts (PLESAs) within employer-sponsored retirement plans and for retirement plan[10] sponsors (employers) to offer them on an auto-enrolled basis; and
2. Provision for plan record keepers to offer $1,000 penalty-free withdrawals for emergencies.

The main effect of these provisions, if taken up, would be to give employees access to additional liquidity through their workplace retirement plans, while preserving the long-term savings integrity of retirement savings, over and above the provisions for access which already existed before the Act:

- Hardship withdrawals, which are penalty free, but still subject to the employee's marginal rate of tax, and are available only under strict hardship conditions (e.g. to pay for unaffordable medical care); and
- Loans, which crucially, have a number of potential penalties and tax implications.

Provision 1: Pension-linked emergency savings accounts (PLESA)

The PLESA provisions in SECURE 2.0 allow plan sponsors to establish a specific emergency-savings account within the DC retirement plan. Employers can choose to automatically enrol eligible employees[11] into this aspect of the plan with up to 3% of after-tax salary, over and above any contributions to the main retirement component of the plan (though PLESA contributions still count towards the overall annual cap on contributions – currently $23,500). Account balances are limited to $2,500 in contributions[12] and can be drawn on, penalty-, tax- and

[8] States like California, Illinois, New York, Oregon and Connecticut all have active mandates to require automatic enrolment with states like Nevada, Delaware, Vermont and Maryland looking at similar requirements.

[9] Established after December 29, 2022.

[10] In the US, the term 'plan' is used to refer to the retirement or pension plan or scheme.

[11] Excludes 'highly compensated' employees.

[12] Interest and/or investment returns may mean the actual balance is more or less than this.

condition-free, up to at least four times per year.[13] Employees can opt out of this element independent of decisions around the retirement account, and can change contribution rates at any time. Employers that offer matches on contributions in the retirement plan must offer matching contributions on those made into the PLESA at the same rate. However, the matches are made into the retirement plan and not the PLESA.

Provision 2: $1,000 penalty-free withdrawals

Separate to the PLESA (it can be offered alongside or instead of it), employers can also elect to offer one up to $1,000 tax-[14] and penalty-free withdrawal per year option *from the main retirement account* within the plan.[15] This can be taken at any time, and hardship conditionality is on the basis of self-certification. Employees cannot take a second withdrawal under this provision for three years or until they have replenished the value of the withdrawal.[16]

What has been the impact of SECURE 2.0 in practice?

The in-plan $1,000 withdrawal option has been gaining traction in the US due to the simplicity of implementation. For example, T. Rowe Price report that 65% of the plans they record-keep for have allowed the penalty-free withdrawals.[17] While this still results in some leakage from the system, it is hoped the ramifications will be lessened because they are capped, penalty-free and require, in most cases, for an individual to repay the contribution balance.

In the year since they have been possible, PLESAs have not been made available to plan sponsors by record keepers, in large part due to the perceived complexity, pending regulatory guidance. At least some of this complexity has arisen because of compromises needed to ensure the legislation could pass. The technical pensions measures in the Act – many of which were mandatory – have also had to take precedence for record-keepers and this may also have slowed the adoption of voluntary measures such as PLESAs. Despite this, the first PLESA is expected to be launched later this year by T. Rowe Price with hope for a “cascading effect” in the market as more record keepers and influential employers start to roll them out.[18] There is also a clear desire among those involved in the drafting to seek out opportunities to simplify the PLESA provisions in future.

In the meantime, an increasing interest in supporting the short-term financial resilience of employees has also led to a growth of innovation on ‘out-of-plan’ saving propositions. BlackRock’s Emergency Savings Initiative has seen them partnering with over 43 organisations to test novel approaches to emergency savings. For example, in collaboration with Best Buy, Commonwealth and Wings Credit Union an engagement campaign was created to drive emergency savings participation, resulting in an increase of 2,500 employees saving[19] and an extra $1.5 million saved.[20]

[13] Exact withdrawal cap may vary. For example, the plan sponsor can limit the number of withdrawals to no more than once per month. Withdrawals above the cap may also be possible but with record keepers able to levy ‘reasonable fees’ on additional withdrawals.

[14] When repaid within 3 years.

[15] SECURE 2.0 also added earmarked additional emergency withdrawal provisions as options for domestic abuse and natural disasters.

[16] Ongoing retirement contributions count towards replenishment. People can also make separate payments to expedite repayment.

[17] Samuels, R. (2025). **Where does SECURE 2.0 implementation stand for 2025**

[18] Samuels, R. (2025). **Where does SECURE 2.0 implementation stand for 2025**

[19] From 4,500 to 7,000 employees.

[20] From $3 million to nearly $4.5 million.

