



Emergency
Savings

Center for
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Big Questions

Keeping in
Mind

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Emergency Savings: Next Steps in an Evolving Field

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Defining Emergency Savings

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- Old concept
- Newly developing field
- Emergency Savings has many meanings



Defining Emergency Savings

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- Cash in a pinch
- Liquid asset poverty
- Formal savings in bank accounts
- Liquidity including credit
- Tapping social networks
- Initial step for asset building



Short-term or *Emergency* Savings

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- Important across household balance sheets
- Reduce reliance on high-cost credit
- Better access to good credit
- Nest egg to start saving for long-term assets



Need for Emergency Savings

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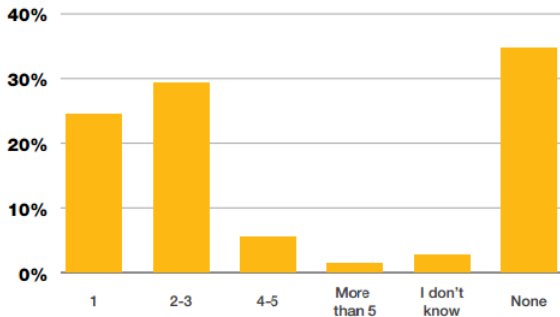
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- Need for liquid assets to cope with the unexpected
 - Financial fragility: many households are unprepared to cope with a financial emergency
- Financial volatility is common for low-and moderate-income households
 - Unexpected expenses
 - Irregular income
- *Sources: Abbi, 2012; Acs, Loprest, Nichols, 2009; Brobeck, 2008; Lusardi, Schneider, and Tufano, 2011; Schreiner et al., 2005*

Chart 2: Number of household emergencies experienced in the last 12 months



● Source: Abbi, (2012) using RAND American Life Panel.



Financial Volatility

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- Micro-level data highlights financial volatility among low-income households
- New York University's Financial Access Initiative, The Center for Financial Services Innovation (CFSI), and Bankable Frontier Associates
- www.usfinancialdiaries.org



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● Savings Correlated with Hardship

- Low levels of emergency savings are correlated with missed bill payments and bounced checks
- Liquid assets above liquid-asset poverty associated with less deprivation when households face job loss, work limiting health event, or death or divorce
- Liquid assets of \$1-1,999 associated with less material hardship in response to income shocks
- *Sources: Brobeck, 2008; McKernan, Ratcliff, and Vinopal, 2009; Mills and Amick, 2010*



Emergency Saving in Disadvantaged Neighborhoods

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- Annie E. Casey Foundation
- Survey sites: Disadvantaged neighborhoods
- Longitudinal data (collected via interviews) following the same families over time
 - Wave 1: 2002-2004
 - Wave 2: 2005-2006
 - Wave 3: 2008-2010
- Final Sample: N = **1,760**

Emergency Saving in Disadvantaged Neighborhoods

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● *Source: Annie E. Casey Making Connections Survey*



Saving Measures

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Saving Measures by Emergency Saving Status

	Total	Non	Savers
Save for emergency	48%	0%	100%
Save for home	14%	6%	23%
Save for education	16%	5%	28%
Save for auto	11%	5%	19%
Save for retirement	33%	16%	53%
Save other	15%	6%	24%
Bank account	75%	64%	87%
Observations	1,760	920	840

● *Source: Annie E. Casey Making Connections Survey*



Plan to Cope with an Emergency

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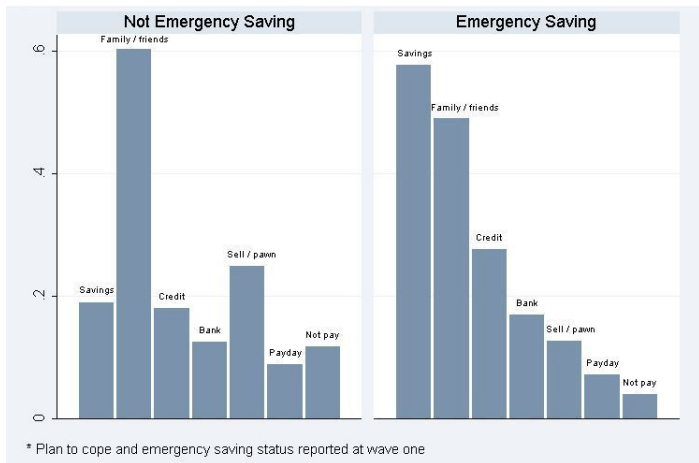
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● Source: Annie E. Casey Making Connections Survey



