Center for Financial Security

UNIVERSITY OF WISCONSIN-MADISON

Emergency Savings Salon: Summary of Proceedings

Center for Financial Security, University of Wisconsin-Madison

The Emergency Savings Project is an effort of the Center for Financial Security at the University of Wisconsin-Madison (CFS) supported by the Charles Stewart Mott Foundation to document innovative ways to address emergency or contingency savings issues with financial strategies designed to help low-income households meet immediate non-recurring expenses. The Emergency Savings Project Salon was held in Chicago, Illinois on May 6-7, 2013. This document summarizes the major themes that emerged from the paper presentations and discussions at the Salon.

Project Overview

The Emergency Savings Project launched in the fall of 2012 with the goal of exploring new avenues to promote emergency or contingency savings. The project was established in response to a request from the Charles Stewart Mott Foundation, which funds the project. The foundation is exploring new and innovative ways to support asset-building and savings. The project was guided by an expert advisory committee.

A primary goal of the project was to initiate an "innovation dialogue" about financial strategies designed to help low-income individuals/households meet immediate non-recurring expenses. These funds might be characterized as "emergency savings" or even "contingency savings." These resources are intended not for regularly budgeted items such as rent or food, but rather for unexpected expenses (e.g., car repairs, medical expenses) and opportunities (e.g., fees for a certification or training that could boost income, enrichment activities for children). Discretionary investments in upward economic mobility, while small in scale, are hard to foresee and individuals/ households cannot take advantage of such opportunities without access to a liquid form of savings or credit. The costs of such expenses are immediate, but the rewards may continue for years to come. Likewise, unexpected emergencies can arise and contingency savings can provide protection from downward economic mobility. Emergency savings serve as a form of insurance against lumpy, non-routine expenditures. These funds can also serve as protection against unexpected income shocks.

The failure to amass sufficient savings is common, especially among low- and moderate-income households. Without easy access to liquid savings, people turn to alternatives including short-term credit or borrowing from friends and family. Most families will experience an unplanned expense at some time; however, because the exact timing of such expenses is uncertain, delaying the accumulation of contingency funds is predictable. Individual-level factors that may discourage saving include a lack of the knowledge needed to adequately assess the risk of an emergency, procrastination biases, failures to plan, legal problems (such as garnishment of wages), and recurring expenses that exceed typical income. Institutional-level factors include a lack of affordable financial services as well as policies that restrict saving by including asset tests in public benefit programs.

The Emergency Savings Project sought the submission of strategy proposals outlining mechanisms that would facilitate greater access to contingency funds among lower-income households. Proposals could incorporate policy strategies; program innovations; traditional savings accounts; and new vehicles that combine credit and savings features, insurance, technology, and any additional relevant approaches. Concept proposals were solicited through a competitive call for papers. Authors were asked to address the following research question: How does this approach overcome barriers to saving, support the accumulation of contingency funds, and/or promote access to reasonably priced liquidity mechanisms? Papers were selected for participation in the Salon following review by the expert advisory board. The ultimate goal was to identify categories of promising mechanisms and then facilitate the development of pilot projects worthy of support from philanthropic organizations, private industry, and the public sector. Several innovative programs and products that facilitate accessible savings in low-income households have been developed. The initial findings are promising, but there remains room for improvement.

Summary of Salon Papers

At the Salon, participants on four panels presented 13 fully developed strategies to facilitate the increase of emergency savings among low-income populations. The panels focused on: (1) facilitating an increase in emergency savings via housing interventions, (2) using scalable saving mechanisms to increase contingency savings, (3) product innovations that can be used to build emergency savings, and (4) incorporating emergency savings components into existing programs. Each panel's individual papers and their presenting authors are listed below.