Two systems, three different models…

In both the US and the UK, efforts around workplace emergency savings have focused on a couple of different models.

In the US, there has been innovation around both 'in plan' models and 'out-of-plan' models.

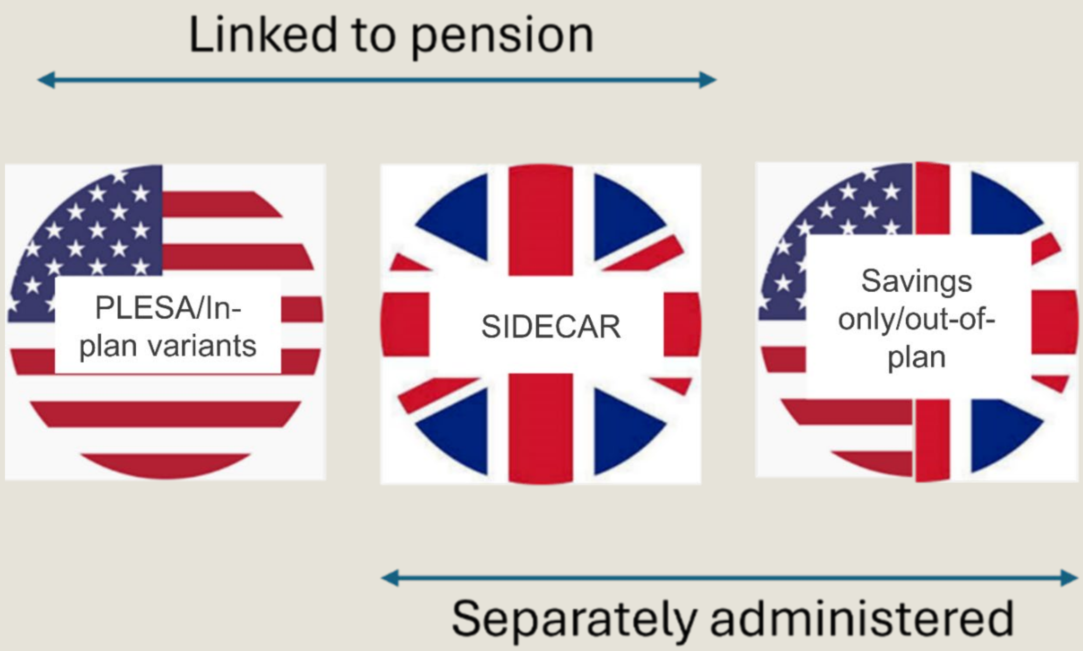
- In-plan models such as the PLESA, as defined in SECURE 2.0, are legally part of a pension scheme, with effectively a separate, accessible 'wallet' for emergency withdrawals, but all administered as part of the same pension scheme by the same record keeper. Prior to the advent of PLESA, some employers had already experimented with positioning and promoting the post-tax option within their plans as an emergency savings account.
- The out-of-plan model is a separate emergency savings mechanism, chosen by an employer, and delivered by a workplace benefits provider, credit union, bank or other regulated savings institution.

In the UK, innovation has focused around the same kind of out-of-plan model however here there are two possible types.

- The savings only out-of-plan model is akin to those in the US where employers offer an emergency savings account through a third party alongside, but with no connection to a pension.
- The 'sidecar' savings model which builds in a formal link to the pension system through provision of an automatic rollover – once a set accessible savings buffer is reached, further additional savings go straight into the pension as top-up contributions. Nest Insight evaluated this model between 2018 and 2023 and found it to be an effective way to build financial resilience in the short- and long-term for those who chose to save in this way.[21]

Currently, no in-plan models are possible in the UK because of the separate legislative and tax treatment of pensions. Money saved into a pension is also legally not accessible until age 55. There are growing concerns that a non-trivial amount of people are not saving enough for retirement with a contributing factor being a lack of short-term financial resilience for emergencies. A sidecar model, possibly offered 'in-plan' by pension providers may offer a possible solution.[22]

The rollover feature of sidecar models that gives them this potential is shared with in-plan models such as PLESA in the US, and in this sense sidecar models could be seen as sitting somewhere between in-plan and out-of-plan on a continuum, as shown in this diagram:



[21] Nest Insight (2023). **Workplace sidecar saving in action**

[22] Nest Insight (2023). **Workplace sidecar saving in action**

Key similarities and differences – US and UK systems and emergency savings

When thinking about the use of the retirement system 'plumbing' to support emergency savings there are a number of key similarities and differences to be considered when reflecting on the learnings from both systems:

