

EIGHT TRUTHS ABOUT SAVINGS AND FOUR PRINCIPLES FOR INCLUSION

| From 2015 to COVID-19



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ABOUT THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM

The Aspen Institute Financial Security Program's (Aspen FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity.

We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. Aspen FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.

INTRODUCTION

Having savings to draw on is frequently the best defense against financial emergencies, and the primary source of funds to invest in family well-being, asset building, and economic mobility. Lack of savings, on the other hand, is a primary driver of most of the financial security challenges facing people and families, from struggles with income and expense shocks that can lead to unmanageable debt or housing instability, to an inability to make ends meet in retirement.

Liquid savings can therefore be thought of as the Swiss Army Knife of financial tools. Liquid funds can be used to ameliorate—if not solve—most financial emergencies and to achieve most personal goals. Savings are what hold our financial lives together, particularly when we are under stress. They help us to eat, work, and be physically and economically mobile. From day to day, savings can make the difference between positive account balances and overdrafts. In the short term, having savings ensures we can meet our basic needs and are able to handle emergencies without unsustainable borrowing. Over the longer term, savings enable investment in our well-being, income in retirement, insurance against catastrophe, and resilience in the face of disaster. At every stage, savings give people options to solve their problems and pursue their goals. At a fundamental level, having savings means having choices and the autonomy to make them.

Virtually everyone recognizes the day-to-day value of having emergency savings, but less widely understood is how deeply entwined short- and long-term savings are. This brief shares insights about the interconnected roles that liquid savings play across multiple aspects of financial life, drawn from Aspen FSP's research over the past five years (2015-2020). It makes the case that homeownership, retirement security, and other sources of long-term financial security will not become more widely accessible unless more people are able to put aside savings today, and as part of their ongoing cash flow management. The brief also identifies the key barriers to regularly saving and accumulating funds and explores the characteristics of inclusive savings solutions.

Policymakers and employers can use this brief to gain a new perspective on the many ways that savings undergird every aspect of financial security, learn what innovative leaders across sectors are doing now, and take action to ensure that the financial tools and benefits they provide are conducive to building both short- and long-term savings.

Savings play a role in every aspect of people's financial security.

This includes meeting their basic human needs, managing life from day to day, ensuring a minimum level of stability, weathering stressful events and emergencies, and enabling investment in themselves, their families, and their long-term goals. It is only when peoples' liquid savings are sufficient to play those roles are they then able to accumulate enough wealth to generate substantial income and ensure a secure retirement.

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EIGHT TRUTHS ABOUT SAVINGS

Over the past five years, Aspen FSP has deeply investigated many aspects of households' financial lives, from income volatility to debt, housing to caregiving, and short-term stability to retirement security. Looking across our work in all of these areas, eight foundational truths about savings emerge.



Households' Ability to Regularly save Some Money Is Foundational to Peoples' Long-term Financial Security.

1

People cannot be financially stable if they cannot save even small amounts on a regular basis, because they are always one emergency expense or layoff away from crisis¹—and the unexpected tends to happen on a regular basis.² And without financial stability, people cannot stay on track toward their longer-term goals in the face of life's inevitable shocks. Aspen FSP's recent research exploring the links between short-term financial stability and long-term financial security identifies the ability to regularly save small amounts as a linchpin of that connection.³

Without Routinely Positive Cash Flow, Individuals Cannot Regularly Save.

2

This sounds obvious. Yet it needs to be said because the resources and circumstances needed to have routinely positive cash flow are complex. It depends not only on whether income is typically greater than what must be spent on the basics of life, but also the magnitude of any financial shocks people experience, and the timing of income, benefits, and expenses.⁴ Over recent decades, people across the US have faced increasing financial pressures that impact how much they are able to save. For most workers, incomes have grown modestly while expenses—particularly the costs of healthcare, childcare, rent, vehicles, homes, and higher education—have grown rapidly. At the same time, both workplace and public benefits have become less generous for many people. As households have taken on more risk that used to be broadly shared (such as the shift from defined benefit pensions to 401(k)s and other individual accounts), life has become more precarious, leaving the majority of households without the liquid savings they would need to weather just one financial shock.⁵

Short-term Saving Is a Cycle of Accumulation, Use, and Rebuilding.

