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UNDERSTANDING THE EMERGENCY SAVINGS NEEDS OF LOW- AND MODERATE-INCOME HOUSEHOLDS: A SURVEY-BASED ANALYSIS OF IMPACTS, CAUSES, AND REMEDIES

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Introduction

Research has shown that most low- and moderate-income households have significant unmet emergency savings needs: They lack adequate financial resources to pay for unexpected expenditures such as car repairs or emergency dental treatment. Low-income households report that they need around $1,500 in emergency savings. Yet less than one-third of these households have a savings account, less than three-tenths say they have emergency savings of at least $500, and the median account balance of those with a checking and/or savings account is only $600. Moderate-income households perceive typical emergency savings needs of $3,000. But less than half have a savings account, less than half say they have emergency savings of at least $500, and the median account balance of those with a checking and/or savings account is only $1,500. (1)

Intuitively, one would expect that emergency fund levels are positively related to income, and survey data support this expectation: In general, for households the higher the income, the greater the funds readily available to pay for unexpected expenses. But how strong is this association? Is income the most significant influence on emergency savings levels? Are there considerable differences in these savings levels among low- and moderate-income households? If so, what other factors help account for these differences? More importantly, if these differences exist, why should we care? Do low emergency savings levels appear to contribute to undesirable financial behaviors such as bouncing checks and taking out payday loans? Do they produce worry and more serious psychological distress? Finally, how can we most effectively assist low- and moderate-income households with inadequate emergency savings to increase these savings?

This paper will explore these questions mainly using unique data collected in surveys by Opinion Research Corporation for the Consumer Federation of America. The data are unique because in all these surveys respondents were asked about their emergency savings as well as about a wide range of their financial behaviors and attitudes.

The paper begins by discussing the nature of the survey data, the population studied, and the way the data will be used to understand the significance of emergency savings for this population. It then uses the data to examine different issues related to emergency savings – the potential adverse effects on households, the causes of these impacts, and possible implications for savings policy and program.

Data and Methodological Issues

Survey Data: This research was made possible through the generosity of others -- not only the Rockefeller Foundation which funded the preparation and discussion of this paper, but also those who earlier funded the collection of data from fairly robust surveys. Three phone surveys were especially valuable. Two were commissioned by the Consumer Federation of America (CFA), were undertaken by Opinion Research Corporation (ORC), and surveyed 2000 representative adult, non-institutionalized Americans about household finances and related attitudes. In November 2005, with funds from a Fannie Mae Foundation grant, Americans were asked 48 questions mainly about their actual finances and more than a dozen questions about demographic characteristics. One question in this survey – "About how much have you saved in emergency savings separate from any checking deposits?" -- made it possible to examine the relation between different levels of emergency savings and all the other financial and non-financial variables.

In November 2007, in a CFA collaboration with Wachovia which they funded, more than 2000 Americans were asked 49 questions mainly pertaining to attitudes about their finances plus other questions about their demographic characteristics. It also contained a question on emergency savings – "Do you feel you have adequate savings for unexpected expenses like car repairs or emergency dental treatment?" The third survey was commissioned by CFA, funded by a Rockefeller Foundation grant, and undertaken by ORC in October 2008. More than 700 representative adult Americans with household incomes under $50,000 were questioned about financial concerns, views of savings accounts, and demographic characteristics. This survey's question on emergency savings asked respondents how much was available in their bank or credit union accounts for unexpected expenditures.

Several other fairly recent surveys commissioned by CFA and undertaken by ORC were also useful -- a November 2004 survey of 1000 women about their emergency expenditures, a February 2007 survey of 1000 men and women about emergency savings, and a February 2008 survey of 1000 men and women about their savings strategies.