Similarities between the US-UK systems	Differences between the US-UK systems
DC pensions Transitioned to largely DC-based systems, delivered through the employer.	**Early access** The US DC system already allows a significant degree of early access, through a combination of cashouts, hardship withdrawals and loans. This has provided an additional impetus to addressing the need for emergency savings, as the combination of low levels of savings and accessibility of pension assets has caused a leakage problem in the pensions system, with one estimate suggesting only 40 cents for every dollar saved in DC schemes remains in the system until retirement.[23] Nest Insight's work has shown clear links between helping people to build cash savings and improving their retirement outcomes[24] but those links are softer and less direct than in the US system for this reason.
Low financial resilience Similar concerns around low levels of financial resilience, with many people lacking the cash buffers to deal with out-of-pocket emergency expenses.	**Low(er) participation** In the absence of a mandatory auto enrolment programme such as in the UK, participation in DC saving is lower in the US even where plans are offered, and offering pension-linked emergency savings tools is seen by some as a way to bring people into the system, with the potential that they also begin saving for retirement, even if not immediately.
	Existing experience using the infrastructure Delivering emergency savings models from within the pensions system in the US is easier, because the basic plumbing for people to be able to make withdrawals is already there, with pension administrators already having the infrastructure to manage those withdrawals.
	Pension participation Pension participation in the US is lower, without a mandatory auto enrolment system for all workers, and with gaps in coverage often focused on those on lower incomes who might also be most at need of building cash savings. Models delivered through the employer-sponsored retirement system in the US won't necessarily catch all these people.
	Employer responsibilities The employee protection framework within the US system differs from the UK in that employers are the formal plan sponsors and hold the fiduciary duty. This means the

[23] Argento, Robert, et al., (2014). Early withdrawal from Retirement accounts during the Great Recession. Contemporary Economic Policy, 7.

[24] Nest Insight (2023). **Workplace sidecar saving in action**

dynamic between employers and administrators/record keepers in the US is somewhat different to that between employers and DC providers in the UK.

Lessons for the UK

Clearly any comparison between the US and UK systems has to recognise the intrinsic differences in those systems. In the US, the retirement system is both better set up to accommodate emergency savings provisions (because it is already used to make more frequent pre-retirement payouts); and has more to immediately gain by offering emergency accounts to try to stem the leakage from the system through loans and withdrawals.

Nonetheless, the policy debates around emergency savings in the two countries have tracked one another closely, and there are clearly interesting lessons to learn from the UK from the process and experience of passing and implementing the SECURE 2.0 legislation.

A legislative ‘middle ground’

In our recent ‘Easier to Save’ report,[25] we set out a roadmap for how regulatory and policy action could help workplace emergency savings models to scale. That roadmap progressed from regulatory steers to give employers more confidence to implement emergency savings tools, through to the potential incorporation of emergency savings in the pensions auto enrolment mandate.

But the emergency savings provisions in SECURE 2.0 represent an alternative option somewhere between regulatory guidance and a mandate: enabling legislation which creates a specific product category and permission for record keepers and plan sponsors to offer it. In this sense it goes further than regulatory guidance in encouraging voluntary take-up by employers. If the regulatory guidance approach either didn’t work effectively or was simply not considered possible under current legislation, the enabling legislation approach could be a useful tool the sits a step short of mandating workplace emergency savings.

Simplicity and ease of implementation

A clear lesson from the experience of SECURE 2.0 has been that some of the compromises in the legislation have added complexity for record keepers wanting to build a PLESA proposition, and for employers thinking through the risks and benefits of offering one. This has been an issue, for example, with the exclusion of ‘highly compensated’ workers from eligibility.[26] SECURE 2.0 also carried a number of mandatory system changes that record keepers needed to prioritise, limiting their capacity to focus on delivering PLESA.

Ease of implementation – for employers and providers - of any option to provide emergency savings is clearly important in creating momentum behind implementation. That said, there is also an argument to be made that some legislative action, even if imperfect, is important to drive progress, which brings us to...

The broader influence of government

One thing that’s been clear in our discussions with experts in the US system is the catalysing impact the legislators taking an interest in emergency savings is having on the market. Legislative action itself is an important part of this because it has shown serious cross-party commitment to action. But the broader focus on the topic that this government interest has created - with government-led convenings and discussion alongside the legislation – has also helped bring the issue up the agenda. This in turn has pushed employers and providers to take more interest, and indeed some of the most immediate impact of the legislation was to drive innovation in the out-of-plan market which wasn’t even covered by the legislation. We are already seeing something similar here, with the interest shown by government and regulators increasing interest among employers and providers, but a continued interest from policy-makers in the topic is likely to continue to have benefits in driving interest and, potentially, increased voluntary take-up by employers.

[25] Nest Insight (2025). **Easier to save**

[26] Bipartisan Policy Center (2024). **Workplace emergency savings policy: where are we and what comes next**

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