

EDITED BY J. MICHAEL COLLINS

A FRAGILE BALANCE

EMERGENCY SAVINGS AND LIQUID RESOURCES
FOR LOW-INCOME CONSUMERS



Discussion and Introduction of *"A Fragile Balance: Emergency Savings and Liquid Resources for Low-Income Consumers"*

March 17, 2015, 12-1pm CST

Brought to you by: Center for Financial Security
at the University of Wisconsin- Madison



Our Presenters



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A Fragile
Balance

Introduction
Barriers
New Models
Big Questions
Conclusions

A Fragile Balance: Emergency Savings and Liquid Resources for Low Income Consumers

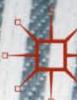
J. Michael Collins

University of Wisconsin-Madison

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A FRAGILE BALANCE

EMERGENCY SAVINGS AND LIQUID RESOURCES
FOR LOW-INCOME CONSUMERS



What is Emergency Savings?

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- Need for liquid assets to cope with the unexpected
 - Unexpected expenses or irregular income
 - 'Cash in a pinch'
- Liquid asset poverty may cause larger problems
- Alternative sources of liquidity: credit, social networks
 - Liquidity may facilitate resilience; ability to respond to opportunities
 - Reduce material hardship; increase economic mobility



Rising Volatility for Low Income Families

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Income:

- Income volatility rising for lower-income households ¹

Cash Flow:

- Increased granularity of payment timing (technology driven)

Expenses:

- Expense volatility also rising ²

¹Gottschalk & Moffitt, 2009; Dynan, Elmendorf & Sichel, 2012)

²Gorbachev, 2011

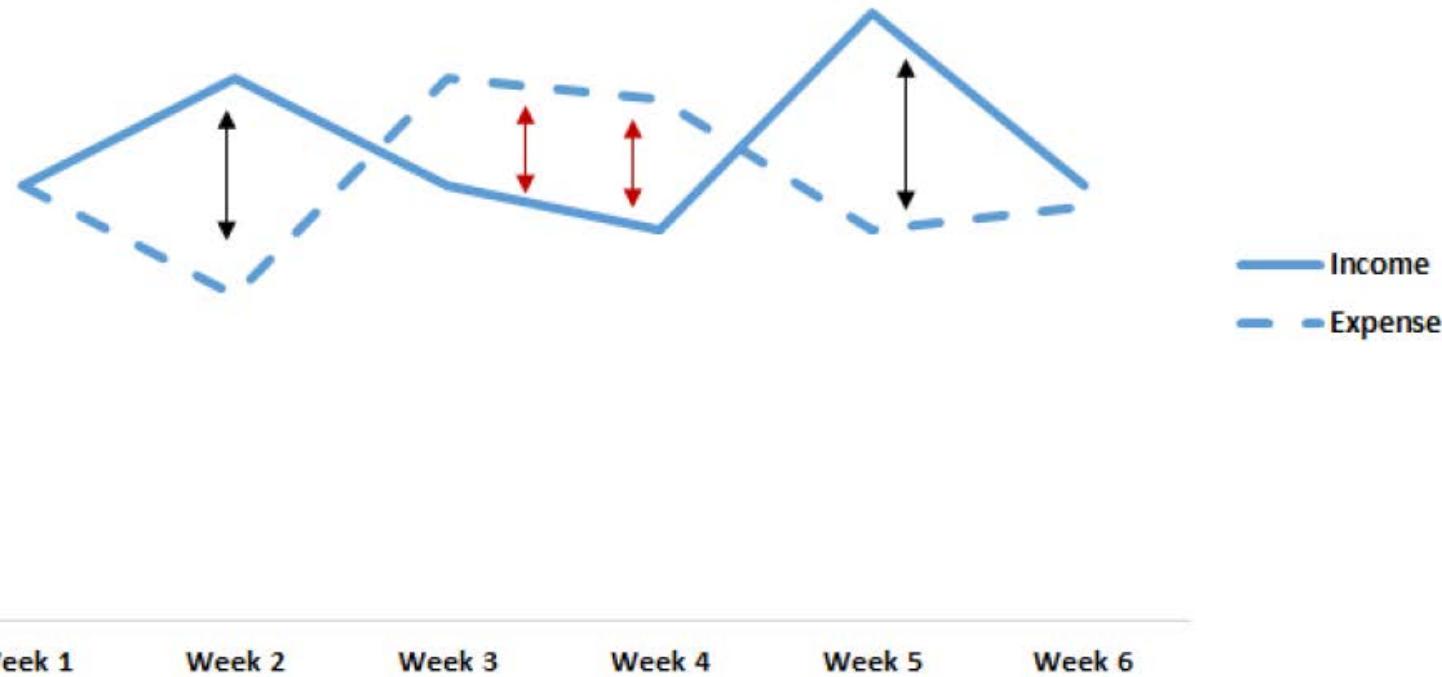


Financial Volatility: Black and Red Weeks

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Managing Cash Flow





Hardships

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- Missed payments—fees, penalties and/or sanctions
- Material cutbacks due to income drop loss, health event, death, divorce, etc.
- Even low level of *liquid* assets might soften blow of income or expense shock
- As little as \$1000 or one month's housing payment or other key payment
 - Car repair—otherwise could limit work
 - Lower use of health care or prescriptions
 - Refrigerator breakdown might limit food security
- But also lack of resource for positive opportunities for children or work outcomes
 - 'Contingencies'



Barriers to Saving

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- Structural Barriers
 - Income constraints and variability
 - Asset limits in public programs
 - Lack of financial products
 - Savings programs tend to be for restricted uses
- Behavioral/psychological biases
 - Access restrictions (money guards)
 - Peer pressure
 - Commitment devices
- Legal issues
 - Garnishment or child support

Not Only About Savings Accounts

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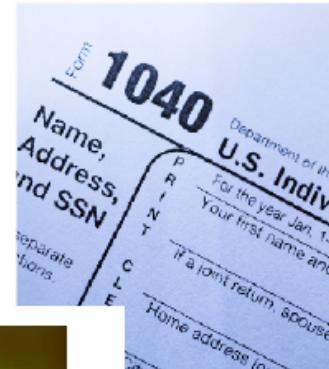
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- Emergency funds might be formal or informal
- Families 'count' on lumpy payments like tax refunds
- Often will simultaneously borrow and save
 - Borrowing and saving are complements
 - Reserve savings for times when cannot borrow or cash is required



Research on Unrestricted Savings is Still Nascent

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- Many emergencies are *predictable*, but the *timing* is the problem
- Income is not the only barrier; low-income people can and do set aside funds for emergencies
- Liquidity is the issue, not an account balance.
- Emergency funds have to be replenished
- Subsidy is scarce; ‘unrestricted savings’ subsidy even more so
- Incentives for new financial products modest



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



Goals of New Approaches

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- Reach **scale** that has impact
- Deliver as part of other programs rather than creating a new system
- Beware of **regulations** and limits on financial products/providers—limiting access to credit might make financial insecurity worse
- Directly address **behavioral biases**
- Need to show evidence of **outcomes**



Ten Program Proposals

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- ① Emergency Savings in Mortgage Payments (Moulton, Samek, Loibl)
- ② Promoting Savings at Tax Time (Mintz)
- ③ Tax Refunds to Savings (Grinstein-Weiss, Comer, Russell, Key, Perantie, Ariely)
- ④ Saving in TANF Bank Accounts (Gill, Mills, McKenna)
- ⑤ Impulse Saving (Manturuk, Dorrance, Halladay)
- ⑥ Prosperity SmartSave Card (Henderson)
- ⑦ Savings Accelerator Accounts (Khashadourian)
- ⑧ Start2Save (Holguin)
- ⑨ Savings in Debt Management Plans (Heisler and Lutter)
- ⑩ Emergency Savings for Community College Students (Caesar)



When is the Target Moment?

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Need to focus efforts to promote low-income families to develop a 'liquidity plan'

- Financial aid receipt
- Tax time - tax refunds
- First time home buying
- Debt repayment plans
- Public programs: Head Start, SNAP, etc.



What is the Storage Vehicle?

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- Saving accounts (and checking)
- Prepaid cards (stored value reloadable cards)
- Mobile banking
- Is subsidy required? By whom?
- Have to confront, that this savings is....
 - Unrestricted use
 - Unrestricted term
 - Oversight challenge?



Conclusions

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- Liquidity matters
- Re-thinking savings goals and mechanisms
- Better integrate programs to facilitate savings even among low-income families
- Role of technology
- Not just about savings and cash liquidity—carefully think through role of credit and social networks



Contact Information

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Emergency Savings and the U.S. Tax Code

Ezra Levin, Corporation for Enterprise Development (CFED)
Center for Financial Security, March 17, 2015

www.cfed.org

Agenda

- 1. What are tax expenditures?**
- 2. Tax expenditures for savings/investments**
- 3. Who benefits?**
- 4. Why they benefit**
- 5. Policy reforms**



What's a Tax Expenditure?