Definitions of Emergency Savings: Earlier research defined unmet emergency savings needs as the gap between unexpected routine expenditures and funds from transaction accounts, especially savings accounts, that was readily available to pay for these expenditures. A recent paper reviewing different definitions of emergency savings and needs showed that these needs vary considerably depending on how one defines them. (2) In brief, the most conservative definition considers savings capacity to be only the funds in savings accounts. Yet, while lower-income households tend to have few liquid funds in other accounts that would be appropriate to cover routine unexpected expenditures, they sometimes have these funds available, often in checking, sometimes keep cash at home, and increasingly view available credit, such as unused credit card lines or potential family loans, as savings. Consequently, when they are asked whether they have adequate savings to pay for unexpected expenditures, a far higher proportion of respondents indicate that they do than the more conservative assessment of their finances would suggest. Regardless, what's important in this analysis is that populations studied be separated into groups, with different levels of emergency savings that can be compared. The related questions in the ORC surveys permit this differentiation.

Much of the following analysis distinguishes those with less than $500 in emergency funds (EF) from those with more than this amount. The survey data suggest that this figure, or something close to it, may represent a threshold that distinguishes both attitudes and behaviors. Regardless, $500 divides the sample into two subgroups that are large enough to permit comparisons.

Lower-Income Groups Studied: In earlier research, the focus was on those households with incomes below $35,000 and on those in the lowest two income quintiles. These two groups are nearly identical in size. Encouraged by the Rockefeller Foundation, this study expands the focus to all those households with incomes under $50,000. That increases the size of the population studied from about a third to about a half of all households. Moreover, the sample population is divided into two subsamples of roughly equal size -- those with incomes below $25,000 and those with incomes above this threshold. These two groups are referred to respectively as low- and moderate-income.

One dilemma of this research is distinguishing respondent and household characteristics. All surveys used in this research asked respondents, a large majority of whom said they were household heads, for their household income but questioned them about their own attitudes and experiences. Accordingly, it cannot be assumed that responses about these attitudes and experiences apply to whole households.

Approach: The main focus of this study is comparisons among the four groups -- low-income and moderate-income respondents with and without substantial emergency funds. Rather than simply correlating variables to identify potentially significant relationships, hypotheses are proposed then tested using the survey data. While this assessment is somewhat crude -- mainly involving bivariate significance tests at the 0.05 level -- it is nevertheless illuminating. (Significant differences are noted in tables by bolded and italicized figures, higher and lower respectively, in rows.) The paper also comments on these findings, especially their possible relevance for savings policy and program.

Impacts

If levels of emergency savings are influential, one would expect that low levels would be associated with adverse financial consequences and personal concerns. One would predict, for example, that low savings levels would be closely related to negative experiences such as bouncing checks, making minimum credit card payments, and having difficulty paying monthly bills. One would also expect that lack of emergency savings would cause personal worry and possibly related adverse health, social, and work-related impacts. This section uses data from the November 2005 survey, the November 2004 survey, and the October 2008 survey to examine both sets of relationships.

Financial: Intuitively, it seems that low emergency savings would make it more difficult to manage bill payments, checking accounts, and credit cards, and would increase the use of high-cost debt. More specifically, households with low liquid savings would be more likely to:

- have difficulty paying regular monthly bills, including making rent or mortgage payments, because of lack of financial resources to cover unexpected expenses that one survey suggested were typically $2000 a year for both low- and moderate-income households;

- have difficulty keeping sufficient funds in checking accounts, thus increasing the frequency of monthly fees for failing to meet minimum balance requirements and fees for bouncing checks;

- have difficulty managing credit cards as evidenced by making minimum monthly payments that fail to reduce balances appreciably, and by being assessed fees for making these payments late or for exceeding credit limits;

- be more likely to carry high credit card balances over time because of inadequate resources to pay for unexpected expenses; and

- have impaired credit histories and thus be forced to resort to high-cost loans including payday, car title, and pawnshop loans, with interest rates typically in triple digits.

As Tables 1 and 2 suggest, all these predictions are supported to a greater or lesser extent for both income groups surveyed in November 2005. Low savers (those with less than $500 in emergency funds) are often more than twice as likely to have a negative financial experience than are high savers (those with at least $500). That is especially true for paying monthly bills, making mortgage or rent payments, bouncing checks, taking out high-cost loans, and failing to build financial assets.