3

Many households, including those who are financially insecure, regularly save small amounts of money that they spend down as needed and then replenish as they are able.⁶ In fact, the proportion of lower-income households that save is similar to that of higher-earning households.⁷ The Financial Diaries found that the low- and moderate-income families in their study put three times as much into their savings accounts as remained at the end of one year.⁸ Short-term saving is a continuous cycle, not a one-way journey.

Savings Can't Go it Alone.

4

Savings serve a unique variety of functions. They are a tool for lifelong consumption smoothing, a form of insurance against both short-term and long-term risks, and a way to access wealth-generating assets such as real estate, small businesses, and stock market investments. Savings cannot, however, meet peoples' full set of financial needs; they can most effectively form the foundation of long-term financial security when they are paired with income that exceeds core expenses, insurance to protect assets (e.g., homeowners insurance), investment accounts, other workplace benefits including access and contributions to retirement accounts and health insurance, and public benefits⁹—especially for those who are lower income or lack assets.¹⁰

Program Design Makes the Difference Between Preventing and Encouraging Savings.

For decades, the public safety net discouraged savings in nearly every federal benefits program, including the Supplemental Nutrition Assistance Program (SNAP, also called food stamps), Temporary Aid to Needy Families (TANF, also called welfare), Medicaid, and disability programs. Asset limits keep people in need from receiving support. They complicate administration of safety net programs and increase the cost for governments,¹¹ thus leading some people to forego or lose millions of dollars in benefits¹² and accumulate less wealth over time.¹³ New research and innovative pilot programs are demonstrating that better design of both public and private benefits can more effectively support saving. For example, the onerous process of transferring retirement accounts when changing jobs leads to “leakage” of funds out of these accounts (as people withdraw money before retirement, incurring tax penalties and losing out on long-term investment gains),¹⁴ but portable retirement accounts can help people keep their savings invested in tax-deferred accounts even when they change employers.¹⁵

Racism and Discrimination Impact How Much Savings People Accumulate—these Disparities Are Foundational to Racial Wealth Gaps.

People of color and other groups face systemic barriers to success across multiple dimensions;¹⁶ this leaves not just individuals, but also families and whole communities of color, with fewer savings and vanishingly small wealth¹⁷ compared with white communities. Black, Indigenous, and other people of color (BIPOC) experience harmful discrimination in healthcare, education, employment and income, housing, access to credit and costs of debt, and other areas of life—all of which contribute to how much individuals, families, and communities can save and how much they accumulate.¹⁸ Additionally, BIPOC have historically been, and still are, more likely to experience wealth stripping. That is driven by products (e.g., high-cost vehicle and mortgage loans), business decisions (e.g., where to focus debt collections activities), and by public policies (e.g., civil and criminal justice system fines and fees).¹⁹ Higher education provides a perfect example of how these forces work in concert:²⁰ Black families have a lower median income than White families, so they have fewer resources with which to pay for college; as a result Black students borrow more than White students for the same degree. Black borrowers earn less than their White peers for the same work and therefore take many more years to pay off the same amount of debt as White borrowers. While they are paying off their loans, they have less residual income to save. This translates into less capacity to weather short-term volatility and accumulate assets, including homeownership.

Covid-19 Showed Us That Personal Savings and Social Insurance Can Best Provide People with Stability When They Are Complementary Resources.



In spring of 2020, even as the unemployment rate skyrocketed to nearly 20%, households reported saving more money.²¹ Direct payments to households under the CARES Act (both the expansion of Unemployment Insurance and stimulus payments) kept 18 million people out of poverty. As a result, for the first several months of the pandemic, consumer spending was steady, rent and mortgage delinquencies stayed low, and some policymakers thought the economy would recover quickly. Between households' pre-pandemic savings and the expansion of the social safety net, people were able to stay safely housed, pay their bills on time, and—to a lesser degree—avoid drawing on their retirement accounts for liquidity. However, when the \$600 per week unemployment bonus ended, the approximately 17 million people receiving UI benefits at the time²² quickly drew down their savings, including what they had saved of their \$1,200 stimulus checks.²³ By the end of 2020, 6-8 million people had fallen into poverty,²⁴ consumer spending began to fall, and rent and mortgage delinquencies were as high as they had been since the Great Recession.²⁵

There Are Two Main Barriers That Prevent People from Building Savings.