What's a Tax Expenditure?

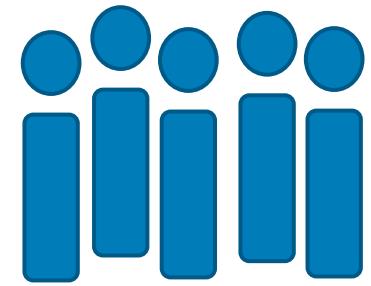
- **Government spending by another name**



Housing Example: Tax vs Budget Spending

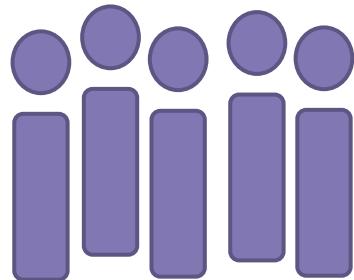


Housing Example: Tax vs Budget Spending



Low-Income Renters

Housing Example: Tax vs Budget Spending



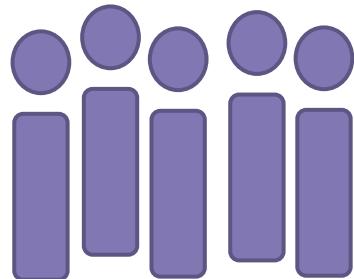
High-Income Homeowners



Low-Income Renters

Housing Example: Tax vs Budget Spending

Government Income Tax Revenue



High-Income Homeowners



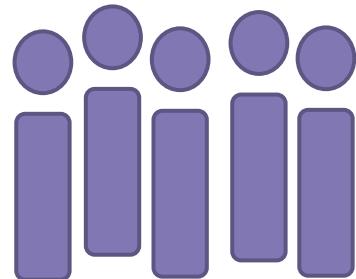
Low-Income Renters

Housing Example: Tax vs Budget Spending

Government Income Tax Revenue



E.g: Section 8 Vouchers



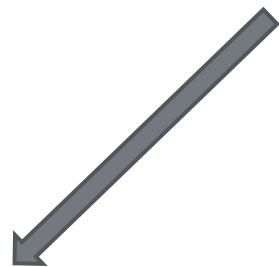
High-Income Homeowners



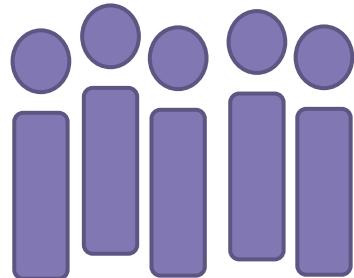
Low-Income Renters

Housing Example: Tax vs Budget Spending

Government Income Tax Revenue

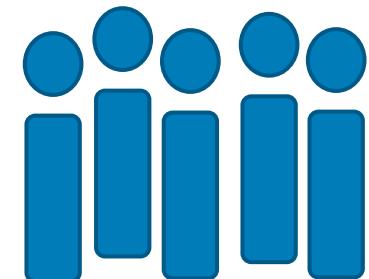


E.g.: Real Estate Tax Deduction



High-Income Homeowners

E.g.: Section 8 Vouchers



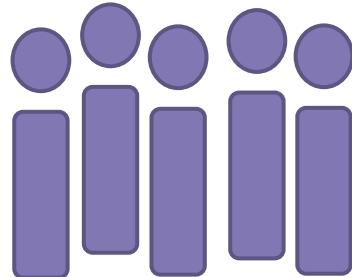
Low-Income Renters

Housing Example: Tax vs Budget Spending

Government Income Tax Revenue



E.g.: Real Estate Tax Deduction



High-Income Homeowners

SAME RESULTS

E.g: Section 8 Vouchers



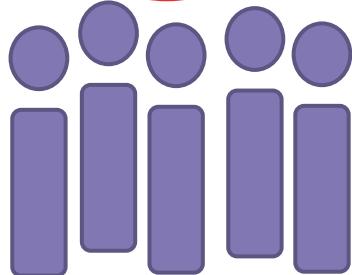
Low-Income Renters

Housing Example: Tax vs Budget Spending

Government Income Tax Revenue



E.g.: Real Estate Tax Deduction



High-Income Homeowners

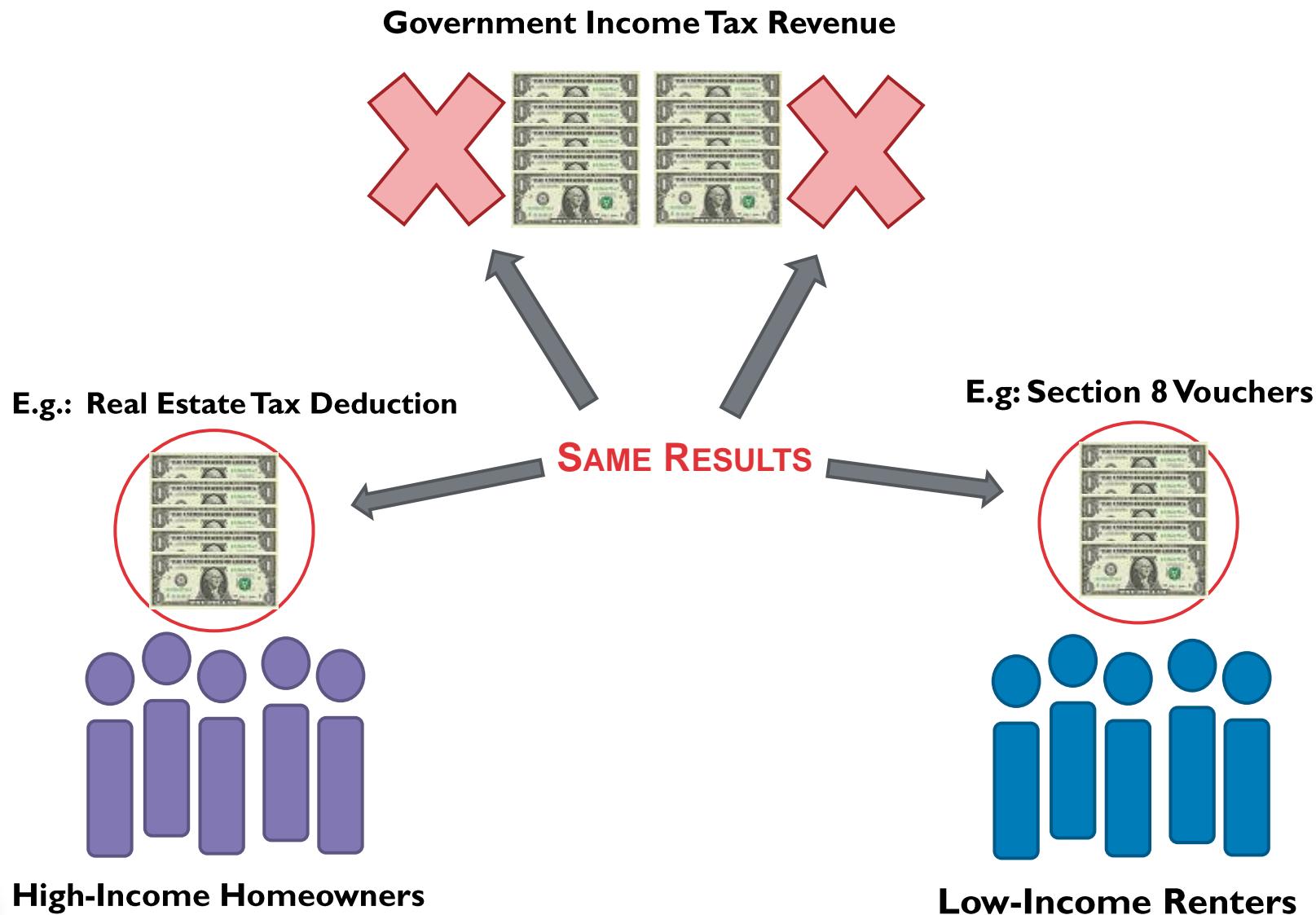
SAME RESULTS

E.g.: Section 8 Vouchers



Low-Income Renters

Housing Example: Tax vs Budget Spending



Tax expenditures for savings & inheritances



Tax expenditures for savings & inheritances

- **\$96.5 billion:** Preferential rates for investment income



Tax expenditures for savings & inheritances

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- **\$31.5 billion:** Exclusion for inherited investments



Tax expenditures for savings & inheritances

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- **\$31.5 billion:** Exclusion for inherited investments
- **\$23.8 billion:** Exclusion of interest on state & local bonds



