PART ONE
The Savings Crisis and the Need for Holistic Solutions

SERIES OVERVIEW

The financial lives of low- to moderate-income (LMI) and low-wealth households are complicated. Households too often lack a sufficient emergency savings cushion and liquid assets, preventing them from effectively weathering financial storms and moving from instability to prosperity. These challenges—shaped largely by forces outside an individual’s financial control—disproportionately impact the financial stability of households of color. In the face of these challenges, however, households can and do find ways to save, and it is critical to support families as they work to build financial security.

To address challenges around savings, the asset building and financial services fields have developed an array of solutions that attempt to support savings and wealth accumulation. However, the landscape of savings solutions is complex, difficult for households to navigate and full of solutions that are not designed specifically for low-income and low-wealth households. Savings solutions, a broad category encompassing everything from basic savings accounts to lending circles to income smoothing mobile applications, are designed to help families build savings for the immediate, medium and/or long terms. Yet the current marketplace is fragmented, with many product options, uneven access to solutions and limited or confusing information on solutions and their features (such as fee structures). These issues make it hard for families, and the non-profit practitioners working with them, to understand which solutions are available and which savings needs are supported by each solution.

This ongoing series of briefs will analyze the savings landscape, including:

- The savings challenges that households face, their underlying causes and a vision for new solutions
- Existing savings solutions, the savings needs they address and the features they use to do so
- The consumer experience with existing savings solutions
- How products/solutions are reaching, or could be reaching, low- to moderate-income (LMI) or low-wealth families
- Research into the savings needs and preferences of LMI families
- What the future could hold for savings solutions

THE SAVINGS CRISIS

Before we discuss the focus of this series—the landscape of solutions designed to help households save—it is important to explore what drives challenges around savings and why we need not only product solutions, but policy and institutional change as well. The challenges that households face around savings are complex and deep-rooted. Households commonly lack enough savings to weather emergencies: nearly half of Americans don’t have $400 to...
cover an unexpected expense and 16.9% of U.S. households have zero or negative net worth.\(^\text{iii}\) Households of color are disproportionately impacted by severe disparities in savings and wealth: 50.5% of households of color are liquid asset poor\(^\text{i}\), compared to 28.2% of White households\(^\text{iv}\); and 25.4% of households of color have zero or negative net worth, compared to 13.1% of White households.\(^\text{v}\) One result of the racial wealth divide, a multi-faceted outcome of racial injustice, is a reality where Black and Latino families face financial insecurity at rates about double those of White families.\(^\text{v}\)

For households lacking savings and liquid assets in the short term, building wealth over a lifetime is increasingly difficult. Families may struggle to maintain homeownership, save for retirement or invest in ways that ensure long-term financial security. A lack of savings also leaves households vulnerable to economic shocks and needing to take on additional debt to get by. This reality is compounded by the racial wealth divide, as households of color are much less likely to benefit from intergenerational wealth transfers than White households.

### Causes of the Savings Crisis

While national conversations around savings have often focused on individual choices and behaviors, households’ individual savings challenges are rooted in the fact that policies (both national and at the state level) and financial institutions have not served many communities well. They have created systemic and institutional barriers that make it difficult for households to build savings. For example, in some cases, communities of color were systematically excluded from wealth-building and savings opportunities such as homeownership. Individuals make decisions in response to the institutions and policy environments that surround them, and our current ecosystem of policies and institutions is not set up to encourage or support the accumulation of savings for these households.

Instead of an economic and policy system that makes savings behavior easier at the individual level, we have one that makes it harder for low-wealth households to amass savings. These barriers include:

- **Shifts in the employment market**\(^\text{i}\) that have led to increased instability:
  - Families are more likely to face month-to-month fluctuations—sometimes severe—in income and expenses.\(^\text{vi vii}\) The decline of unions and labor rights, a minimum wage that has not kept up with costs of living, increases in contract labor and the “gig economy,” and on-demand scheduling of labor, among other factors, have contributed to stagnant wages, a proliferation of low-wage jobs and increased instability. While some families can save in the midst of volatility, their savings is regularly depleted to get by during weeks (or months) of lower income or higher expenses.
  - Any modest income growth has been wiped out by increases in costs of living.\(^\text{ix}\) Often, families are not bringing home enough income to cover expenses, let alone save. Ultimately, higher costs of living coupled with low and stagnant wages make it difficult to save and build wealth.
  - In terms of long-term savings, the shift in employer-supported retirement savings from defined benefit to defined contribution has transferred the risk and burden of retirement to employees.

