

Incorporating Savings into the Debt Management Plan
Concept Summary, Prepared for the Emergency Savings Project Salon
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A debt management plan (DMP) is an already established program that helps over 300,000 people annually to take control of their finances. A DMP is a systemic way to pay down your outstanding debt by paying one monthly payment to a credit counseling agency, who then distributes these funds to your creditors. By participating in the program, clients benefit from reduced or waived finance charges and fewer collection calls.

This paper introduces some possible ideas around attaching an emergency savings program to an already established financial product. The DMP product only addresses the immediate crisis situation. By adding a savings component a client will not only pay off their current debt, but will be given the tools to create a financially secure future by addressing a more systemic issue.

DMP's have been used by millions to get back on track financially, however there is little data showing the long term outcomes of the program. It is also noted that many of those seeking a DMP did so due to a lack of short term/emergency savings. Historically, the DMP product made it easier for the client to pay bills on a monthly basis and did address their spending behavior for the short term, but did little to prepare them for a financial secure future. This super-charged DMP product goes beyond making a client financially responsible for the short term. The goal is to change systemic behavior and create a plan for financial security for a lifetime.

The new DMP product incorporates a savings component as well as additional client education. Upon completion of the DMP client will not only have paid off their debt, but they will have an emergency savings account and will have a roadmap to the future. They will change the habit of using credit cards for emergencies into one of saving for emergencies that formerly created financial hardships.

It is important to note that long term evaluation would be required to not only determine the effectiveness of the historical DMP product, but to determine whether the intervention of savings habit and education resulted in long term financial stability. There are many additional components that could easily be added to the Super-Charged DMP, including the use of text messaging for reminders and to encourage savings, the use of match dollars to encourage savings, and rewarding educational opportunities with savings deposits. The possibilities are endless.