Emergency Savings Hardship Outcomes

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	Total Hardship	Delay Rx	Skipped Housing/ Utility Bill	Utility Disconnect	Phone Disconnect	Food Insecurity
Model 1: Unadjusted	-0.193*** (0.042)	-0.257*** (0.112)	-0.479*** (0.116)	-0.510** (0.157)	-0.568*** (0.124)	-0.657*** (0.127)
Model 2: Basic Controls	-0.163*** (0.044)	-0.228* (0.115)	-0.407*** (0.115)	-0.518** (0.163)	-0.476*** (0.127)	-0.499*** (0.129)
Model 3: Extended Controls	-0.097* (0.047)	-0.176 (0.127)	-0.273* (0.116)	-0.234 (0.181)	-0.320* (0.140)	-0.295* (0.143)
Model 4: Fixed-Effects	-0.235*** (0.045)	-0.386** (0.134)	-0.386** (0.134)	-0.623** (0.212)	-0.292* (0.145)	-0.614*** (0.149)

● Source: Annie E. Casey Making Connections Survey



Emergency Savings Hardship Outcomes

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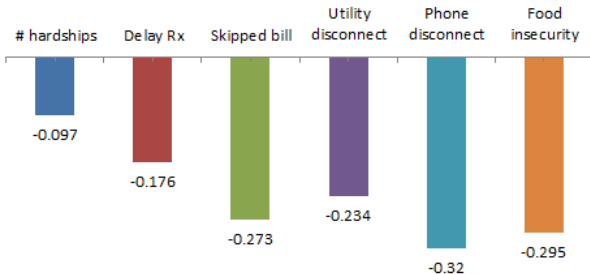
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Savings in Prior Period: Outcomes in Next

Regression with Controls



● Source: Annie E. Casey Making Connections Survey



Barriers to Saving

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Saving is difficult for everyone but households with low-income face particular barriers

- Structural
 - Income constraints and variability
 - Asset limits on public benefits
 - Lack of product market
- Behavioral/psychological biases (e.g. scarcity)
- Financial literacy/knowledge
- Legal issues for acquired assets (garnishment, child support)



Policy & Program Proposals

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Emergency Savings Salon

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Emergency Savings Project

The *Emergency Savings Project* is an effort of the [Center for Financial Security](#) at the University of Wisconsin-Madison with the support of the [Charles Stewart Mott Foundation](#).

This effort documents innovative ways to address emergency or 'contingency' savings issues with financial strategies designed to help low-income households to meet immediate non-recurring expenses.

The *Emergency Savings Project Salon* event was held in Chicago on May 6-7, 2013. This website has the papers that Salon participants prepared for the discussion and follow-up discussions.

Watch [this video](#) from J. Michael Collins (2 minutes) for background on the Salon.



● emergencysavings.org



Leveraging Tax Time

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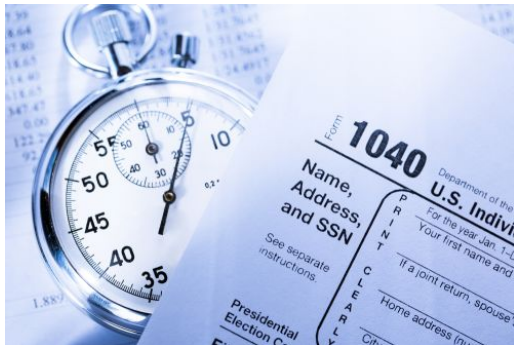
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- Savings products/program at VITA sites (New York City Office of Financial Empowerment)
- Tax prep software manipulations to encourage saving (Washington University, Center for Social Development)