Moreover, there are possible explanations for several differences that are not as large. Low-income respondents may have underreported their failure to meet monthly checking minimums because these are experienced as a small fee on a monthly bill, not as a more jarring NFS fee and a payment that must be made good as in the case of bounced checks. For a similar reason, respondents may also have underreported credit card fees. In general, one would expect people to report intense experiences, such as bouncing checks or having difficulty making payments, more fully than less intense experiences that result only in an additional charge on a monthly statement. Of course savers may also have underreported these fees.

Table 1: Financial Impacts on Low-Income Respondents (Nov 2005)

Impact	**<$500 EF**	**>$500 EF**
Bill payment		
Concern paying monthly bills	**70%**	*36%*
Difficulty paying mtge or rent	**42**	*16*
Checking management		
Not met mo. minimums past year	18%	13%
Overdrawn account past year	**52**	*22*
Credit card management		
Carry a balance	74%	62%
Pay mo. minimum or somewhat more	**51**	*35*
Paid fee in past year	35	26
High-cost loans		
Payday	**8%**	*3%*
Car title	7	3
Pawnshop	**8**	*0*

Table 2: Financial Impacts on Moderate-Income Respondents (Nov 2005)

Impact	**<$500 EF**	**>$500 EF**
Bill payment		
Concern paying monthly bills	**51%**	*36%*
Difficulty paying mtge or rent	**29**	*14*
Checking management		
Not met mo. minimums past year	**28%**	*11%*
Overdrawn account past year	**51**	*17*
Credit card management		
Carry a balance	**77%**	*63%*
Pay mo. minimum or somewhat more	**63**	*40*
Paid fee in past year	**35**	*20*

High-cost loans		
Payday	**10%**	*4%*
Car title	10	8
Pawnshop	**5**	*0*

Psychological: Clearly the lack of emergency savings contributes to undesirable financial situations, but does it also create concern and worry? Perhaps those with little savings do not value financial security nearly as highly as those with much savings so are not very concerned about their insecure condition.

The November 2004 survey addressed aspects of this issue. A representative sample of 1000 American women were asked if they worried about their personal finances and suffered adverse physical and social consequences as a result. Seventy-one percent said they had worried about their personal finances in the past year, with 29 percent saying they worried frequently. As Tables 3 and 4 show, both low- and moderate-income respondents with emergency savings below $500 were more likely to worry than those with emergency savings above this level. Moreover, low-saving worriers were much more likely to say they lost sleep, suffered worse health, or were less productive at work than were high-saving worriers. It is noteworthy that moderate-income nonsavers were more likely to worry than were low-income savers.

Table 3: Psychological Impacts on Low-Income Respondents (Nov 2004)

Impact	**<$500 EF**	**>$500 EF**
Worried about personal finances in past year	**91%**	*75%*
Frequent worriers	**68**	*29*
For worriers		
Lose sleep	**68**	*40*
Worse health	**50**	*19*
Less productive at work	26	14

Table 4: Psychological Impacts on Moderate-Income Respondents (Nov 2004)

Impact	<$500 EF	>$500 EF
Worried about personal finances in past year	**88%**	*63%*
Frequent worriers	**67**	*24*
For worriers		
Lose sleep	**60**	*33*
Worse health	**38**	*22*
Less productive at work	**28**	*15*

An October 2008 survey also revealed that low- and moderate-income Americans with low emergency funds worried far more than did those with larger funds, and were more likely to suffer adverse consequences. Moreover, they did so about as frequently as respondents did in the 2004 survey.

Table 5: Psychological Impacts on LMI Respondents (Oct 2008)

Impact	<$500 EF	>$500 EF
Worried about personal finances in past year	**85%**	*69%*
Worried a lot	**53**	*21*
For worriers		
Lose sleep	**64**	*42*
Worse health	**54**	*29*
Less productive at work	**42**	*23*

Causes

This section explores possible causes of low emergency savings and their inter-relationships. Researchers have identified factors such as low incomes, lack of financial knowledge, pessimistic attitudes, poor money management skills, and lack of savings opportunities as influencing the extent to which people save. Our survey data allow us to explore the influence of several of these factors and others as well. These factors can be grouped into the following categories – income, other demographic variables, expenses, money management skills, savings habits, and savings opportunities.