Tax expenditures for savings & inheritances

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Tax expenditures for savings & inheritances

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- **\$1.2 billion:** Deferral of interest on US Treasury savings bonds



Tax expenditures for savings & inheritances

- **\$96.5 billion:** Preferential rates for investment income
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- **\$23.5 billion:** Reduced estate taxes
- **\$1.2 billion:** Deferral of interest on US Treasury savings bonds

Federal spending on investment & inheritance tax programs
outweighs the combined discretionary budgets of 9 cabinet-level agencies



Tax expenditures for savings & inheritances

Federal spending on investments and inheritance tax programs is projected to expand rapidly and will set a new record in 2015

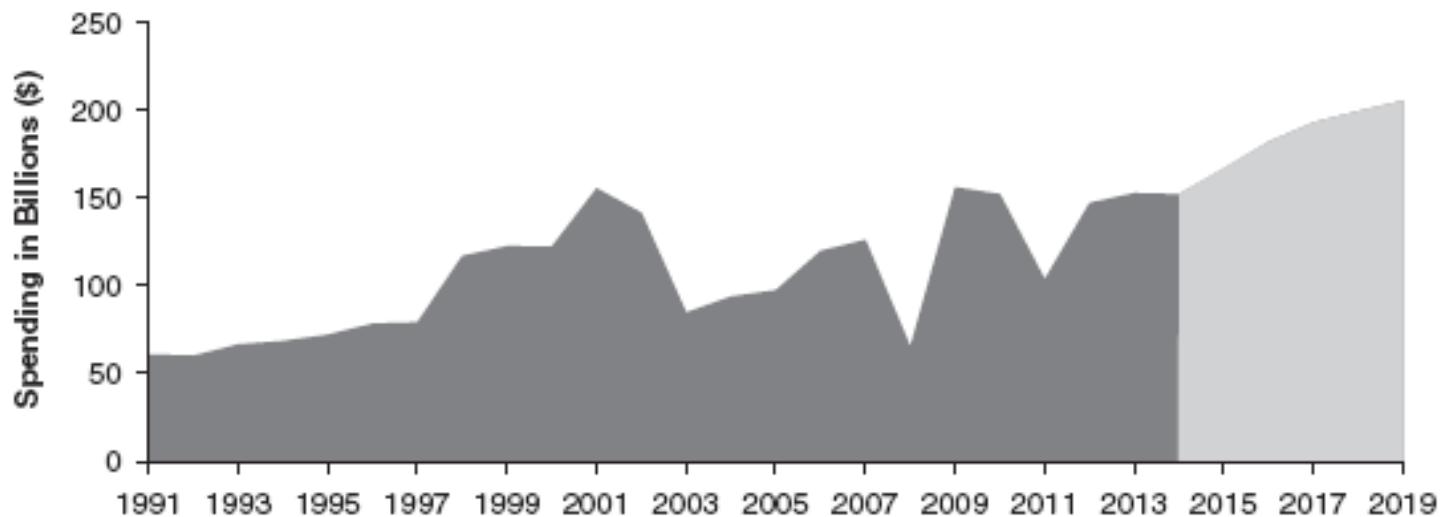
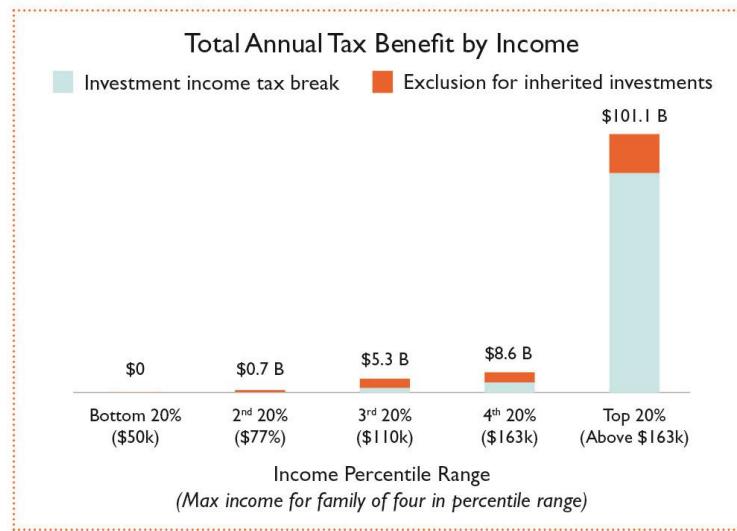


Figure 3.1 Annual Federal Spending on Investment and Inheritance Tax Programs in Constant Dollars.

Who benefits from these programs

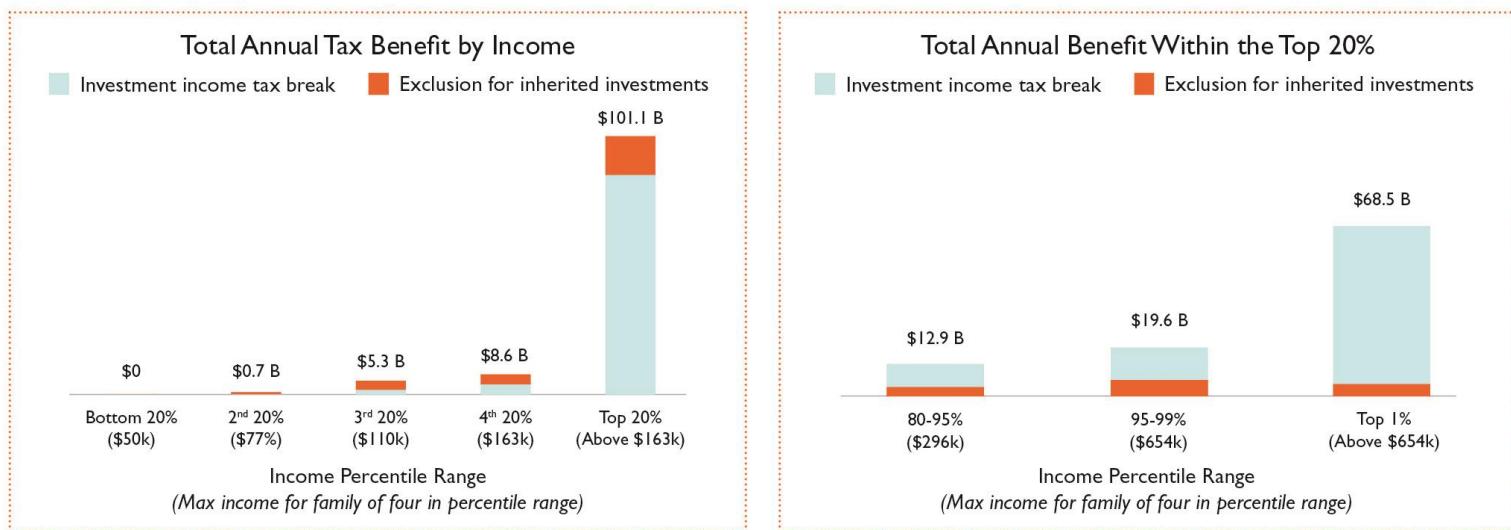


Who benefits from these programs



Author's calculations based on data from [Congressional Budget Office](#) (2013).

Who benefits from these programs



Author's calculations based on data from [Congressional Budget Office](#) (2013).

