Consumer Federation of America

TRADITIONAL SAVINGS ACCOUNTS: ARE THEY STILL POPULAR?

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Introduction

So far this year, the U.S. personal savings rate has grown by double-digits: Americans have been saving well over 10 percent of their incomes.[1] There are many savings vehicles available to families – stock and bond investments, retirement accounts, cash-value life insurance, CDs and I-bonds, checking accounts, or even the proverbial mattress. However, the savings vehicle that has been the most widespread historically for families – traditional savings accounts (and similar money market deposit accounts) at banks and credit unions – have received little attention. And perhaps for good reason: Frequently paying only 0.01 percent interest, these accounts have recently offered no opportunity for steady accumulation of funds. By comparison, major stock indexes have almost doubled in value over the past five years.

Are traditional savings accounts a survival from the past with little future? New data analyzed by the Consumer Federation of America (CFA) helps answer this question. What percentage of households have a savings account? Who is most likely to hold such an account? Have savings accounts grown more or less popular in this century? Have the top 10 percent income group largely abandoned these accounts for more lucrative (though riskier) investments in equity markets? Have campaigns, initiated early in this century to promote traditional savings by low- and moderate-income families, enjoyed any success? And for traditional savers, what is the attraction of traditional accounts?

[1] U.S. Bureau of Economic Analysis, "Personal Saving Data," June 25, 2021.

The most informative and authoritative data regularly collected on personal savings is by the Federal Reserve Board in its tri-annual Survey of Consumer Finances (SCF). The most recent Fed survey collected data from families in 2019 that was released in the fall of 2020. (In this report, the terms "households" and "families" will be used interchangeably.) While the survey asked separate questions about checking and savings accounts, the Fed did not publish separate figures on these two types of accounts; in its tables and articles, it published only combined figures on "transaction accounts."

Over the past 15 years, CFA has periodically commissioned an economist to disaggregate the Fed's transaction account data in order to learn more about consumer savings. For the 2019 SCF, CFA again asked Professor Jessie X. Fan, an economist at the University of Utah, to undertake this analysis. Her work provided figures for the incidence and median value of family checking accounts, traditional savings accounts, and money market deposit accounts (MMDAs).[2] MMDAs are similar to traditional savings accounts in that they are easily accessed but enjoy slightly higher yields because of higher required minimums. The typical minimum balance to avoid monthly fees for traditional savings accounts at the largest banks is $300 or $500. For MMDAs, the typical minimum at these banks ranges from $1,000 to $15,000. When minimums are not met, the monthly fees are much higher for MMDAs.[3]

CFA also utilized survey data on consumer views of savings accounts. These survey data were collected by IPSOS, which CFA commissioned to survey a representative sample of 2,000 adult Americans.[4] Our analysis was based on the response of the 1,591 respondents who said they had a traditional savings account or MMDA. The focus of the survey questions was what attracted these savers to traditional accounts.

The findings of our research are presented in the following sections:

- Incidence and level of savings accounts in 2019
- Changes in incidence and level of savings accounts from 2004 to 2019
- Saver views of traditional savings accounts and MMDAs
- Summary of findings and implications

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[2] These data were utilized in an earlier report on Black household finances. Stephen Brobeck, George Barany, "Black American Finances and Savings in a Covid Era," Consumer Federation of America (January 2021).

[3] The savings account policies of the 13 largest banks, by number of bank branches, were reviewed. These banks maintain more than 25,000 branches, about one-third of all bank branches in the U.S. The banks are: Wells Fargo, Chase, Bank of America, BB&T and SunTrust (Now Truist but without merged savings policies), U.S. Bank, PNC, Regions, TD, Fifth Third, KeyBank, Citizens, and Huntington.

[4] IPSOS is a global market research and public opinion specialist that frequently undertakes surveys for major media and other large institutions.

Incidence and Level of Savings Accounts in 2019

As Table 1 (below) shows, according to the 2019 SCF, over half of households (52.1%) had a traditional savings account while 58.0 percent had this account and/or an MMDA (13.4 percent held an MMDA). It is not clear why nearly half of those with a MMDA also held a traditional savings account.

Age: As the table also reveals, the percentage of households with one or both types of accounts was remarkably similar for different age groups, ranging from 56.9 percent to 59.6 percent with no discernible age progression. That was also the case for the proportion of families under 55 years of age with only traditional accounts, which ranged less than one percentage point from 54.2 percent to 54.8 percent. However, the proportion of households above this age with traditional accounts, less than 50 percent, was significantly lower. These families were more likely than those headed by someone younger to hold an MMDA.