PANEL 1: ENCOURAGING EMERGENCY SAVINGS THROUGH HOUSING INTERVENTIONS

Discussant: Chris Herbert, Joint Center for Housing Studies, Harvard University

Emergency Savings for Shelter Residents: Modifying New York City's Income Savings Requirement, Amelia Erwitt, NYC Department of Consumer Affairs

Expanding Economic Opportunity through Renter Equity, Margery Spinney, The Renter Equity Initiative

"Save at Home": Building Savings One Mortgage Payment at a Time, Stephanie Moulton, John Glenn School of Public Affairs, The Ohio State University

PANEL 2: MAKING AN IMPACT WITH SCALABLE SAVING MECHANISMS

Discussant: Ray Boshara, Federal Reserve Bank of St. Louis

Building Financial Capability: TANF Bank Accounts, Diana Dollar, Burst for Prosperity

Refund to Savings: Creating Emergency Savings at Tax Time, Michal Grinstein-Weiss, Center for Social Development, Washington University in St. Louis

The SaveUSA Coalition, Jonathan Mintz, NYC Department of Consumer Affairs

PANEL 3: PRODUCT INNOVATIONS THAT BUILD EMERGENCY SAVINGS

Discussants: Jeanne Hogarth and Sarah Gordon, Center for Financial Services Innovation (CFSI)

Skipping the Latte: Building Emergency Savings through "Impulse Saving," Kim Manturuk, Center for Community Capital, University of North Carolina

Prosperity SmartSave Card: An Incentivized Emergency Savings Strategy, Sharon Henderson, Prosperity Works

Accelerating Low-Income Savings, Ed Khashadourian, Opportunity to Assets

Big Dreams Start with Small Savings, Ben Mangan, EARN

PANEL 4: BUILDING EMERGENCY SAVING COMPONENTS INTO PROGRAMS

Discussant: Ida Rademacher, Corporation for Enterprise Development (CFED)

Incorporating a Savings Component into the Debt Management Plan, Karen Heisler, Rural Dynamics Inc.

Who Said Pigs Can't Fly? A Grass Roots Approach to Emergency Savings, Sonya Caesar, Community College of Baltimore County

Start2Save: A Pilot Matched Savings Program to Build, Access and Sustain Emergency Savings, Ingrid Holguin, Opportunity Fund

Discussion and Evaluation

During the discussions, salon attendees evaluated the proposals across eight dimensions: scalability, capacity, targeting, sustainability, behaviorally informed, regulatory feasibility, return on investment, and evidence of impact. More detailed descriptions of these dimensions are summarized in Figure 1. Several themes emerged during the discussions, including the following:

"Emergency Savings" Has Many Meanings

Scholars and policy makers variously define emergency savings as cash to be used in a pinch, liquidity

Figure 1. Evaluation Criteria for Proposals

Scale: The ability to serve a significant number of consumers by expanding nationally or being widely adopted by existing programs

Capacity: The existence of organizations or markets prepared to launch and expand the program in the next 2-3 years

Targeting: The extent to which the program targets under-served populations and is accessible to groups with economic and/or physical limitations or vulnerabilities

Sustainability: The potential to continue the innovation in the absence of subsidy, even if start-up funds are needed initially

Behaviorally informed: The appropriate use of choice architecture, incentives, de-biasing mechanisms, and defaults

Regulatory feasibility: Feasibility under current policies and, if needed, the capacity to enact regulatory or legislative changes

Return on investment: The ability of the concept to have a significant impact relative to initial and ongoing costs

Evidence of impact: Existing empirical evidence that the innovation will be effective; the capacity to be rigorously evaluated

(including credit), resources that can be obtained from family and friends, assets similar to formal savings (including funds borrowed from traditional brick-and-mortar banking institutions), and resources that serve as an initial step along a continuum of assets and wealth building. This diversity of definitions reflects the early stage of the field's development, and leads to variation in the assessment of the "right" or "target" amount of acquired liquidity.

Four specific issues complicate attempts to define and operationalize emergency savings. First, some of the financial mechanisms proposed at the Salon (e.g., renter equity, smartcard) act as both savings and credit security. Second, there are several possible goals of an emergency saving initiative, including: more individuals/households saving money, individuals/households saving more money, and individuals/households saving on a more regular basis. Third, several issues complicate the measurement of emergency savings, including (among others) the variety of storage vehicles, saving outside accounts, the use of mental accounting, and the non-concrete nature of network/social obligations that serve as investments. Finally, short-term savings affect the health of all aspects of family balance sheets; families with unrestricted savings can better avoid payday lenders and other potentially harmful financial services; have the savings needed to obtain a longer-term asset such as a home, business, or education or retirement account (all of which help diversify their asset base); are able to pay down their debts; and generally have better access to good credit.