Why benefits are concentrated at the top



Why benefits are concentrated at the top

Average Income from Capital Gains and Dividends

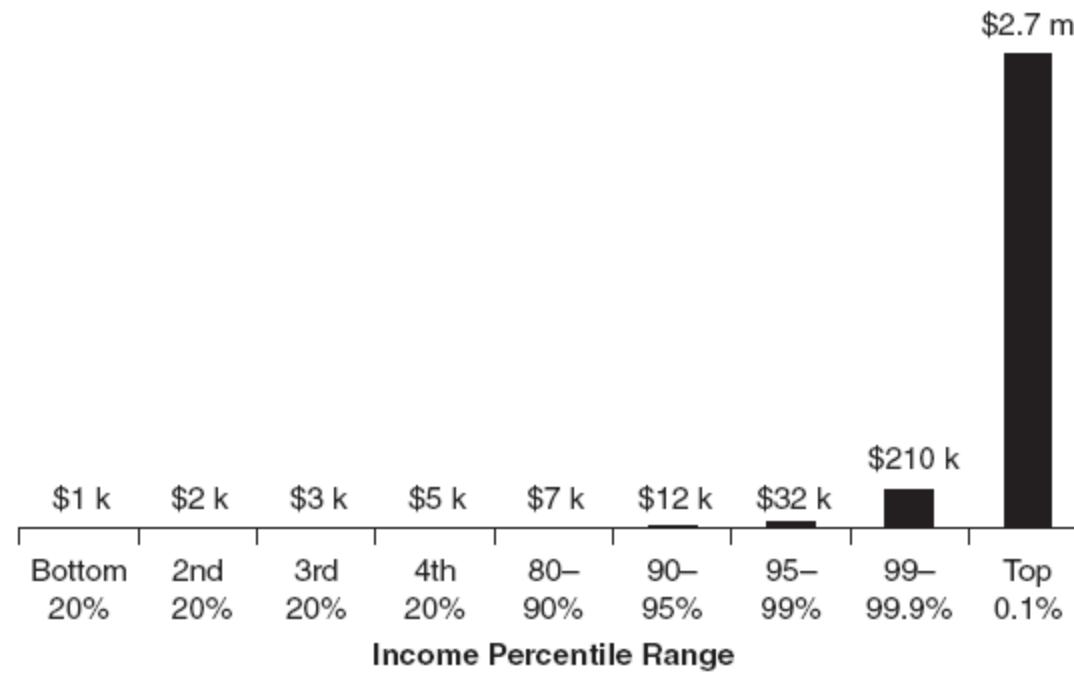
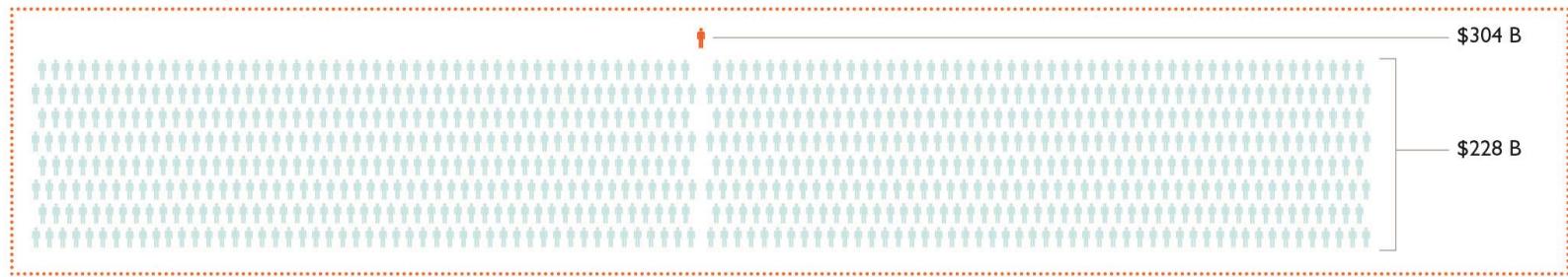


Figure 3.3 Average Income from Capital Gains and Dividends by Income Group.

Source: TPC (2013)

Why benefits are concentrated at the top

The **top 0.1%** get more income from capital gains and dividends than the bottom **99% combined**



Author's calculations based on data from the [Tax Policy Center](#) (2013).

Why benefits are concentrated at the top

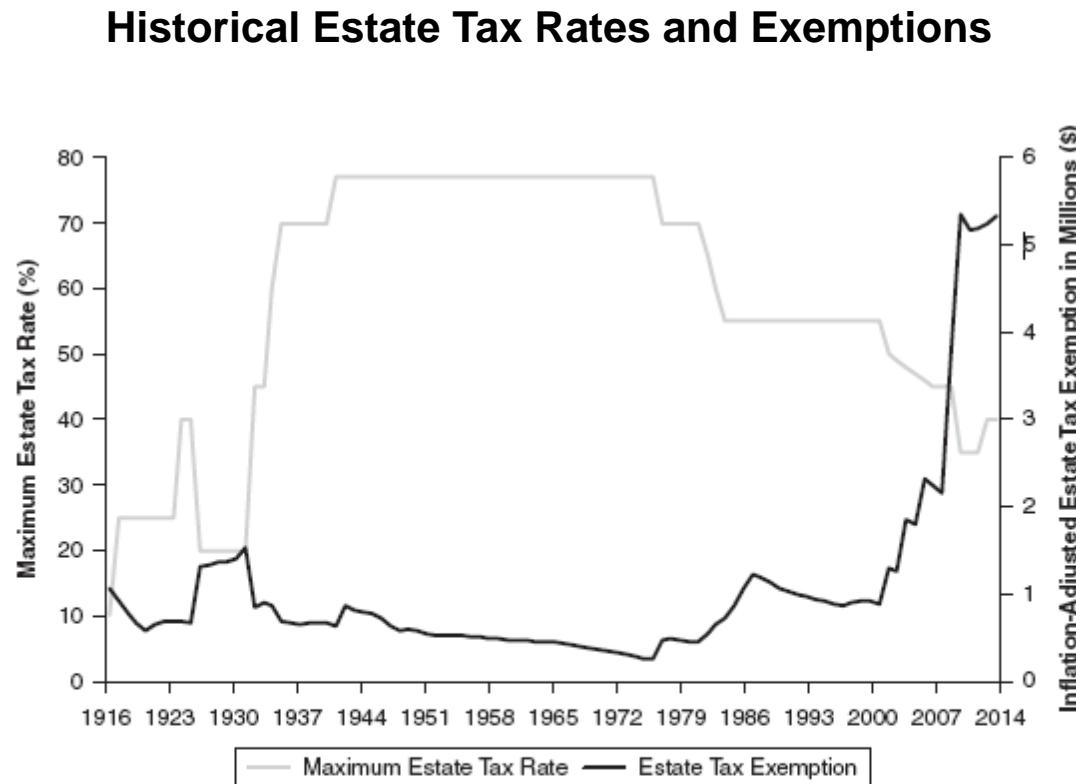


Figure 3.4 Maximum Estate Tax Rate and Inflation-Adjusted Estate Tax Exemption Levels: 1916–2014.

Source: Tax Foundation (2014). Tax exemption levels adjusted for inflation in 2013 dollars.

Why benefits are concentrated at the top

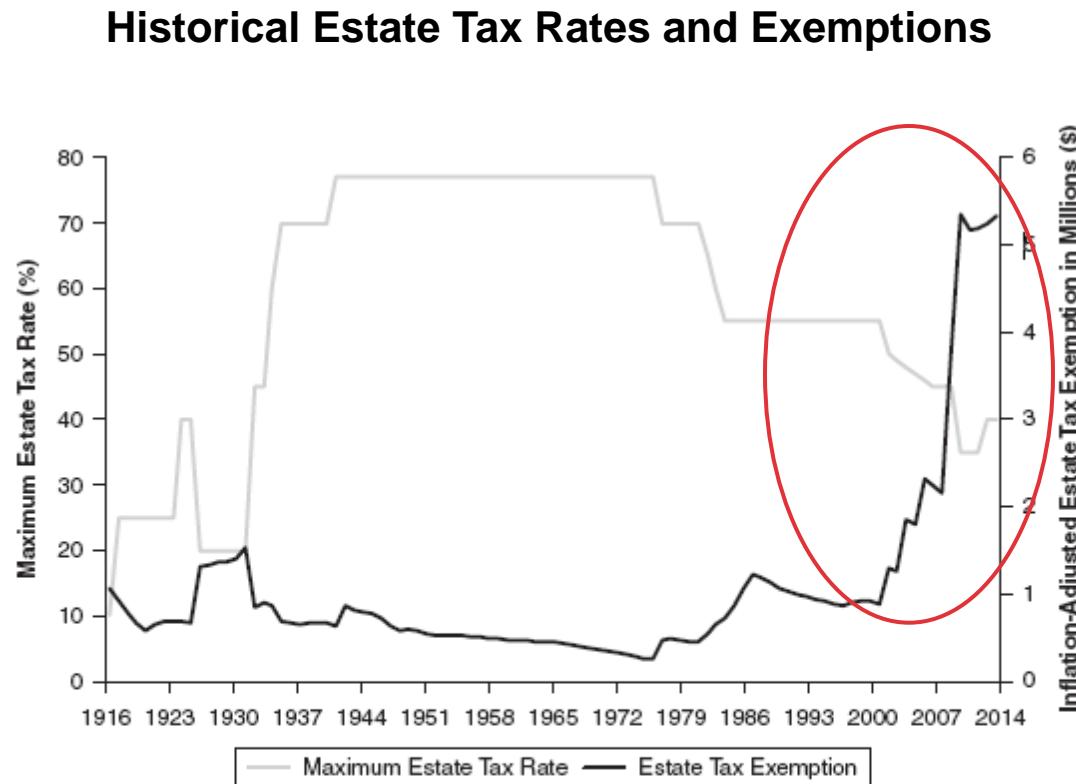


Figure 3.4 Maximum Estate Tax Rate and Inflation-Adjusted Estate Tax Exemption Levels: 1916–2014.

