Prosperity Now’s Framework for Increasing Household Financial Security

At Prosperity Now, we envision a nation in which prosperity is in reach for all. Unfortunately, the financial health of so many U.S. households can hardly be described as prosperous. We see tremendous wealth inequality—particularly between White households and everyone else—and a significant proportion of households living one crisis away from financial ruin. The statistics are alarming:

- 37% of households do not have enough liquid savings to support themselves for three months at the poverty level in the event their income is interrupted due to a job loss or other emergency.¹
- 46% percent of all adults would be unable to cover a $400 emergency expense without difficulty. The situation facing households of color is even worse, with 62% of Hispanic households and 64% of Black households unable to cover a $400 emergency expense without difficulty.²
- Nearly half of U.S. households (49%) have credit scores below what is considered “prime,” meaning these households are less likely to qualify for credit, and when they do, credit tends to be unsafe and unaffordable.³

These numbers paint a picture of a nation in which many households—especially those of color and those with low incomes—are just barely getting by, let alone getting ahead.

There is no silver bullet for fixing these problems. Because people’s lives are complex and multifaceted, addressing financial insecurity requires a multi-pronged approach. Prosperity Now’s Household Financial Security Framework lays out this approach by showing the many conditions that need to come together in order for households to achieve financial stability and have meaningful pathways to wealth and prosperity.
The Framework is a great tool for conveying the complexity of financial security strategies to a wide range of audiences, including practitioners, policymakers and funders. Any type of organization—government, nonprofit, philanthropic or private sector—can use the Framework to identify where their mission and work can contribute to households’ financial well-being more broadly. The Framework enables organizations to look holistically at their clients’ lives and understand how financial issues influence and are influenced by other challenges clients experience. As a result, organizations can identify gaps that are not addressed by their existing services, as well as opportunities for adding new services or partnering with other organizations in order to more fully address the pieces of the puzzle that comprise households’ financial health and well-being.

The Household Financial Security Framework

The Household Financial Security Framework illustrates the iterative process by which households can gain financial skills, increase income, save for the future, leverage savings to purchase assets (e.g., a home or business), and protect those savings and assets. This process leads to increased financial stability in the short term and opportunities to build wealth and achieve financial security in the long term. To get there, households need to be able to:
• **Navigate** financial decisions that impact household financial security.
• **Learn** basic skills, acquire educational credentials and build job skills.
• **Earn** income through wages, employer benefits, business earnings, public benefits, tax credits and investments.
• **Save** for emergencies and for the future (e.g., purchasing a home, retirement).
• **Own** assets—such as a home, business or investments—that help build financial stability and wealth.
• **Protect** what they earn, save and own through insurance and safeguards against predatory practices.

Each of these elements builds on and reinforces one another. The ability to **navigate** the financial system creates the foundation for managing household financial decisions. As a household **learns, earns, saves and owns**, it gains knowledge, earnings and assets that then help the household build more wealth. This cycle continues as the household climbs the economic ladder. Of course, the ability to **protect** household earnings and assets underpins the whole framework.

Given the interconnectedness of these elements of the Framework, challenges in one area can lead to problems in others, causing the Framework—and the household’s financial health—to break down. For example, if a household does not have savings, a financial emergency such as a car repair could lead to financial ruin. Without a car, members of the household might be unable to get to work, and without earnings from work, the household cannot save or purchase assets.

Each element described in the Framework requires skills, actions and decisions on the part of households. But they also require the right structures and policies to be in place to facilitate households’ ability to take action and make optimal decisions that boost their financial security. For example, in order to purchase a first home, low-income households need to put away savings over time, improve their credit scores and learn how to navigate the homebuying process. At the same time, programs and policies that promote homeownership have to be in place, such as Individual Development Accounts (IDA) to help build savings, downpayment assistance to help families meet the high costs of entering the market, and safe and affordable mortgage products to ensure that households can access credit and afford their monthly payments. The section that follows explores both the actions that households have to take, as well as the structures and policies that facilitates those actions.
Navigate

The ability to navigate the financial system is the foundation for household financial security. Financial skills and executive function, which are acquired early in life and must be continually practiced, enable people to gather information, make informed decisions and engage in sound financial behaviors. To be able to navigate the financial system, households need:

- Timely access to relevant financial information, knowledge and skills, such as through financial coaching, education and/or counseling.
- Educational and parental activities that build children’s executive function from early childhood through adolescence.