Many Emergencies Are Predictable

Salon participants repeatedly mentioned the need for funds to take care of automobile repairs, unexpected medical or childcare needs, appliance replacement, and home repairs. Although individuals cannot predict exactly when these large expenses will occur, they are quite likely to occur at some point over the course of a year. Unlike other insurable events, these emergencies (and similar ones) are quite predictable within the span of a year or two. Salon participants discussed ways to overcome the overconfidence that results in a failure to adequately appreciate the likelihood of these expenses; one possibility was "scaring" people about the negative risks. Participants concluded that it is likely inappropriate to expect low-income savers to completely manage their own risk.

Lack of Income Is Not the Only Cause of Insufficient Liquidity

Clearly, the trend of flat or declining real incomes for working families (especially those with no secondary education or only a basic secondary education) constrains the amount of money these households withhold from consumption. For low-income families, there is little margin for savings, which explains the demand for credit. At some level, income supports are necessary. The evidence, however, indicates that not having a "rainy day" fund for unexpected expenses is common even among individuals and households with incomes near or above the median. Thus, while resource constraints do affect many households, behavioral failures and inadequate financial products/processes also play a role. Participants were left with the question: What can we do to make the process of saving easier for those who are not saving or not saving as much as they would like?

Choosing a Target Population is Critical

Given the high degree of variation in both what constitutes an unexpected expense and the ability of people to address that expense by using savings and/or credit, it is very important to focus on a single market segment. Participants discussed the possibility of targeting via public programs (e.g., Temporary Assistance for Needy Families), activities (e.g., attending community college), technology (e.g., social media), and products (e.g., pre-paid stored-value transaction cards). Within each of these target groups, programs need to focus even further on an individual's/ household's specific station in the life course (single, with dependents, in the work force, out of workforce with a disability, etc.) and then determine which leverage points might be most important. Additional subpopulation-based issues include understanding and addressing low take-up rates, overcoming negative perceptions of financial institutions among potential participants, and addressing potential legal issues concerning acquired assets (e.g., garnishment, child support payment).

Choosing a Targeted Moment is Critical

Participants discussed individuals at a variety of moments in the life course, from younger adults enrolling in community college, to low-income families buying their first home, to individuals filing income tax returns and even exiting from transitional housing. At some of these points, people are on an upward economic trajectory and liquidity may help stabilize bumps in the road, while at other points, individuals are likely to face continuous economic stress. Opportunities to save or tap credit must be designed quite differently for each of these stages. In addition, participants agreed on the need for more research on whether consumers draw down liquid savings at optimal moments in the life course. Finally, participants discussed ways to make savings benefit consumers before they actually tap into the savings (e.g., links to credit).

Re-establishing Savings/Liquidity after an "Emergency"

One of the realities of planning for unexpected expenses is that eventually an expense will occur, requiring people to tap the liquidity they have accrued. At this point, savings balances will decline and/or debt will increase. The process of building a contingency reserve must now begin again. Given that this is an inevitable step in the process, innovations must incorporate ways to re-establish contingency savings. Participants also discussed possible ways to maintain continuity for participants as they move into and out of various programs and services; technology may facilitate this process.

People Will Find Ways to Tap Liquidity, the Question is at What Cost

Low-income people have experience juggling due dates on bills, managing a variety of formal and informal income sources, curbing or forgoing certain expenses, and strategically maneuvering program eligibility to make ends meet. Payday loans, late fees, overdrafts, pawn loans, and title loans are some of the tools these families use to get through the week or month. Introducing emergency savings may not eliminate these higher-cost products, but may reduce the extent to which low-income people rely on them. Consumer protection efforts play an important role by removing deceptive or fraudulent products from the market place. Participants suggested that facilitating contingency savings will also help people increase their own capability to manage expenses and income, giving them more "tools in the toolbox" and increasing their ability to plan and use these tools more effectively.