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Three Takeaways



Three Takeaways

- I. Tax expenditures are government spending**



Three Takeaways

- 1. Tax expenditures are government spending**
- 2. Spending on these tax programs far outweighs most other government welfare spending**



Three Takeaways

- 1. Tax expenditures are government spending**
- 2. Spending on these tax programs far outweighs most other government welfare spending**
- 3. The vast majority of this spending goes to the highest-income households**

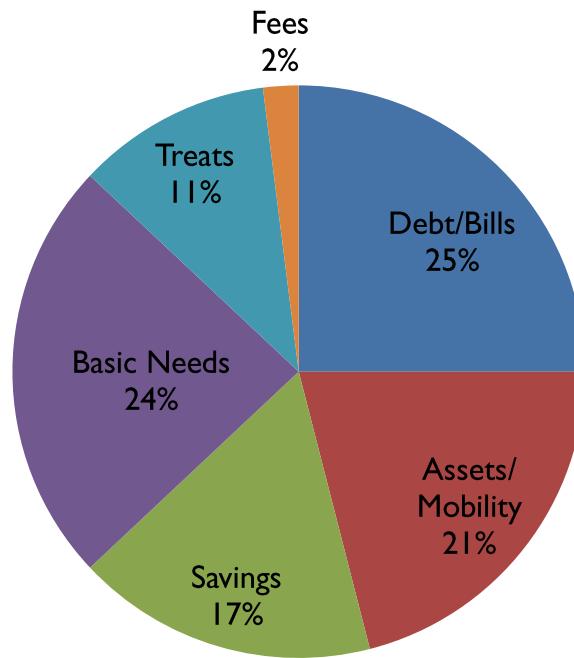




Reforms

Reforms

How Low-Income Working Families Spend their Tax Refund



Source: Halpern-Meekin et al., *It's Not Like I'm Poor*, 2015

Building Emergency Savings through “Impulse Saving”

Jessica Dorrance ▪ March 17, 2015
Emergency Savings Webinar



UNC Center for Community Capital
*Research and analysis on the
transformative power of capital*

This impulse savings pilot was part of the Financial Capability Innovation Funds, managed by CFSI.



The Financial Capability Innovation Fund is supported by a coalition of funders.

Citi Foundation



Morgan Stanley



Chapter Outline

- The need for emergency savings
- Barriers to building savings
- Description of impulse savings
- Description of MAGIC Mojo
- Strengths and limitations
- Opportunities going forward



Low-income households face some **significant barriers** to building up even **small amounts of savings**.

- Half of Americans are liquid asset poor.
 - Savings rate of less than 3%.

Savings Barriers

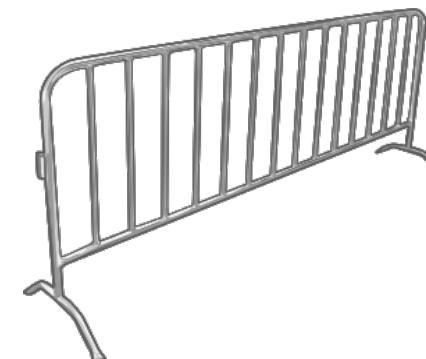
STRUCTURAL

- Low wages
- Un- and underbanked consumers



PSYCHOLOGICAL/BEHAVIORAL

- Present bias
- Difficulty predicting future needs
- Small hassles become big hurdles



A traditional budgeting based approach may be ineffective for some low-income households. In many cases, there isn't anything left over to save.

For instance, approximately 20% of people spend as much as they make.



Households need alternative approaches to building savings.

Into all good savings
plans a little impulse
spending often falls.

Buying something on
impulse can feel
good.



Photo credit: Charlie Brewer

What if impulsivity could be leveraged to help people save money, rather than spend it?



MAGIC MOJO SAVINGS

You have savings goals, right?

MAGIC Mojo gives you the power to reach them.

It's free and easy.
And your savings are safe.

Learn More



Sign Up

Impulse Savings & MAGIC Mojo

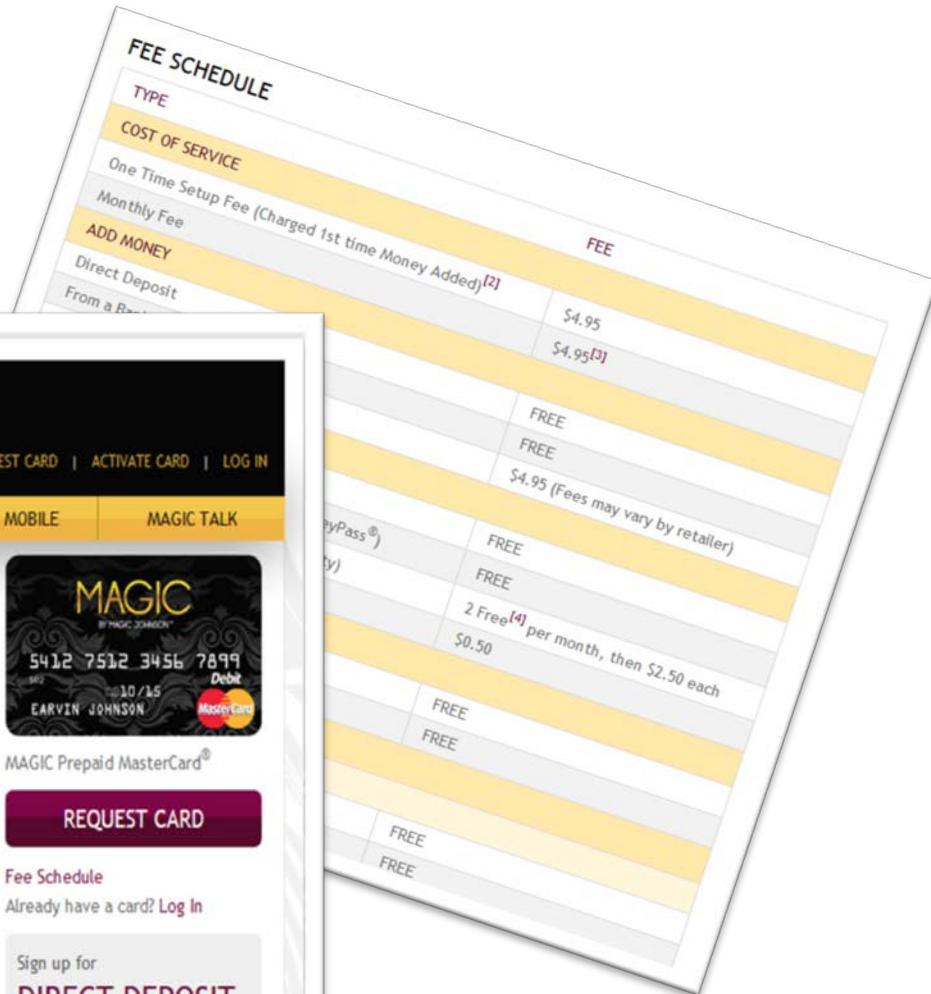
Sought to **leverage** the **enjoyment** of impulsive action and **overcome** some of the **key barriers** that prevent lower-income individuals from being able to save.

- 1) Required little planning.
- 2) Promoted goal-setting.
- 3) Did not require a bank account.
- 4) Allowed access to funds when needed.



MAGIC Mojo was offered as an optional added feature to the MAGIC Card.

The screenshot shows the homepage of the MAGIC by Magic Johnson website. At the top, the logo 'MAGIC BY MAGIC JOHNSON' is displayed in a large, stylized font. To the right of the logo are social media links for Facebook and Twitter, a phone number 'Call Us: 1.866.530.2272', and navigation links for 'REQUEST CARD', 'ACTIVATE CARD', and 'LOG IN'. Below the header is a navigation bar with links for 'THE MAGIC CARD', 'ADD MONEY', 'FEES', 'MAGIC MOJO', 'MAGIC MOBILE', and 'MAGIC TALK'. The main content area features a large image of Magic Johnson smiling. To his right, the text 'Get more with the MAGIC card' is displayed, followed by 'The only prepaid card with my name on it'. Below this, a list of benefits includes 'Free Direct Deposit', 'Low monthly fees. \$4.95 per month', and 'No purchase transaction fees'. A 'REQUEST A CARD TODAY' button is located at the bottom of this section. To the right of the card benefits, there is an image of a MAGIC Prepaid MasterCard with the card number 5412 7512 3456 7899, the expiration date 10/15, and the name EARVIN JOHNSON. The card is a black MasterCard. Below the card image are links for 'REQUEST CARD', 'Fee Schedule', and 'Already have a card? Log In'. At the bottom right, there is a call to action 'Sign up for DIRECT DEPOSIT & get \$10 towards your card!'. The footer of the page features the 'DIRECT DEPOSIT' logo and the 'MAGIC' logo.