Income: As the table also shows, the higher one's household income, the more likely one was to hold a traditional savings account and/or an MMDA. The percentages increased from about one-third for families in the lowest income quintile to more than three-quarters in the highest income quintile. Also not unexpectedly, the higher their income, the more likely families were to hold MMDAs, not traditional accounts. Yet surprisingly, over half of the top 10 percent income group, and over two-thirds of the second 10 percent income group, held a traditional savings account. Even many households with incomes above $127,265 – the lowest income in the highest quintile – apparently wanted to maintain a traditional account.

Table 1: Proportion of Households With Savings Accounts and MMDAs (2019)

	SA	SA and/or MMDA
All households	52.1%	58.0%
Age groups		
Under 35	54.2	57.7
35-44	54.4	58.7
45-54	54.8	59.6
55-64	50.9	56.9
65 and over	48.1	57.5
Income groups		
Lowest quintile	30.2	33.7
2nd quintile	44.4	48.5
3rd quintile	55.4	60.9
4th quintile	60.4	67.5
Highest quintile		
2nd tenth	69.2	77.2
Top tenth	54.4	75.6

For those with accounts, the median amount in traditional savings accounts was $5,000 while the median amount for those with these accounts and/or MMDAs was $7,000. Given the research on the large percentage of families with insufficient funds to afford a $500 or $1,000 emergency payment, the first figure seems large.[5] However, the calculation of the $5,000 excludes the more than two-fifths of households without savings accounts. This amount also reflects the fact that most savings accounts are held by those with above-average incomes.

As Table 2 below shows, median savings increased both with age and household income. For age, the median amount in a traditional account was lowest for those under 35 years of age, plateaued between ages 35 and 64, then increased for the 65 and over group. The reason for this last increase is not clear. Perhaps older Americans feel a greater need for funds they can immediately and easily access.

[5] The most widely used statistics on this issue have been generated by the Board of Governors of the Federal Reserve System. See: "Report on the Economic Well-Being of U.S. Households in 2018-May 2019: Dealing with Unexpected Expenses."

It surprised us that the 54.4 percent of households in the top tenth income group held as much money – a median amount of $31,900 – in traditional savings accounts. Perhaps this group also wanted quick and easy access to funds to cover expensive emergencies, perhaps they never got around to closing accounts they had opened years earlier, or perhaps they just found it easier to automatically transfer funds into savings accounts than into investment accounts.

The data in tables one and two reveal that most of those in the lowest income quintile (annual income below $26,267) were not well prepared for emergency expenditures. Only one-third had a savings account or MMDA, and those with an account held a median amount of only $1,300.

Table 2: Median Levels of Savings Accounts and MMDAs for Households With Accounts (2019)

	SA	SA and/or MMDA
All households	$5,000	$7,000
Age groups		
Under 35	2501	3000
35-44	5400	7000
45-54	5600	7500
55-64	6070	8300
65 and over	9500	11900
Income groups		
Lowest quintile	1010	1300
2nd quintile	2150	2500
3rd quintile	3080	4000
4th quintile	7000	8800
Highest quintile		
2nd tenth	10500	14800
Top tenth	31900	50000

Changes in Incidence and Levels of Savings Accounts from 2004 to 2019

In the past, CFA commissioned analysis of SCF savings account data for Fed surveys of 2004, 2007, 2010, and 2016 as well as for 2019. It is striking that the proportion of households with a savings account or MMDA is virtually the same for 2004 (57.7%) and for 2019 (58.0%).

Yet, as Table 3 shows, the percentage of households with a traditional savings account rose 10.6 percent – from 47.1 percent in 2004 to 52.1 percent in 2019.

The data on age and income in this table provide additional information about changes in the incidence of accounts. The percentage of households with a traditional savings account increased for every age and income group with one notable exception: The proportion of the top 10 percent income group with this account declined by 8.9 percent – from 59.7 percent to 54.4 percent. In contrast, the largest increases in the percentage with traditional accounts occurred among households in the three lowest income quintiles (incomes below $73,915). These increases, between 2004 and 2019, were more than 10 percent for each of the three quintiles.

Table 3: Proportion of Households With Traditional Savings Accounts in 2004 and 2019

	2004	2019	% Change
All households	47.1%	52.1%	10.6%
Age groups			
Under 35	48.1	54.2	12.7
35-44	50.7	54.4	7.3
45-54	50.5	54.8	8.5
55-64	45.4	50.9	12.1
65 and over	40.6	48.1	18.5
Income groups			
Lowest quintile	27.1	30.2	11.4
2nd quintile	39.5	44.4	12.4
3rd quintile	48.9	55.4	13.3
4th quintile	59.1	60.4	2.2
Highest quintile			
2nd tenth	63.2	69.2	9.5
Top tenth	59.7	54.4	-8.9

Pollsters know that attitudes may change rapidly but behaviors are much less likely to do so. Thus, it is noteworthy that the proportion of all households with traditional savings accounts increased by a statistically significant amount between 2004 and 2019. As Table 4 below indicates, this increase was continuous during the period.