- **Federal and state policy** that is not designed to encourage savings for LMI or low-wealth households:
  - Government savings vehicles, programs, and incentive structures embedded in our tax code are not built to encourage either short-term or long-term savings for low-income families, especially families of color. Federal savings incentives, such as 529 accounts for higher educational savings and the Savers Credit for retirement savings, primarily support the savings and decrease the tax burdens of wealthy Americans but do little to encourage savings for low-income or low-wealth families. These

\(^{\text{i}}\) Families who are liquid asset poor don’t have enough savings to live for three months on a poverty-level salary following a loss of income.
programs also exacerbate the racial wealth divide by favoring those with substantial assets who have benefited from intergenerational wealth transfers.

- Two key federal programs aimed at building savings and assets for low-wealth families, including the Assets for Independence matched savings program and the myRA retirement savings program, were eliminated in 2017.
- Asset limits, or “savings penalties”—imposed by many federal benefits programs like the Supplemental Nutrition Assistance Program (SNAP) and Women, Infants, and Children (WIC)—discourage savings; if a household receiving benefits has too much in savings, they are deemed ineligible for these services. In some states, even as little as $1,000 saved disqualifies families from accessing nutrition, energy assistance and cash benefits. These penalties make it difficult for households to move toward greater stability, prohibiting such activities as saving for security deposits on more stable housing.
- As with savings incentives, the federal tax code is upside down and skewed towards those with substantial assets. The recent Tax Cuts and Jobs Act in 2018 has accelerated the transfer of taxpayer money to the already wealthy through the tax code, deepening the racial wealth divide.

- **High Levels of Debt** and the high cost of credit are significant barriers to savings. From student loans to medical or credit card debt, the indebtedness of U.S. families has increased enormously in the last 30 years—to the direct detriment of savings and financial well-being. For example:
  
  - Predatory lending, including payday and auto-title lending, are costing consumers $8 billion in fees annually, reducing the ability for households to accumulate savings.
  - Debt disproportionately impacts communities of color. For example, despite holding less debt, Black Americans have more trouble making debt payments. Structural forces and discrimination in wealth-building opportunities, such as riskier or predatory loan terms to borrowers of color, have left few opportunities to build net worth and makes it more difficult to service those payments. Additionally, because households of color hold less debt, they have fewer opportunities to build strong credit. This leads to a vicious cycle in which lower credit scores increase the cost of credit, making it difficult to repay and thus keeping credit scores low.
  - Student loan debt has emerged in recent decades as a major financial burden for households. The median student loan debt has increased (in contrast to credit card debt) significantly, by a rate of 21.4% between 2010 and 2017. This debt is, in part, driven by higher public, private and for-profit tuition costs. Again, evidence shows that people of color are disproportionately impacted by student loan debt. For example, the median Black borrower owed more than they originally borrowed 12 years after they entered college, creating a long-term burden. Moreover, students at for-profit colleges are more likely to have taken out private loans with higher interest rates, which are more difficult to repay.

Similarly, financial service providers have not fostered an environment where savings is supported. Institutional barriers include:

- Financial institutions that have underserved low-income communities, especially communities of color, making it more difficult to receive basic banking services.
  