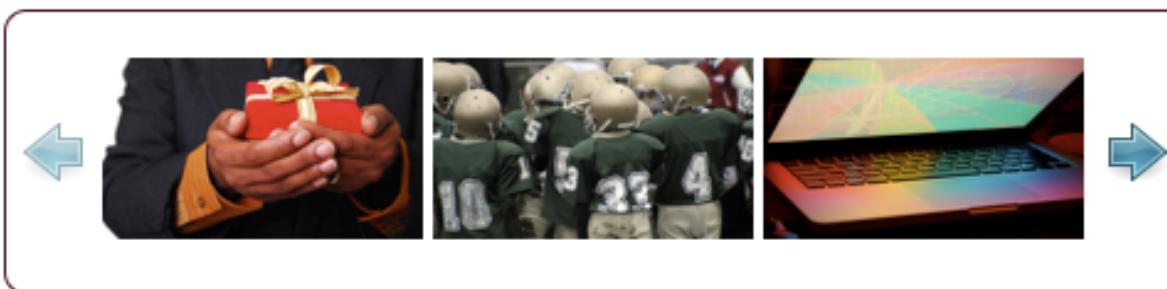


What's your goal?

- What kind of thing are you saving for?

- Give your goal a name:

- Pick an image that represents what you're saving for
or [upload your own image](#)



 Continue



Set a goal amount:



I want to save \$ by

Okay, that means you have to save \$9.00/week.

After a few weeks, you may find that your weekly goal is too low or too high. If so, you can change it by adjusting either the total amount you want to save or your target date.

 Continue



Your weekly goal is \$5.00. Save some automatically.*



I want to be assured of saving
at least \$ each week.

Your recommended automatic save is
\$2.00 per week. An automatic save can
help you reach your weekly goal more
easily and also makes up for the saves you
may forget to text in.

*This amount will be transferred automatically, once per week, from your spend balance
to your savings balance.

Automatic saves can be easily increased or decreased at any time.

Setting an automatic save is an optional step, but a step in the right direction.

 Continue



Text in your first save of \$3.00 now.

1. Take out your cell phone
2. Send text to 30644.
3. Write a message exactly like this: Magic 3 get started

Sample Text:



Tip:

"Magic" is a keyword that you must always write first in your savings messages. Following that, write the dollar amount you want to save. Write a savings description if you want, like *coupon*.

Continue





How much do you want to move back?

\$

What do you plan to do with your money?

Your goal image has been turned to black and white. As you save, the squares will turn back to color.

Tip: It may be difficult to see how much you've saved if your goal image has a lot of gray or beige in it. To fix this, click on the "Change image" link and make a selection under "overlay color".

Change Image 

Sub 

Emergency expenses: 

Food 

Entertainment 

Change Image 

Edit Goal 

Your savings goal: \$50.00
Weekly savings goal: \$4.55
Amount saved this goal: \$5.00
Percentage saved so far: 10%
Goal deadline: 11/21/2013
On track or behind: \$4.35 ahead





Watch your
goal light up as
you save



MY ACCOUNT

ADD MONEY

PAY BILLS

FEES

MAGIC MOJO

CUSTOMER SERVICE

DASHBOARD

EDIT GOAL

SOCIAL SAVING

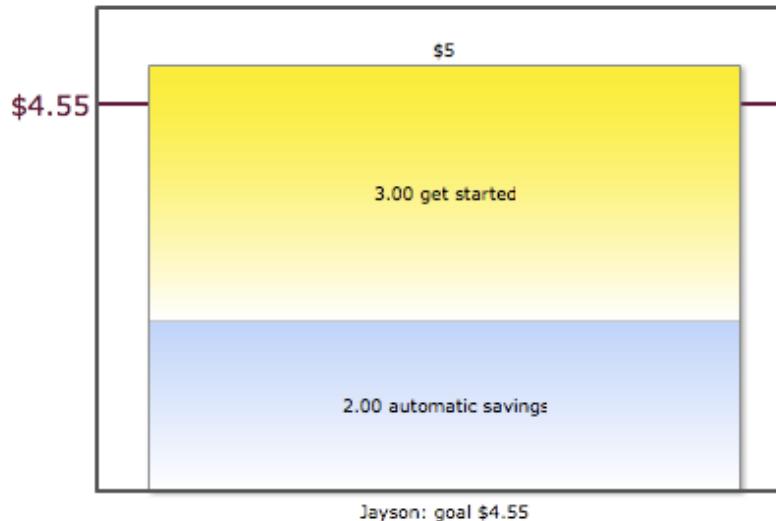
EDIT PROFILE

HELP

test of goal set up

Savings Balance: \$5.00

This week's savings activity: September 11 - September 15 (Why is this less than one week [?](#))



So far this week **you've saved:**

\$5.00

You've got this much **left to go:**

\$0.00

Days left: 5

MAGIC Memo

Format your savings texts like this:

Magic 12.50

Magic 4 (option: describe your savings here)

Magic 6 cheaper shirt

Text your savings to 30644.

Make a save now!

Congratulations! You have exceeded your weekly goal by \$0.45.

Move savings back to spending [?](#)

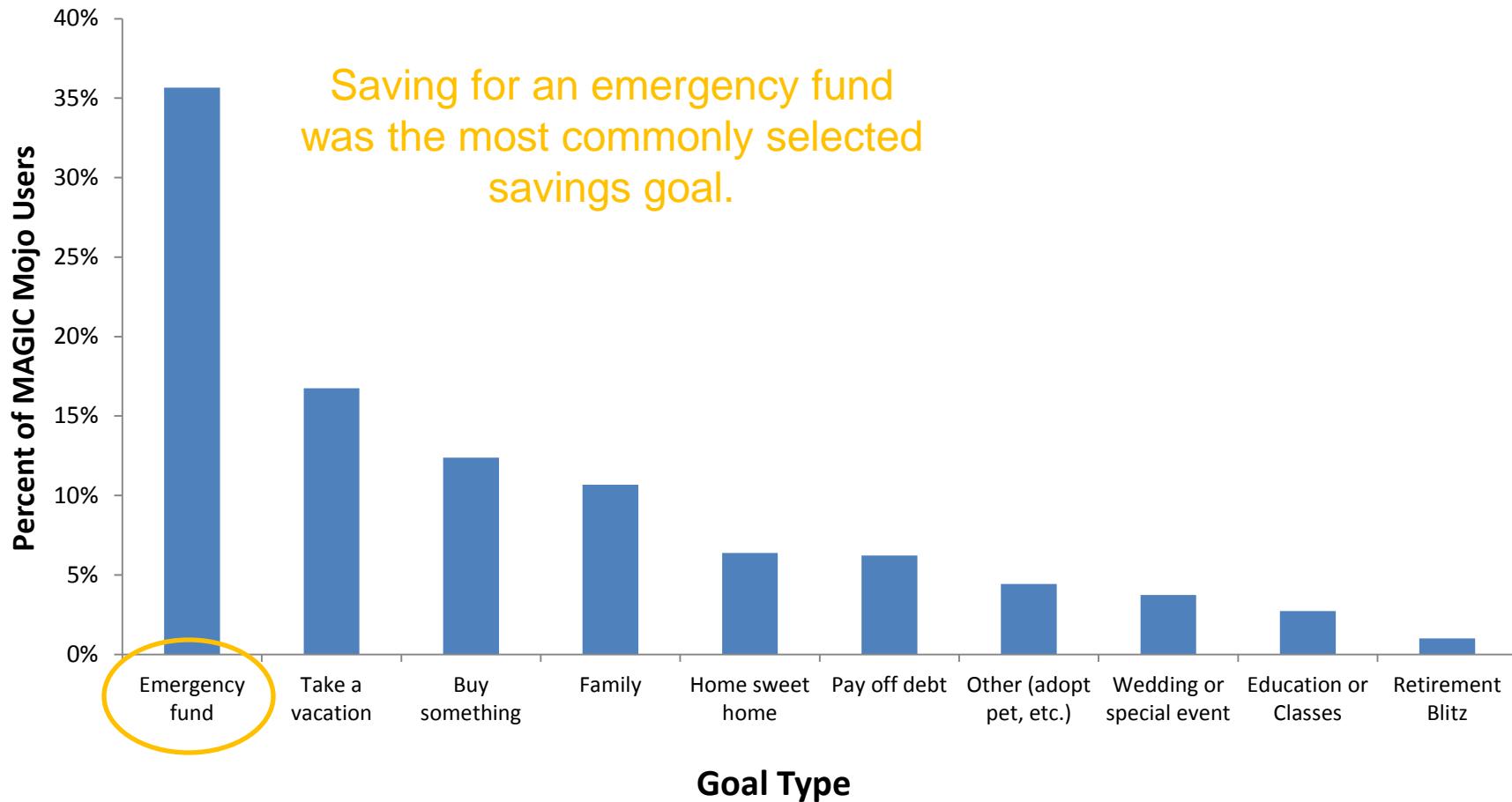
Your savings balance is: \$5.00

MAGIC Mojo saves made by John who was saving for a vacation.

