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

J. Michael Collins

University of Wisconsin-Madison
What is Emergency Savings?

- 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

Income:
- Income volatility rising for lower-income households \(^1\)

Cash Flow:
- Increased granularity of payment timing (technology driven)

Expenses:
- Expense volatility also rising \(^2\)

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\(^1\)Gottschalk & Moffitt, 2009; Dynan, Elmendorf & Sichel, 2012
\(^2\)Gorbachev, 2011
Managing Cash Flow

Week 1  Week 2  Week 3  Week 4  Week 5  Week 6

Income
Expense
Hardships

- 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

- 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

- 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

- 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 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.

emergency savings.org
Goals of New Approaches

- 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

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?

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?

- 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

- 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
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THE UNIVERSITY
OF WISCONSIN
MADISON
Emergency Savings and the U.S. Tax Code

Ezra Levin, Corporation for Enterprise Development (CFED)

Center for Financial Security, March 17, 2015
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

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

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Housing Example: Tax vs Budget Spending

Government Income Tax Revenue

E.g.: Real Estate Tax Deduction

SAME RESULTS

E.g.: Section 8 Vouchers

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Low-Income Renters
Housing Example: Tax vs Budget Spending

Government Income Tax Revenue

E.g.: Real Estate Tax Deduction  \[\text{SAME RESULTS}\]  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

SAME RESULTS

E.g.: Section 8 Vouchers

High-Income Homeowners

Low-Income Renters
Tax expenditures for savings & inheritances
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- **$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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Tax expenditures for savings & inheritances

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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

![Total Annual Tax Benefit by Income](chart.png)

- **$0**
  - **Bottom 20%** ($50k)
- **$0.7 B**
  - **2nd 20%** ($77k)
- **$5.3 B**
  - **3rd 20%** ($110k)
- **$8.6 B**
  - **4th 20%** ($163k)
- **$101.1 B**
  - **Top 20%** (Above $163k)

**Income Percentile Range**

(Max income for family of four in percentile range)

Author's calculations based on data from [Congressional Budget Office](https://www.cbo.gov) (2013).
Who benefits from these programs

**Total Annual Tax Benefit by Income**
- Investment income tax break
- Exclusion for inherited investments

<table>
<thead>
<tr>
<th>Income Percentile Range</th>
<th>Investment income tax break</th>
<th>Exclusion for inherited investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 20% (Above $163k)</td>
<td>$8.6 B</td>
<td>$101.1 B</td>
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<tr>
<td>4th 20% ($163k)</td>
<td></td>
<td></td>
</tr>
<tr>
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<tr>
<td>2nd 20% ($77k)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bottom 20% ($50k)</td>
<td>$0</td>
<td></td>
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</tbody>
</table>

**Total Annual Benefit Within the Top 20%**
- Investment income tax break
- Exclusion for inherited investments

<table>
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<th>Income Percentile Range</th>
<th>Investment income tax break</th>
<th>Exclusion for inherited investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1% (Above $654k)</td>
<td>$12.9 B</td>
<td>$68.5 B</td>
</tr>
<tr>
<td>95.99% ($654k)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>80-95% ($256k)</td>
<td>$19.6 B</td>
<td></td>
</tr>
</tbody>
</table>

Income Percentile Range
(Max income for family of four in percentile range)

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.

Why benefits are concentrated at the top

Historical Estate Tax Rates and Exemptions

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

Three Takeaways
Three Takeaways

1. Tax expenditures are government spending
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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

- Debt/Bills: 25%
- Basic Needs: 24%
- Savings: 17%
- Assets/Mobility: 21%
- Treats: 11%
- Fees: 2%

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.
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

Image credits: dannya and jponak
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.
What if impulsivity could be leveraged to help people save money, rather than spend it?
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.
What's your goal?

- What kind of thing are you saving for?  
  - Buy something

- Give your goal a name: test of goal set up

- Pick an image that represents what you're saving for or upload your own image

Continue
Set a goal amount:

I want to save $100 by Nov. 21, 2013

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

I want to be assured of saving
at least $2.00 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 savings can be easily increased or decreased at any time.
Setting an automatic save is an optional step, but a step in the right direction.
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

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.
How much do you want to move back?

What do you plan to do with your money?

Weekly

How much have you saved?

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".

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.
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.

- $3 get started
  - 1/16/2013
- $7 no eating out
  - 1/19/2013
- $6 no cigarettes
  - 1/25/2013
- $2 free Redbox coupon
  - 1/28/2013
- $6 no drive thru
  - 1/29/2013
- $10 oil change coupon
  - 3/3/2013
Saving for an emergency fund was the most commonly selected savings goal.
Total Goal Amounts

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

The most commonly selected goal durations ranged from 4 weeks to 23 weeks.
MAGIC Mojo Addresses Barriers and Meets Critical Needs

Lack of willpower

• Hard to stick to a plan

• Hard to resist temptation

Need for flexibility

• Unexpected expenses

• Inconsistent income

Photo credit: 401(k) 2013

Photo credit: Liz Henry
Flexibility in the Savings Mechanism

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

Just over 50 percent of MAGIC Mojo users took money out to cover bills or emergency expenses.
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: $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
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Thank you for attending today’s webinar!

Please visit http://emergencysavings.org/ for more information on the book and where to purchase.

Please also note that the presentation slides and recorded webinar will be posted on our website: http://www.cfs.wisc.edu/
Please join the Center for Financial Security on April 7, 2015 Noon-1pm CT for our next webinar on Resources for Financial Education

www.cfs.wisc.edu/
Please contact Hallie Lienhardt hebennett@wisc.edu or 608-890-0229 with questions.