Table 4: Proportion of All Households With Traditional Savings Accounts Over Time

	2004	2007	2010	2016	2019
Households	47.1%	47.2%	50.5%	51.1%	52.1%

At the same time the percentage of households with traditional savings accounts was increasing, so was the level of funds in these accounts. As Table 5 indicates, from 2004 to 2019, a period when the CPI increased by little more than one-third (35%), median savings levels in these accounts (in nominal dollars) rose by two-thirds (67%).

To an extent, the same groups that increased account ownership also increased account levels. As Table 5 shows, the largest percentage increase in these levels among age groups occurred among households under 35 years of age. Moreover, the largest percentage increases among income groups took place in the second income quintile and also among the top ten percent.

Table 5: Changes in the Median Levels of Traditional Savings Accounts Among Households Holding These Accounts, 2004 and 2019 (nominal dollars)

	2004	2019	% Change
All households	$3,000	$5,000	+66.7%
Age groups			
Under 35	1,000	2,501	+150.1
35-44	2,300	5,400	+134.8
45-54	4,200	5,600	+33.3
55-64	6,100	6,070	-0.5
65 and over	5,000	9,500	+90.0
Income groups			
Lowest quintile	640	1,010	+57.8
2nd quintile	900	2,150	+138.9
3rd quintile	2,500	3,080	+23.2
4th quintile	3,630	7,000	+92.8
Highest quintile			
2nd tenth	8,000	10,500	+31.3
Top tenth	12,600	31,900	+153.2

These changes may, in part, reflect two factors. The first was the Great Recession of 2008-09 whose effects lingered on for many years. The economic disruption and losses of this recession may have convinced many Americans, especially young adults and those with moderate incomes, to maintain savings accounts and increase savings levels.

A second factor was organized efforts to promote savings, especially among low- and moderate-income households. Much of this work was funded by the Ford Foundation, especially during the 1990s and early 2000s. New savings accounts, including those offering incentives such as matches or prizes, were developed and tested. So were new programs to persuade banks and community organizations to work together to promote saving. One of these programs, America Saves, was developed by the Consumer Federation of America and continues today. Hundreds of national and local organizations participated energetically in these efforts, and their work was widely reported on by news media.[6]

A number of banks and credit unions, especially several of the largest ones, were persuaded to develop new savings products and promotions. A few institutions provided generous financial incentives to customers who saved automatically through regular, direct deposits to savings from checking accounts, paychecks, or government benefit payments.[7] While most of the largest incentives have been discontinued, many banks and credit unions continue to promote savings, especially regular, automatic deposits that waive monthly fees.[8]

It is not entirely clear why median savings account deposits increased so greatly for the highest income families (top tenth) with accounts. Their incomes were much higher in 2019 than in 2004. And the percentage of these households with traditional savings accounts declined, probably because they realized they could earn much higher yields on equity investments and also meet any emergency savings needs using MMDAs or other accounts. The remaining savings account holders – 54.4 percent of those in the income class – may have valued the convenience of accessing these funds or the inconvenience of shifting funds, which represented only a small percentage of their financial assets.

Saver Views of Traditional Savings Accounts and MMDAs

Given the extensive ownership of traditional savings accounts and MMDAs, CFA sought to learn more about the popularity of the two accounts by surveying consumers. We developed

[6] Some of the programs that collaborate with banks are discussed in: Rae-Ann Miller et al, "Building Assets, Building Relationships: Bank Strategies for Encouraging Lower-Income Households to Save," FDIC Quarterly, v. 2, n. 1 (2008).
[7] For a description of several of these accounts, see: Stephen Brobeck, "The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergencies," Consumer Federation of America (June 2008).
[8] See Stephen Brobeck, "Do Big Banks Provide Affordable Access to Lower Income Savers?" Consumer Federation of America (February 2020).

survey questions then commissioned IPSOS to administer them to a representative sample of 2,000 adult Americans online. During the last week in June, IPSOS asked 2,011 persons whether they held a savings account or MMDA at a bank or credit union. IPSOS then asked the 1,591 respondents who said they had at least one of these accounts, several related questions: How important are each of the following reasons for keeping a saving account?

- I can easily access my money if needed.
- I pay no fees on this account.
- The account is mainly a rainy-day fund for emergencies.
- I am less likely to spend this savings on everyday items than if the money were in a checking account.

Responses to the first two questions help explain why households keep at least some of their savings in savings accounts rather than in time deposits and investment accounts that pay higher yields. Most of the latter accounts do not allow easy access, and some charge fees for gaining access to the funds. Nearly all respondents (96%) said it was "important" that they could easily access their funds, with nearly three-quarters (72%) indicating that this access was of "great importance." Further, almost as many respondents (93%) said it was important that they paid no fees on the account, with three-quarters (75%) indicating that the absence of fees was of great importance.