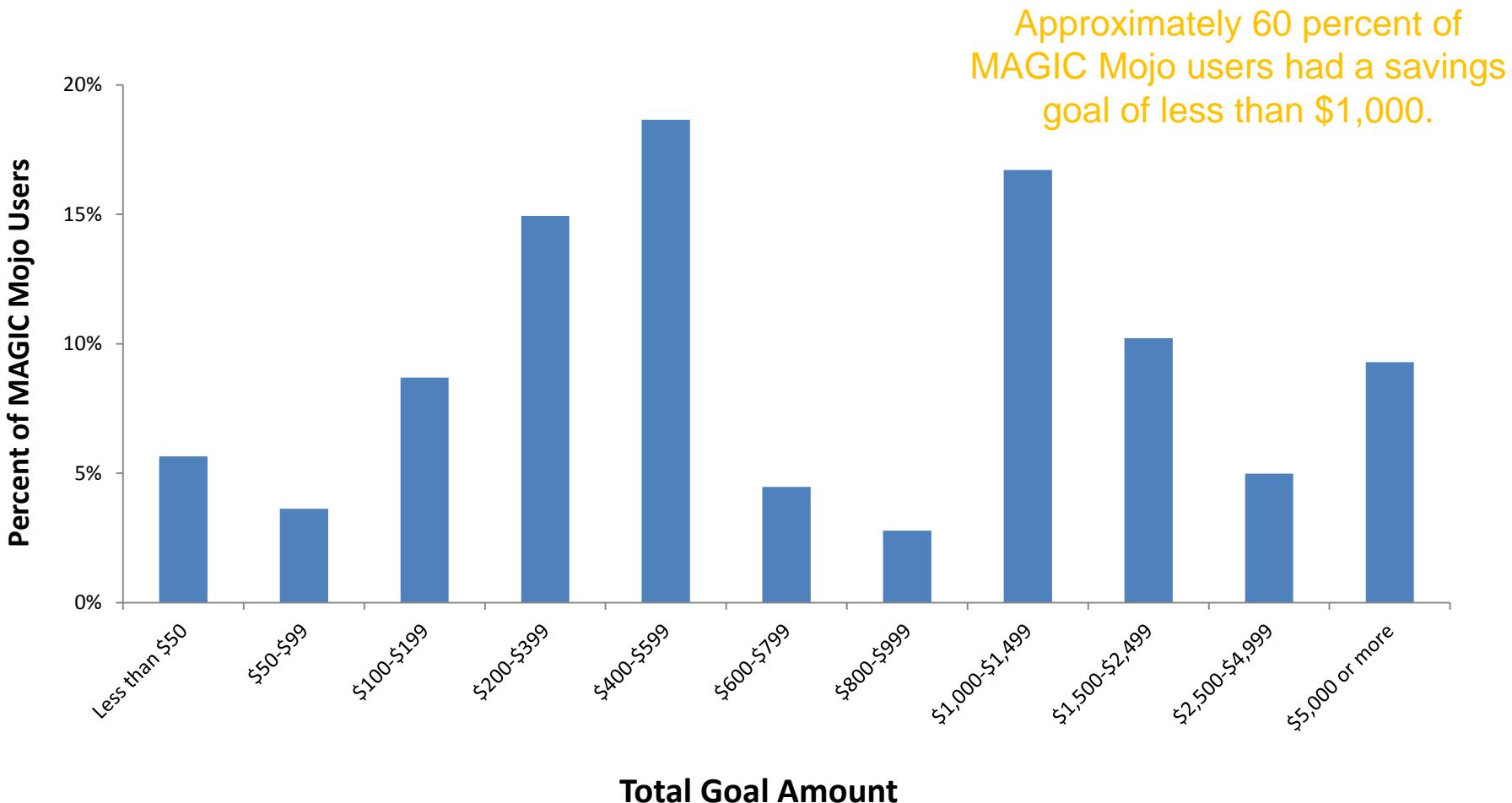


January & February

Goal Types

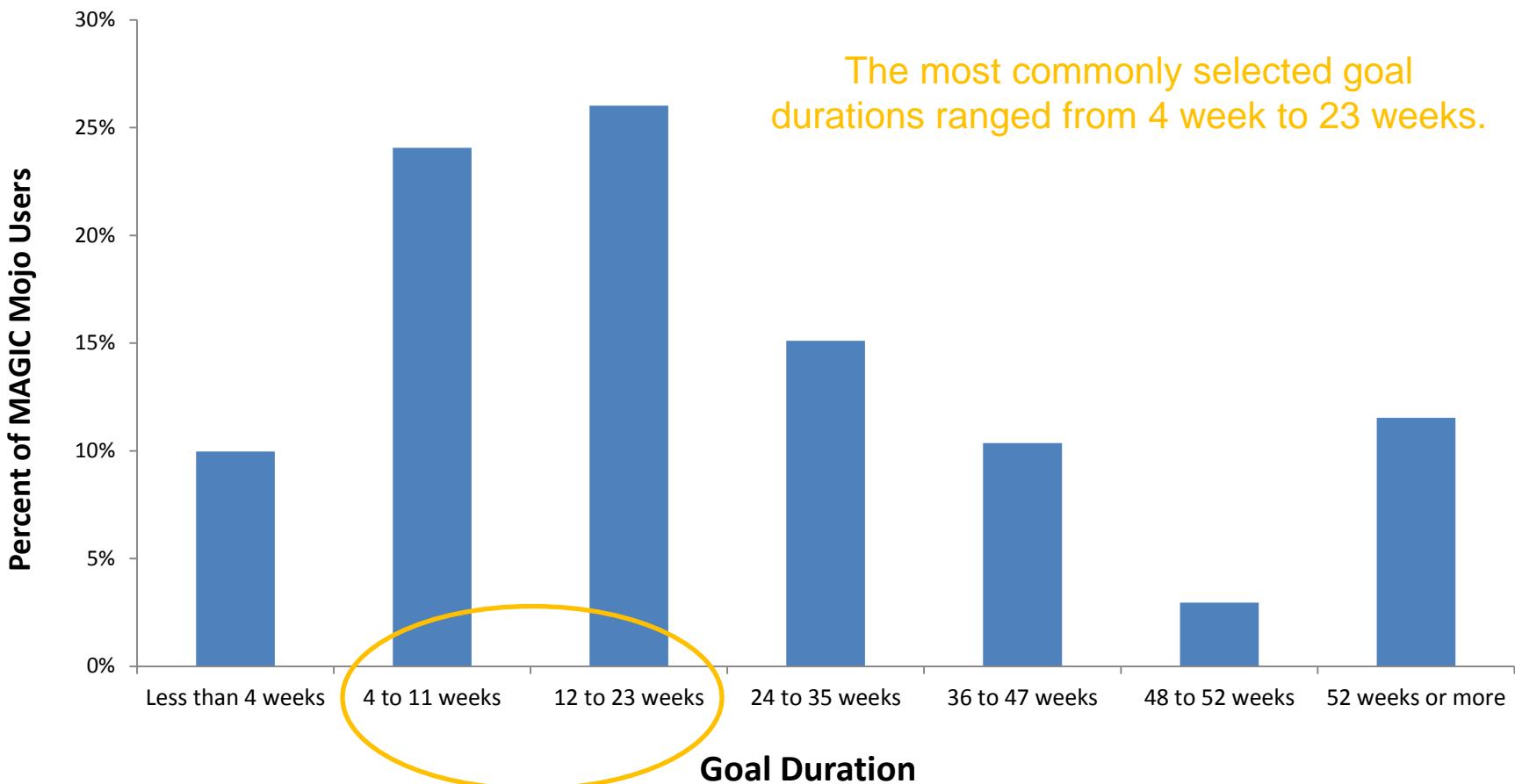


Total Goal Amounts



Approximately 60 percent of MAGIC Mojo users had a savings goal of less than \$1,000.