  - Basic financial services, such as savings accounts, that are less accessible for communities of color. In majority non-White counties, there are only 27.1 financial institutions per 100,000 people, compared to 40.6 per 100,000 in majority-white counties.
  - Banks also charge significantly more for basic services in communities of color: fees associated with a checking account cost over $260 more in Latino communities than White ones. In addition to
banking services, Black borrowers were more likely to receive riskier, higher interest mortgage products leading up to the foreclosure crisis.\textsuperscript{xxi} Ultimately, this led to an enormous loss of wealth and a decline in homeownership rates for Black households.\textsuperscript{xxii}

- A lack of incentives for financial institutions to hold small-dollar accounts because there is no straightforward business case to do so.\textsuperscript{xxiii} Low-income families have few places to grow their savings in a trusted institution.
- Savings products and services have by and large not been designed for the needs of, or with the input of, LMI/low-wealth households or households of color, leading to a mismatch between needs and the solutions available in the marketplace.
- Savings solutions have historically not taken advantage of developments in behavioral economics research that can help maximize individuals’ savings accumulation.
- Because of this reality of underservice, predation and unresponsive products and services, there is a significant lack of trust between communities of color and the financial services system, which has discouraged banking and savings in the formal sector.\textsuperscript{xxiv}

To address these entrenched challenges—the racial wealth divide, a stagnant employment system, skyrocketing costs of living, an upside-down tax code, discriminatory practices, etc.—we need large-scale shifts in policies, regulations and institutional practices. At the same time, we must support the development of innovative savings solutions that are responsive to the needs and preferences of low-wealth households and communities of color. To have a meaningful impact on households’ ability to save and build wealth, both of these efforts need to happen simultaneously. With that in mind, we now turn to exploring how to make savings solutions that better meet households’ complex needs.

**TOWARDS MORE HOLISTIC SAVING SOLUTIONS**

Despite the imposing barriers detailed above, households can and do accumulate savings. To better serve consumers, there is a need to explore households’ financial lives more holistically and design more comprehensive solutions.

For example, The U.S. Financial Diaries, the JPMorgan Chase Institute, the Aspen Institute and others have explored how, as noted above, systemic changes have led to a reality where LMI families commonly face severe income volatility from month-to-month and more frequent financial emergencies and stagnant incomes over time, all while the costs of food, housing and healthcare have increased.\textsuperscript{xxv, xxvi, xxvii} Critically, this research underscored a big gap in the marketplace: the need for more solutions and policies that help families have savings for the short term.\textsuperscript{xxviii} These solutions need to help families maintain liquidity, build (and replenish) emergency savings, attain month-to-month income stability and access safe, affordable short-term credit.

This emphasis on short-term savings for emergencies and income smoothing has emerged in recent years to balance out the historically longer-term view of asset building, which focuses on helping families attain medium-to-large assets, such as cars, homes, education and small businesses. Currently, these two types of solutions—short- and long-term focused—exist in entirely different ecosystems, with savings solutions offered by different financial institutions, regulated differently and marketed to potential customers in very different ways. But we hope to see these concepts converge. We believe families will best be served when we help them seamlessly overcome liquidity challenges while also serving long-term needs, reducing the need to chase down different products from different providers in different ecosystems.
The Need for Holistic Now, Soon and Later Savings Solutions

Households’ saving needs and goals change over time. Often, households may be saving for different purposes concurrently. To address the complexity of financial lives more holistically, households need to easily be able to save for different time horizons (short-, medium-, and long-term). In other words, they need services that allow them to, as the U.S. Financial Diaries identified, save for “now,” “soon” and “later”:

- **Now** refers to short-term or immediate needs—addressing income shortfalls or expense spikes and having the liquidity to be able to manage these volatilities and day-to-day needs.
- **Soon** refers to medium-term needs—saving for shorter to medium-term goals such as a vacation or home appliances.
- **Later** refers to longer-term needs—allocating funds to long-term wealth-building opportunities, such as homeownership, retirement or children’s college savings.

Critically, there needn't be a tension between these different savings purposes; between asset building, emergency savings and smoothing products. For example, those who are saving for bigger goals, such as a home purchase, may end up needing shortfall savings to meet expenses at times. If designed flexibly, the customer should be able to use their savings to meet immediate expenses and get back on track for their larger goal when ready.

This Now, Soon and Later typology can help individuals and practitioners think through which solutions are right for which circumstances and forms the basis of our analysis of savings solutions that will be explored through this series.

