Retirement Income
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Britain test-drives “sidecar” accounts in state-run DC plans

By Editorial Staff *Thu, Nov 15, 2018*

Plan contributions above the auto-enrollment minimum (currently 8% of salary) will overflow into the sidecar savings account until the sidecar balance reaches £1,000. Subsequent contributions go to the retirement fund.

The “sidecar” savings account—a source of emergency cash that rides beside a worker’s retirement account—is being piloted in Britain by the National Employment Savings Trust (NEST), the UK’s nationwide, public-option, auto-enrolled defined contribution plan.

The first employer to test the savings account concept will be Timpsons, a chain of shops specializing in shoe repair. Timpsons will offer the service to its 5,600 workers starting next year, according to a report this week at *IPE.com*.

In the U.S., the Family Savings Act of 2018, recently passed by the House of Representatives, would clear the way for similar “rainy day” accounts within 401(k) plans in the US. Such funds are inspired by the fact emergency expenses force millions of Americans to dip into their 401(k) accounts.

Title III of the Family Savings Act “permits an individual to establish a universal savings account. An individual may contribute up to $2,500 each taxable year and withdraw the funds tax-free and without penalty at any time and for any use.”

In the UK, the sidecar accounts are designed to improve what officials call “financial resilience.” Employees can save into what NEST has dubbed “jars.” Plan contributions above the auto-enrollment minimum (currently 8% of salary) will overflow into the sidecar savings account until the sidecar balance reaches £1,000. Subsequent contributions go to the retirement fund.

The account would be labeled “for emergencies.” Studies have shown that this kind of framing can influence how judiciously people use the money. Once the sidecar balance falls back below the cap, contributions will automatically split again to pay into both accounts, until the savings account rises to its limit again.

Caroline Rookes, a trustee at NEST and chief executive of the UK’s Money Advice Service (MAS), said roughly a quarter of the UK population had no savings for sudden emergencies.

NEST, which manages £3.8bn (€4.4bn), developed the model with help from the Harvard

Kennedy School. JP Morgan Chase’s charitable foundation and MAS are providing financial resources for the trial, while Salary Finance will provide the savings accounts.