Significant economic forces and social pressures make it difficult to save, particularly for those with low and volatile earnings and people who face systemic discrimination. The key barriers that prevent people from building savings are:

- **Not having access to routinely positive cash flow:** unpredictable income, insufficient earnings, the high cost of life's necessities, expense shocks, and inadequate safety net systems all make it difficult to ensure the routinely positive cash flow that people need to put money aside; and
- **Lack of tools to easily and regularly convert net income to savings:** people need high-quality, affordable transaction accounts, the ability to easily and automatically transfer funds to savings, simple and immediate access to available funds, real-time balance information, and other financial services to consistently save.

Who Had the Liquidity to Maintain Stability Throughout COVID-19?

The latest comprehensive look at US households' finances comes from the 2019 Survey of Consumer Finances.²⁶ This data shows what resources and liabilities people had just before the COVID-19 pandemic emerged. Most households (59%) saved money that year, primarily for liquidity rather than asset purchases or retirement. Households held a median of \$5,300 cash in transaction accounts (checking and savings). Even more households had debt (77%), and those who did typically spent about 15% of their income on debt service. Breaking down the Survey of Consumer Finances data reveals that pre-existing economic inequality and racial disparities played a significant role in determining who had the liquidity needed to maintain stability during the pandemic.

Black and Hispanic/Latino people, single parents, renters, and low-income families were unlikely to have enough savings to make it through the pandemic if they lost any of their usual income.

DEMOGRAPHIC GROUP	PERCENT THAT HAD SAVED IN PREVIOUS 12 MONTHS	PERCENT THAT HAD DEBT	MEDIAN AMOUNT IN TRANSACTION ACCOUNTS
Black Households	47%	74%	\$1,500
Hispanic/Latino Households	45%	72%	\$2,000
Single Parent Households	41%	75%	\$1,300
Renter Households	46%	66%	\$1,700
Low-income Households (Income of ≤ \$25,600 ²⁷)	37%	53%	\$800

White people, couples without children in the home, homeowners, and the wealthy went into 2020 relatively well-positioned to weather the COVID-19 recession.

DEMOGRAPHIC GROUP	PERCENT THAT HAD SAVED IN PREVIOUS 12 MONTHS	PERCENT THAT HAD DEBT	MEDIAN AMOUNT IN TRANSACTION ACCOUNTS
White Households	63%	78%	\$8,100
Couples Without Children in the Home	67%	78%	\$11,000
Homeowners	65%	82%	\$10,000
High-income Households (Income > \$130,000 ²⁸)	86%	84%	\$69,000
High-net Worth Households (Net Worth > \$2.6 Million)	82%	71%	\$80,000

Public and Private Sectors Benefit When People Can Save and Accumulate Liquidity—and They Can Help People Do It

Systems and institutions are better equipped to achieve their missions when people are able to regularly put money aside and build up their savings. Systems and institutions we interact with in our daily lives can both facilitate savings and benefit from helping people to do so.



FEDERAL, STATE, AND LOCAL GOVERNMENTS

Benefit When People Have Savings:

- Reduced costs of providing the social safety net
- Improved capacity to maintain services during recessions

Can Facilitate Savings By:

- Eliminating asset limits and benefits cliffs
- Matching the savings of low-income people
- Supporting and incentivizing employers, education, health, caregiving, and other systems to facilitate savings for the people they interact with



EMPLOYERS

Benefit When People Have Savings:

- Less financial stress is connected to greater productivity at work and satisfaction with employers, which can reduce employee turnover

Can Facilitate Savings By:

- Providing income and access to products such as retirement and emergency savings accounts
- Providing benefits that help people manage their expenses, such as health insurance and health savings accounts



K-12 AND HIGHER EDUCATION

Benefit When People Have Savings:

- K-12 students are better able to be present at school when financial stress is low at home, and college students have more resources to pay for education

Can Facilitate Savings By:

- Providing a public good for free or at a subsidized cost



HEALTH INSURERS AND CARE PROVIDERS

Benefit When People Have Savings:

- People are able to cover more of the cost of their care
- People are healthier because they can receive care when they need it

Can Facilitate Savings By:

- Smoothing spending and reducing the cost of accessing healthcare



CHILD AND LONG-TERM CARE PROVIDERS

Benefit When People Have Savings:

- More people are able to pay for care supports projected growth in this sector
- People are able to pay for a greater proportion of their care ensure continuity of services and reliable ability to provide good jobs to care workers

Can Facilitate Savings By:

- Enabling some to earn employment income rather than providing unpaid care

FOUR DESIGN PRINCIPLES FOR INCLUSIVE SAVINGS SOLUTIONS



We know that people want to save and that they can do so reliably when they have routinely positive cash flow and access to the tools they need to convert net income into savings. This means that policies, products, and programs intended to help people build savings need to trust people to act in their own best interests, break down the barriers to saving, and help lower-income people save more than their personal resources alone will allow. Many of these goals can be achieved by leveraging payroll systems that workers are already familiar with, and by automating enrollment in and contribution to savings accounts of various types. Below we present four design principles for effective and inclusive savings solutions, and examples of each principle in action.

Well-designed solutions must:

- 1.** Directly Address the Known Barriers to Routinely and Successfully Engaging in Savings
- 2.** Contribute Toward Greater Economic Equity
- 3.** Address the Problem at Scale
- 4.** Avoid Shifting Any Additional Risk Onto the Person or Family or Causing Loss of Benefits



Directly Address the Known Barriers to Routinely and Successfully Engaging in Savings

The two major barriers to building savings are the lack of routinely positive cash flow and the lack of tools to easily and regularly convert net income to savings. Both product and policy solutions must directly address these barriers or their underlying drivers (e.g., expanding access to routinely positive cash flow through wage increases or income supports).

PRINCIPLE IN ACTION: Hybrid financial products combine the functions of two or more consumer financial products that are generally offered separately, integrated for the purpose of improving peoples' capacity to effectively manage their money, including by automatically directing funds into savings.²⁹

- **Product Example:** Voya Financial, a retirement plan provider with more than 6 million participants, offers "sidecar savings accounts"³⁰ as a complement to retirement accounts. These are short-term saving accounts that enable workers to simply save for tomorrow as well as for their retirement years.³¹
- **Policy Example:** Nest, the United Kingdom's pension plan, recently piloted sidecar savings accounts. While the pilot is still ongoing, early results suggest that automatic enrollment may be key to scaling up participation.³²

How to Address the Two Main Barriers to Saving

Aspen FSP's 2020 report "[The Cycle of Savings](#)"³³ illustrates the dynamics of short-term savings, accounting for all the different roles liquidity plays and providing evidence about how families actually manage their money. It also offers guidance on ways to directly address the known barriers to routinely and successfully engaging in savings. Solutions included in the report are summarized below.

Improve the probability of positive cash flows turning into savings:

- Cash infusions and wage subsidies to build an on-ramp to ongoing savings; and
- Mechanisms that easily capture large spikes in income flows or other potential savings moments to help families address their debt and increase their savings.

Ground product design and distribution in ways that reflect consumer needs:

- Provide automaticity and tailored automaticity for those without consistent cash flow;
- Build rewards that appeal to individuals into savings product design;
- Extend access to savings products, programs, and platforms to more individuals, and where possible, connect people via trusted institutions;
- Offer appropriate, accessible accounts without expensive fees;
- Provide immediate access to funds to meet the cash flow needs of LMI households; and
- Conduct consumer insights research to design and refine offerings.

To learn more, please consult "[The Cycle of Savings](#)."

Contribute Toward Greater Economic Equity

Low- and moderate-income people, as well as the middle class, all need savings solutions, but they need different levels and types of support. Black, Indigenous, and other people of color have been subjected to wealth stripping, while White people have not—those harmed by discrimination similarly need different levels and types of support. Solutions from both the private and public sector should help reduce disparities between these groups. At the very least, they must not widen disparities.