Learn

Education is key to accessing high-quality jobs and increasing income. Education includes both acquiring formal credentials, such as a high school diploma and postsecondary degrees or certificates, and informal training that builds employment skills. To acquire the education needed to open doors to employment, households need:

- Affordable early childhood education programs and a quality K-12 education for their children.
- Financing and support that make postsecondary education attainable and affordable, such as financial aid, Children’s Savings Accounts (CSAs) and college readiness programs.
- Access to job training and apprenticeship programs.

Earn

To be financially secure, households must have income that is sufficient for meeting basic needs, and for saving so they can eventually invest in a home, business or other asset. Earnings include all money coming into a household, such as wages, employer benefits, business income, public benefits, tax credits and investment income. To attain and maintain sufficient earnings, households need:

- Opportunities and support to acquire the education, skills and experience needed to obtain and keep high-quality employment.
- The availability of quality jobs and/or business opportunities.
- Affordable, reliable services and conditions that enable people to work, such as transportation, child care, medical care and stable housing.
- Access to public benefits (e.g., SNAP, Medicaid, subsidized housing) and tax credits (e.g., Earned Income Tax Credit).
Save
When households have income left over after meeting basic needs and paying down debt, they are able to save. These savings help households weather emergencies and variations in income, enable them to leverage credit to purchase assets and allow them to plan for the long-term, such as for retirement or a child’s college education. To be able to set aside savings, households need:

- High-quality employment that provides sufficient income and employer-provided benefits to meet expenses and save for the future.
- Affordable and accessible financial products and services, such as no- or low-fee checking and savings accounts.
- Savings programs that provide matches, seed deposits or other incentives to help savings grow, such as IDAs or CSAs.
- The elimination of asset limits for public benefits, as these asset limits penalize households for saving.

Own
Owning a home or business or having investments—collectively referred to as “assets”—increases households’ financial stability and helps build wealth. This wealth then enables households to make additional investments that can increase their financial security. In order to purchase and maintain assets, households need:

- Affordable options, such as low-cost (or subsidized) homes and low minimum initial deposits for investments.
- Access to affordable financing, including mortgages and business loans.
- Incentives and supports (from public and private sources) for asset purchases, such as downpayment assistance, tax benefits, government loan guarantees and IDAs.
- Preparation and skill-building related to the asset purchase, such as first-time homebuyer classes and business training.

Protect
Many households may be one financial setback away—such as a job loss or long-term illness—from losing the earnings and assets they have acquired. For this reason, it is essential to have products, services and policies like insurance and consumer protections that safeguard households from income or asset loss, significant expenses (e.g., high medical costs), and discriminatory or predatory financial practices. To be able to protect what they earn, save and own, households need:
• Access to affordable, quality insurance, including unemployment, disability, health, and homeowners’ or renters’ insurance.
• Policies that protect consumers from discriminatory or predatory practices and regulate financial services.
• Access to services that help address financial emergencies, such as foreclosure prevention programs and emergency loans.

Conclusion

The Household Financial Security Framework paints a picture of what can happen when all the pieces come together for households—when they have the skills and knowledge to navigate the financial system, the supports and conditions needed to obtain the education required for high-quality employment, sufficient income and accessible products that help them save for the future, savings and support to purchase a home or other assets, and products and regulations that protect them from losing their income or assets. In this picture, all U.S. households—regardless of their race, where they live or where they start in life—can build financial security, wealth and prosperity.

To make this vision a reality, policymakers, practitioners, funders and others must take a broad and holistic approach to addressing the financial needs and challenges facing low- and moderate-income households, especially those of color. The Framework is a concrete tool that can help foster this comprehensive way of thinking and generate strategies that help all households build long-lasting financial security for generations to come.

Additional Resources

Household Financial Security Framework Video
An animated video that demonstrates the elements of the Framework. Watch Now.

Building Financial Capability: A Planning Guide for Integrated Services
An interactive guide that walks organizations step-by-step through the process of integrating financial capability services (e.g., financial coaching, free tax preparation) into other programs (e.g., Head Start, workforce development programs). Download the Guide.
Prosperity Now Scorecard

The Prosperity Now Scorecard equips advocates, policymakers, service providers and others with data on how residents in states, counties and cities across the nation are faring when it comes to their financial health, as well as on state-level policies that could be enacted to put all U.S. households on stronger financial footing. Explore the Scorecard.

Prosperity Now’s Racial Wealth Equity Resources

This section of the Prosperity Now website offers timely information, helpful resources and more, all dedicated to stemming the tide of wealth inequality and closing the racial wealth divide. Browse Resources.

About 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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