The Benefits and Drawbacks of Using Scarce Subsidy Dollars to Support Unrestricted Savings

While a wide range of programs subsidize matching savings for education or homeownership, there are few examples of matched savings for unrestricted uses. Current federally supported asset programs explicitly prohibit all but narrowly defined uses of matched savings. The role of subsidy may depend on whether the goal is to encourage individuals to start saving (the extensive margin) or to encourage individuals to supplement existing savings (the intensive margin). Subsidizing the initiation of saving could overcome behavioral biases or other barriers, while subsidizing ongoing savings might not have the same benefit. However, subsidy might be used to build a savings "habit" that persists over time. The exact goals and benefits of using subsidy–if any–are not clear.

Participants also discussed the appropriate role of supports other than subsidy, including: non-monetary rewards/incentives; peer support; coaching/counseling; reminders; goal setting and tracking; developing norms; programs that mandate/incorporate participation; maintaining motivation over time; increasing sense of control; playing off loss aversion; and utilizing defaults (e.g., split tax refund). Supports and monitoring programs must be low-touch (i.e., require limited infrastructure support) and low-cost. Automation is another possible savings support, but is only effective if funds are available for the scheduled withdrawal. One final possibility discussed by Salon participants was subsidizing accounts rather than matching funds; the possible benefit of this plan is that formal bank accounts provide not only a saving mechanism, but also an important gateway to a range of regulated financial products and services.

Housing-Based Programs May Be One Potential Path, but These Programs Face Challenges

Most people allocate some portion of their income to housing consumption. Although housing shocks can be expensive and involve large irregular expenditures, on a monthly basis housing expenses are predictable. Participants concluded that there are opportunities to use housing and variation in housing payments as a context for saving, using liquidity, or stabilizing living standards. However, low-income housing programs and residents living in these projects are already resource constrained. In addition, regulations related to mortgages and mortgage servicing may limit the extent to which saving or borrowing can be built into housing payments or tapping home equity.

To Be Sustainable, Programs Must Incorporate Incentives for both Users and Providers

Any new emergency savings initiative must include compelling financial or behavioral benefits for the ultimate users—at a minimum, programs must be simple, easy to use, and inexpensive. Further, new savings initiatives cannot depend solely on nonprofits that must perennially seek grants and donations to maintain the program. Thus, to be scalable, programs must incorporate incentives for financial services firms. While regulatory pressures may encourage some firms to participate, a robust and dynamic marketplace will allow private firms to receive some fees or revenue.

Participants suggested that for the government, the incentive may be lower human services costs. Increasing the financial stability of individuals and households that are one shock away from needing additional government resources may be the most efficient use of government funds. Salon participants also discussed possible ways to make financial stability programs and products appeal to program providers, for example property management companies and mortgage services. The ability to build off of existing infrastructures like government programs and large firms also makes scalability more feasible.

We Must Be Realistic About the Political Reality of Any New Savings Policy

To be successful at scale, the goal of any new effort to increase contingency savings cannot be limited to having a certain number of people save or having people save a certain dollar amount. Rather, the focus must be on the potentially positive impacts on society, namely, reduced use of public services and improved health and well-being outcomes for families. Programs must focus on bigger-picture impacts; in the current policy environment, benefits such as increased social equity or small financial improvements among low-income families are not convincing. Participants proposed that connecting programs and products to the amelioration of social problems that are expensive for local and state governments (e.g., homelessness) would be beneficial. In addition, it was suggested that the recent economic crisis will reshape the structure of the future, and the current transition poses an opportunity to rethink the social contract.

Conclusion

The Emergency Savings project sought to initiate an "innovation dialogue" about financial strategies designed to help low-income individuals/households meet immediate non-recurring expenses. The selected papers identify a range of exciting programs, products, and policies worthy of further development and testing. The existing diversity in definitions of emergency savings led to a diverse portfolio of potential strategies. Strategies such as integrating into existing program infrastructures, utilizing incentives that compel governments and firms to participate, and exploring product and technology solutions can help emergency savings innovations to be both sustainable and scalable. It will also be important that innovations are carefully crafted to meet the target population and target outcomes. Continued efforts to develop and implement strategies such as those described here are needed to enable households to help low-income individuals/ households address economic volatility and achieve greater financial stability.

Acknowledgements

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The forthcoming book A Fragile Balance: Emergency Savings and Liquid Resources for Low-Income Consumers, edited by J. Michael Collins, will present 11 emergency savings innovations developed during the Emergency Savings Project. Please check emergencysavings.org for the status of the book.

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