PRINCIPLE IN ACTION: Various researchers,³⁴ advocates,³⁵ and federal policymakers³⁶ have proposed universal child savings accounts (or similar policies such as baby bonds). The concept is simple: at birth, every child born in the United States would receive a savings account (or low-risk investment account), restricted until they reach age 18, that the government would seed and/or contribute to annually, with the children of poor families receiving more than those with greater financial resources. Notably, the universal aspect of these accounts means that they must be implemented through policy, rather than private actors.

- **Policy Example:** This idea has been tested at the local level. In San Francisco, the city's Kindergarten 2 College program provides a savings account to each child who enrolls in public kindergarten. Accounts are seeded with \$50. There are emergency access provisions, but the funds generally cannot be withdrawn until the student enrolls in post-secondary education.³⁷

Address the Problem at Scale

Solutions should be able to meet the needs of millions of people and enable typical users to substantially increase their savings. Characteristics that contribute to scalability include simplicity and broad eligibility.

PRINCIPLE IN ACTION: Portable benefits are an emerging strategy to ensure that people who gain access to savings tools through their employer maintain them, even as they move and change jobs. This not only dramatically reduces leakage from retirement accounts, but also reduces administrative costs for plan sponsors and employers. Aspen FSP and Commonwealth identify effective portable benefits as those that are not only portable but also prorated and universal.³⁸ This ensures that they can meet the scale of the problem in an equitable way.

- **Product Example:** The Retirement Clearinghouse offers a service called Auto Portability, which is a turnkey solution for plan providers and employers to easily transfer funds from a former employee's retirement account to that person's new account with their new workplace.³⁹
- **Policy Example:** Several states, including Illinois, Connecticut, and Oregon, have started offering portable Individual Retirement Accounts.⁴⁰ These auto-IRAs, as they are called, are available to employees of small businesses that do not provide retirement plan options to their workers.

Avoid Shifting Any Additional Risk Onto the Person or Family or Causing Loss of Benefits

Since the 1970s, individuals have slowly taken on an increasing share of risk that used to be shared across more institutions—including employers, investors, and governments. 401(k)s have replaced pensions, the proportion of poor families receiving TANF and jobless Americans receiving UI benefits has fallen, the typical college student leaves school with \$30,000 in loans, and high deductible health plans leave millions responsible for the full cost of their healthcare, despite having insurance. This decades-long trend has contributed significantly to peoples' inability to save enough to maintain stability in today's world. Solutions must not contribute further to the problem.

PRINCIPLE IN ACTION: No-strings-attached guaranteed income pilot programs conducted across the world in recent years have proven this model capable of increasing stability and security for families of all income levels. These programs are additive, not substitutes for other suites of benefits people receive.

- **Product Example:** While guaranteed income programs are generally the realm of public policy, employers can provide similar structural support for employees' future income. For example, they can automatically enroll workers in their retirement plan and provide discretionary contributions to all, regardless of whether they are currently contributing to their retirement accounts. This would not only increase participation rates, it would also provide more support and stability to lower-earning workers and reduce their risk of experiencing retirement insecurity.
- **Policy Example:** In the United States, local experiments in Stockton, California,⁴¹ and Jackson, Mississippi,⁴² demonstrate the power of guaranteed income to contribute to financial stability and improve well-being for low-income households. Both pilots were funded with philanthropic contributions and are not permanent, but their simplicity indicates that a guaranteed income policy could easily scale with long-term public funding.

CONCLUSION

One lesson of COVID-19 is that, in advance of the pandemic, people were not able to fully prepare themselves for a recession despite a strong labor market and a decade of low interest rates—they needed more structural support to build up financial cushions than public, private, and civic institutions had provided.

Those institutions now have an opportunity to put that lesson into action as we all work toward recovery. This brief, drawn from Aspen FSP's past five years of research on household finances and savings behaviors, can help stakeholders more fully understand how savings actually function in people's lives. Looking at the issue from that more holistic perspective illuminates the links between liquid savings and long-term financial security. Solutions that are inclusive and recognize the foundational role of short-term savings are key to making the systemic changes necessary to enable everyone to save regularly and accumulate the liquid funds they need to manage life today and build the foundation of long-term security.

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