Income: Income is the factor that is most often presumed to have the greatest influence on household saving. The question that needs to be explored is: How strong is this relationship? This issue has more than academic importance because, if raising household incomes is the only effective way to increase emergency savings levels, then the options of those seeking to raise these levels using other means are somewhat constrained.

The November 2005 survey found that having no or low emergency savings was strongly correlated with three broad income groups: 64 percent of those with incomes under $25,000, 38 percent of those with incomes between $25,000 and $50,000, and 17 percent of those with incomes over $50,000 had emergency savings less than $500, with only 5 percent of those with incomes over $100,000 being below this level. On the other hand, within each of the two lowest income groups, there was hardly any difference in income between low savers and high savers -- for low-income households, $18,000 versus $17,000, and for moderate-income households, $38,000 versus $37,000. This finding is supported by data collected in the November 2007 survey, where the difference between the median incomes of low-income low and high emergency savers was $500, and that between moderate-income low and high emergency savers was $1,400. These relatively small differences suggest that, within these two income categories, other factors are more influential.

It is possible that, even though their incomes were nearly the same, these incomes were more unstable for non-savers than for savers. In the February 2007 survey, the low savers – those who said they were saving inadequately or not at all -- were more likely than the high savers to indicate that "low or unreliable income" made it difficult for them to save – 89 percent versus 74 percent for low-income households, and 84 percent versus 67 percent for moderate-income households. But it is possible that these differences reflect, not variable incomes, but rather variation in spending habits, money management, and savings habits that help explain different perceptions about whether incomes are "low."

That explanation is supported by the small difference between these percentages for low- and moderate-income households. In fact, a higher percentage of moderate-income non-savers cited "low or unreliable income" than did low-income savers. The lack of substantial differences between low- and moderate-income households is also evident in data from Tables 1 and 2. Low-income respondents said they are not much more likely, and sometimes less so, to overdraw checking, pay credit card minimums, pay credit card fees, and take out high-cost loans than moderate-income respondents reported. The only clear differences between the two income groups relate to difficulty paying monthly bills, including making mortgage or rent payments.

Other Demographic Factors: In their research, social scientists frequently examine the influence of factors such as gender, age, education, marital status, children, employment, and income. All these factors are discussed below. One could conjecture that each of these factors affects emergency savings levels:

- **Gender:** Since women manage family finances more often than men, perhaps they are more interested in and capable of successfully doing so and, thus, are more likely to have emergency savings.

- **Age:** As people age, perhaps they learn more about managing money and the importance of maintaining financial reserves so are more likely to have emergency savings.

- **Education:** The more education people have, the more likely they may be to have information-seeking and analytic skills that allow them to more skillfully manage money and so are more likely to have emergency savings.

- **Marital Status:** Because marriage encourages one to act more responsibly and often increases discretionary income, married persons might be more likely to be financially prudent and, thus, maintain adequate emergency savings.

- **Children:** Since children are expensive to raise, having them as dependents could make it more difficult to find money to set aside as emergency savings.

- **Employment:** Those who work in paid jobs may be be more disciplined than those who do not and also have less time to shop. Alternatively, these workers have greater fixed expenses related to transportation, attire, equipment, and childcare than non-workers, and so could find it more difficult to build emergency savings.