Leveraging Housing Mechanisms

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Leveraging Housing Mechanisms

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- Saving program for homeless families in transitional housing (New York City Office of Financial Empowerment)
- Mortgage add-on for first time home buyers (Ohio State University)
- Renter equity with borrowing capacity (Renter Equity Initiative)



Leveraging Financial Products

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- Impulse saving with mobile technology (University of North Carolina, Center for Community Capital)
- Attaching bank account to public benefit cards (Burst for Prosperity)
- Salient non-financial incentives (New York City Office of Financial Empowerment)



Leveraging Incentives

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Leveraging Incentives

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- Targeted matches to build a savings habit (EARN; Opportunity to Assets)
- Salient non-financial incentives (New York City Office of Financial Empowerment)
- Social pressure (University of North Carolina, Center for Community Capital)



Emergency Savings: Big Questions

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What is the goal of the intervention?

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- Getting **more people** to save
- Getting people to **save more**
- Getting people to **save regularly**

What happens when the *Emergency* comes?

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- What is the level of liquidity?
 - Access restrictions
 - Peer pressure
 - Commitment devices
- What does the rebuilding process look like?

What are the target amounts?

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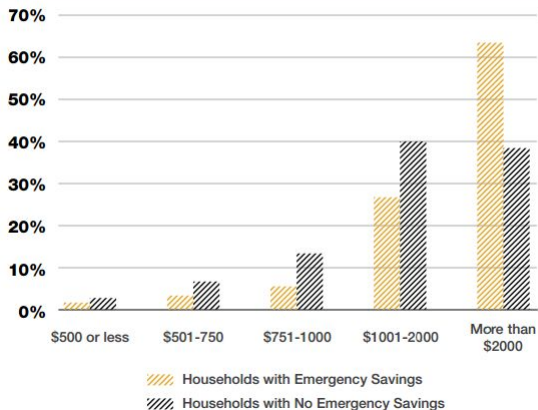
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Chart 10: How much would households like to have set aside to feel better able to face emergencies?



● Source: Abbi, (2012) using RAND American Life Panel.

What are the target amounts?

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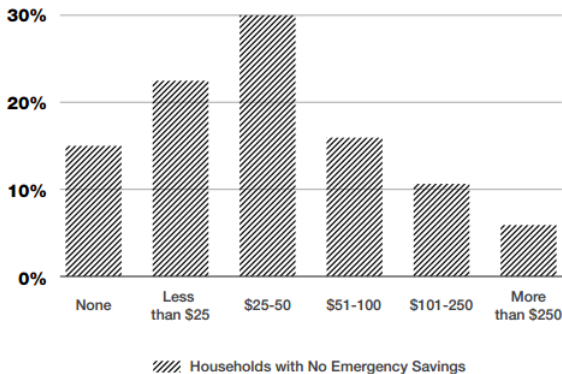
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Chart 9: How much do households with no emergency savings think they can save each month for emergencies?



● Source: Abbi, (2012) using RAND American Life Panel.



Who is the target population?

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- College students
- Low-wage workers
- Families receiving public assistance
- When and for whom is saving an inappropriate goal?



When is the target moment?

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- Financial aid receipt
- Tax time
- First time home buyers
- Structured debt repayment



What is the storage vehicle?

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- Saving accounts
- Prepaid cards
- Mobile banking
- Is government/charitable subsidy required?

Have to confront, that this savings is....

- Unrestricted use
- Unrestricted term

Oversight challenge?



Political Reality

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- Political reality
- Partnerships
- Sustainable models
- Ways to build on existing infrastructures



Need for more Research

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- Establish appropriate metrics
- Evidence for mechanisms that increase short-term saving
- Emergency saving impacts on financial stability and well-being



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