**WHAT’S NEXT IN THE SERIES?**

To explore how savings solutions are, and are not, meeting consumers’ needs, the following briefs in this ongoing Savings Landscape series will seek to answer the following questions:

- What savings solutions exist? How do they meet now, soon and later needs? What features are being used to do so?
- What is the consumer experience with these products?
- How are solutions currently reaching consumers?

Future briefs will examine other aspects of the savings ecosystem, including research into the needs and preferences of LMI and low-wealth families.
ANALYZING THE LANDSCAPE OF SAVING SOLUTIONS FOR LOW-INCOME FAMILIES:
The Savings Crisis and the Need for Holistic Solutions

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ACKNOWLEDGEMENTS

The authors would like to thank The Prudential Foundation, especially Kimberly Ostrowski, for their generous support and partnership in this work.

Throughout 2016, Prosperity Now engaged with an All-In-One Savings Advisory Council composed of leaders in the savings field. For sharing their expertise and contributing their time, energy and ideas to this work, the authors would like to thank Andrea Ambriz, SEIU Local 2015; Mariel Beasley, CommonCents Lab; Patricia Belden, Preservation of Affordable Housing; Marla Blow, FS Card; Jimmy Chen, Propel; Katy Davis, Ideas42; Tim Flacke, Commonwealth; Sarah Gordon, CFSI; Steve Grant, Prudential; Carla James, John H Boner Community Center; Clinton Key, Pew Charitable Trusts; Karen Landry, War on Poverty, Florida; Lisa Mayse-Lillig, Feeding America; Linda Munoz, WINGS Dallas; Kim Ostrowski, Prudential; Ram Palaniappan, Earnin; Ida Rademacher, Aspen Institute; Janet Raffel, NeighborWorks; Kate Rios, UnidosUS; Ann Solomon, Union Federation; Katie Taylor, National Urban League; Megan Wong, EARN; and Martha Wunderli, Triple A Fair Credit Foundation.

We would also like to thank those nonprofit partners, product developers and researchers for the knowledge and insight shared through interviews to inform this brief and this work: Jeff Lubell, Abt Associates; Don Baylor, The Annie E. Casey Foundation; Tanya Ladha, CFSI; Brian Gilmore and Nick Maynard, Commonwealth; Maggie West, Community Empowerment Fund; Keith Soranno, DoubleNet Pay; Megan Wong, EARN; Quinten Farmer, Even; Carl Morris, Flexwage Marla Blow, FS Card; Anice Chenuault, HUD’s Family Self-Sufficiency Program; Carla James, John H Boner Community Center; Sheri Flanigan-Vasquez, Justine PETERSEN; Jim Ricco, MDRC; Jonathan Morduch, New York University; Safwan Shah, PayActiv; Clinton Key, The Pew Charitable Trusts; Lauren Gates, Raise Texas; Andrea Ambriz, SEIU Local 2015; Katherine Lucas McKay and David S. Mitchell, The Aspen Institute; and Allison Padget, UDW.

Finally, the authors would like to recognize colleagues at Prosperity Now who contributed to this work: Pamela Chan, Sandiel Grant, Kate Griffin, Melissa Grober-Monrow, Shehryar Nabi and Laura Yepez.

PROSPERITY NOW

Prosperity Now (formerly CFED) believes that everyone deserves a chance to prosper. Since 1979, we have helped make it possible for millions of people, especially people of color and those of limited incomes, to achieve financial security, stability and, ultimately, prosperity. We offer a unique combination of scalable practical solutions, in-depth research and proven policy solutions, all aimed at building wealth for those who need it most.

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The Prudential Foundation is a nonprofit corporation supported by The Prudential Insurance Company of America, an insurance subsidiary of Prudential Financial Inc. of the U.S. The Prudential Foundation advocates for systemic change focused on eliminating barriers to financial and social mobility in the areas connecting people to quality jobs, building personal assets and transforming communities. As a strategic investor, the Foundation makes long-term commitments that yield tangible results through both grants and program related investments.
Endnotes

3. Ibid.
4. Ibid.
18. Ibid.
19. Ibid.
23. Ibid