Goal Duration



MAGIC Mojo Addresses Barriers and Meets Critical Needs

Lack of willpower

- Hard to stick to a plan
- Hard to resist temptation



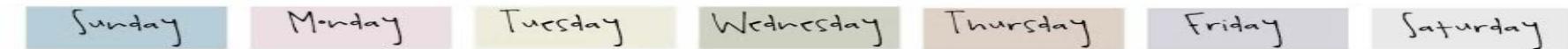
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Need for flexibility

- Unexpected expenses
- Inconsistent income



Flexibility in the Savings Mechanism

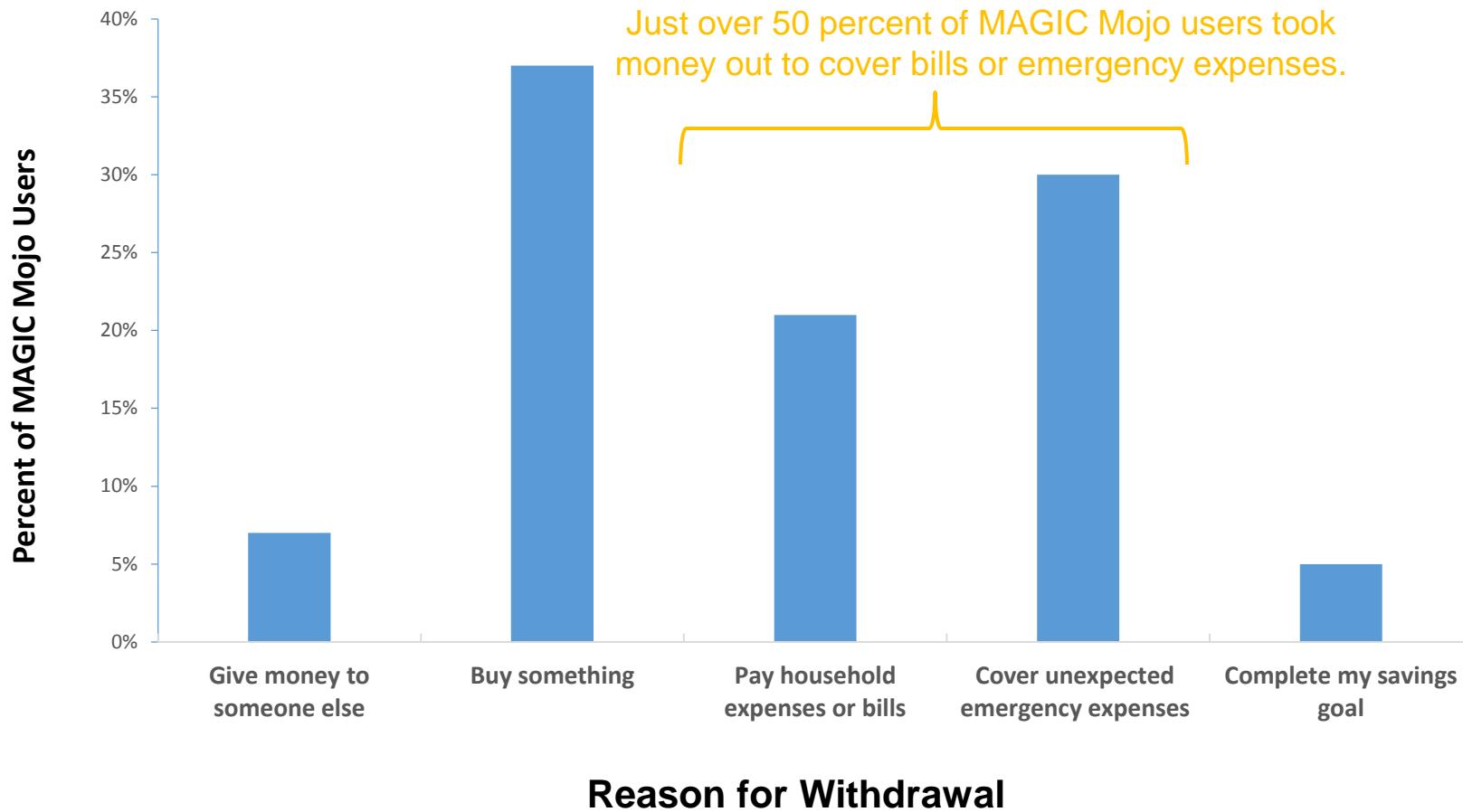


Sunday Monday Tuesday Wednesday Thursday Friday Saturday

Savers used a combination of methods to make saves.

Nearly 90% of savers used an automatic recurring transfer to move money into savings.

Flexibility in Withdrawals



Opportunity Going Forward

- Prepaid cards are becoming an increasingly common financial tool.
- For some lower-income consumer prepaid cards are less expensive than checking accounts.
- Prepaid cards with a savings feature provide a secure way to save.
- Impulse savings is applicable across a wide range of savings tools and decision points.

Contact Us

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Start2Save: Helping Working Families Meet Unexpected Expenses and Opportunities

Ingrid Holguin
Savings Program Director, Opportunity Fund

Start2Save

A matched savings product to help low-income families build emergency savings

- ❑ Program
- ❑ Paradigm
- ❑ Product
- ❑ Performance
- ❑ Partners
- ❑ Policy

Program: Opportunity Fund IDAs

Fifteen years experience and +4,000 IDAs

- ✓ Low-income individuals can save
- ✓ Long-term asset building as savings goal
- ✓ Integrated financial education
- ✓ 80% graduation rate & 90% utilization rate

- ✗ Most vulnerable populations
- ✗ Addressing liquid-asset poverty
- ✗ Banking
- ✗ Ongoing savings

Paradigm

- ✓ Can the asset-building paradigm include a focus on building short-term, liquid assets?
- ✓ Can an emergency matched savings program reach more vulnerable populations?
- ✓ Are short-term savings a first step in the path to long-term asset building?

Product: Start2Save

- Matched savings: Save \$500 / Earn \$1,000
 - Financial Education
 - Financial Coaching
 - Monthly deposits
 - Case management
- Graduates: “Savers4Life”
 - Savings account / secured credit card / prepaid card
 - New savings goals / credit-building goals
 - Automated savings options

Performance

- 500 accounts opened
 - ✓ Yr 1: 50 accounts ---- Yr 5: 250 accounts projected
 - ✓ 50% growth, year-on year
 - ✓ Partners are the client / can pay for service
- 80% graduation rate
- 50% maintain savings balance: $\geq \$500$
- 50% continue to deposit regularly
- 15% secured credit card adoption

Partners

Integrate S2S emergency savings program into the fiber of social services provider programs

- Financial Security
- Financial Aspirations

- Transitional Housing Shelter Residents
- Volunteer Tax Assistance Program Clients
- Ways to work car loan applicants
- Refugees in Resettlement Programs
- Foster Youth
- Financial Education students
- Emergency Cash Assistance recipients
- College prep programs for at-risk youth

Policy

The lever to scale and sustainability:

1. Match: Tax-time savings incentives
2. Savings: Earned Income Tax Credit: federal and state
3. ~~Disincentives~~: Eliminate federal and state asset limits
4. Pilot at scale: Expand the AFI mandate:
 - ✓ Add emergency savings as an asset
 - ✓ Flex emergency withdrawal rules while saving-up
 - ✓ Expand allowable use of match \$: deposit into a qualified savings account

Q & A



J. Michael Collins
Faculty Director,
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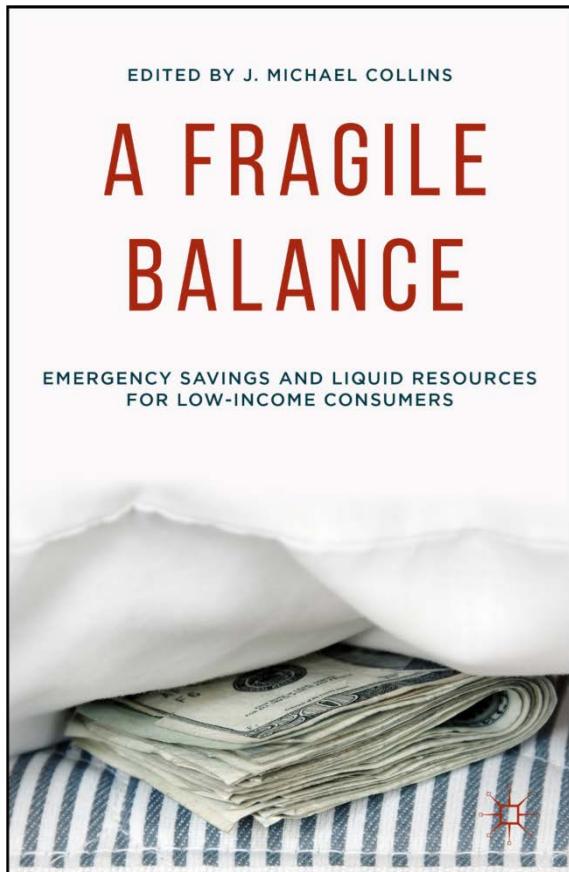
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