Responses to the last two questions especially help explain why many savers do not keep their savings in checking accounts. Nearly four-fifths of respondents (79%) indicated the importance of their being less likely to spend the savings on everyday items than if the funds were in a checking account, with more than two-fifths (44%) saying this was of great importance. Responses to the fourth question provide a reason respondents maintain a saving account rather than keeping all funds in either an investment account or checking account. Well over four-fifths of respondents (86%) said it was important that the savings account was mainly a rainy-day fund for unexpected expenses, with more than two-fifths (43%) indicating that this was of great importance.

Table 6: Survey Responses About Reasons for Valuing a Savings Account

	Important	Of -Great Importance
Easy access to money	96%	72%
Not paying fees	93	75
Account as rainy day fund	86	43
Less likely to spend than if in a checking account	79	44

There were surprisingly few statistically significant differences in responses among different demographic groups. The most frequent differences were related to gender. Women were more likely than men to greatly value easy access to funds (75% to 69%), not paying fees on their account (81% to 69%), and not being likely to spend the savings on everyday items (47% to 40%). Somewhat surprisingly, there were not large differences related to the household income of respondents. Apparently savers from all income classes value savings accounts and MMDAs for many of the same reasons.

Summary of Findings and Implications

Despite extremely low yields, traditional savings accounts were held by more than one-half (52.1%) of all households, according to data from the Fed's 2019 Survey of Consumer Finances. Moreover, nearly three-fifths (58.0%) owned this savings account and/or an MMDA. Roughly the same percentage of each age group held either one or both of these accounts. However, account ownership was highly correlated with household income. The higher their income, the more likely a family was to hold one of these accounts, with ownership ranging from only one-third (33.7%) for households in the lowest income quintile to over three-quarters for those in the highest quintile. The correlation of account ownership and income was equally true for traditional savings accounts alone, with ownership ranging from 30.2 percent for the lowest income quintile to 69.2 percent for the second highest income tenth (whose incomes ranged from $127,265 to $191,711).

The fund levels in most savings and MMDA accounts were more than enough to cover everyday emergency expenditures for items such as a car repair, medical deductible, speeding ticket, or new clothes for one's children. The median level of funds in both types of accounts was $7,000, and in savings accounts alone this level was $5,000. There were, however, great differences in fund levels related to household income. Our data support other research indicating that lower income households often cannot afford to pay cash for unexpected expenses.[9] Only one-third of households in the lowest income quintile have a savings account (and/or MMDA), and the median amount in these accounts is only $1,300. Furthermore, according to the Fed survey, only 70.4 percent own a checking account, and the median amount in these accounts is just $660.

Somewhat encouraging, though, were increases in the incidence and fund levels in traditional savings accounts for low- and moderate-income households between 2004 and 2019. The percentage of those in the two lowest income quintiles holding these accounts increased by more than 10 percent, and the median amounts in these accounts also grew, especially for those in the second income quintile – by 139 percent in nominal dollars. These increases suggest that widespread efforts to promote personal savings among the two groups had an impact.

[9] See note 5.

One dramatic change that puzzled us was the significant increase in ownership of traditional savings accounts (18.5%), and the levels in these accounts (90.0%), by households with heads 65 years and older. Perhaps these households were especially frightened by the Great Recession. And perhaps for these households, high yields on savings or investments, allowing accumulation over times, were now less important than for younger households.

Survey data collected by IPSOS help explain why savings accounts remain so popular and why these funds are not kept either in checking accounts or higher-yielding time deposits or investment accounts. On the one hand, well over 90 percent of those with a savings account or MMDA indicated that easy access to their money and not paying fees was important, with around three-quarters saying that these factors were of great importance. On the other hand, around four-fifths of these savers indicated that they considered their savings account to be an emergency fund that they were less likely to spend on everyday items than if the funds were in checking. Over two-fifths of savers attached great importance to each of these two factors.

The increasing popularity of traditional savings accounts, and also the low incidence and levels of these accounts among low- and moderate-income households, show the importance of banks and credit unions making these accounts accessible, inexpensive, and attractive. Most credit unions earn high marks on these qualities, in part because these cooperatives require members to open a savings account, then pay them higher yields than banks on these accounts. Many banks do deserve credit for keeping savings accounts accessible. For example, almost all of the thirteen big banks with the greatest number of branches (about one-third of all bank branches) waive monthly fees on a savings account for those customers who also maintain a checking account or agree to regular, monthly transfers of $25 or more into savings.[10] Most of these big banks promote savings on their websites, and more than half emphasize the benefits of automatic savings – the regular, automatic transfer of funds from checking to savings. However, almost all of these banks require savers without a checking account to maintain a minimum deposit of $300 or $500 to avoid monthly fees. And the typical interest rate paid by big banks on a savings account is one-hundredth of one percent.

[10] See note 3 for a list of the banks.