Table 6: Demographic Characteristics of Low-Income Respondents (Nov 2005)

Characteristic	<$500 EF	>$500 EF
Gender		
Male	71%	29%
Female	70	30
Education - high school or less	**65**	*46*
Married or living as married	28	27
Children under 18	38	31
Employed	55	59
Average age	42 yrs	**47 yrs**

Table 7: Demographic Characteristics of Moderate-Income Respondents (Nov 2005)

Characteristic	<$500 EF	>$500 EF
Gender		
Male	43%	57%
Female	39	61
Education - high school or less	51	46
Married or living as married	**55**	*45*
Children under 18	**54**	*33*
Employed	53	50
Average age	42 yrs	**46 yrs**

As can be seen in Tables 5 and 6, few of these conjectures are supported by the data from our November 2005 survey:

- For both low- and moderate-income respondents, women are only slightly less likely to be high savers than are men.
- For both income groups, high savers are a bit older than low savers -- by five and four years respectively.
- For moderate-income respondents, high savers are a little more likely to have education beyond high school than are low savers. But for low-income respondents, there is a considerable education gap between high and low savers.
- For low-income respondents, high savers are as likely as low savers to be married or living as married. But counter-intuitively, for moderate-income respondents, low savers are more likely than savers to be married.
- For low-income respondents, high savers are somewhat less likely than low savers to have children under 18. But for moderate-income respondents, high savers are much less likely than low savers to have children.
- For both income groups, being employed does not help explain differences in emergency savings.

Expenses: If income received does not explain differences between low savers and high savers in each of the two income groups, perhaps how income is spent does. A key distinction related to this complex issue is between necessary and discretionary expenditures, and a key question is the ratio between the two. On the one hand, one could hypothesize that a high necessary to discretionary expenditure ratio would be associated with low emergency funds because so few funds were available to save. On the other, one could posit that a low ratio would be associated with low funds because individuals chose to spend rather than save.

The CFA survey data is not very helpful in assessing these competing explanations. For both low- and moderate-income groups according to the 2005 survey, low savers spent a little less on average monthly housing payments -- $600 versus $700, and $700 versus $800. Large majorities of all four groups received cable or satellite TV transmission – 70 percent for low-income low savers, and 82 or 83 percent for the other three groups. And for both these groups according to the November 2007 survey, low and high savers did not report significant differences in unexpected expenses – 46 percent for low-income low savers versus 51 percent for low-income high savers, and 78 percent for moderate-income low savers versus 79 percent for moderate-income high savers – which might have made it difficult to build emergency funds.

To help resolve this issue, it would be especially useful to compare discretionary expenditures for low and high LMI savers. Do low savers drive more or less expensive cars? Do they spend more or less on entertainment and vacations? The more they spent on discretionary expenditures, the greater ability they would have to reallocate this spending to saving.

One important expense for some LMI households is servicing credit card debt, which could reflect varying proportions of necessary and discretionary spending. According to the September 2005 survey, 63 percent of low-income respondents and 76 percent of moderate-income respondents reported that they had at least one major credit card. Of these low-income cardholders, those with less than $500 in emergency funds carried an average of $1,600 in credit card debt, while those with more than $500 carried an average of only $1,100 of this debt. Of these moderate-income cardholders, low savers carried an average of $2,300 of this debt, while high savers carried an average of only $1,300. These $500 and $1,000 differences represent typical annual interest differences of perhaps $100 and $200 respectively. It should be noted that these annual costs would be higher, possibly considerably so, if principal as well as interest were paid. It should also be noted that people tend to underreport levels of credit card debt.

Financial Management: There is some evidence that high emergency savers are more effective money managers than are low emergency savers and, thus, find it easier to build emergency savings. That is suggested by information in Tables 1 and 2 which show that, for both low- and moderate-income households, high savers are much less likely than low savers to overdraw a checking account, make minimum or near-minimum credit card payments, and take out high-cost loans. Other telling evidence relates to savings habits.

Savings Habits: There is even stronger evidence, from the February 2008 survey, that high savers have more effective savings habits than do low savers. One can conjecture that low- and moderate-income Americans who know their net worth, however modest; who have spending plans with goals, saving plans with goals, and spending plans that allow them to meet savings goals; or save automatically by pre-authorizing regular transfers from checking to savings or investments are more likely to have adequate emergency funds than those who do not. The information in Tables 8 and 9 contains this evidence.

Table 8: Savings Habits of Low-Income Respondents (Feb 2008)

Savings Habit	**<$500 EF**	**>$500 EF**
Know net worth	*35%*	**50%**
Have a spending plan with goals	*34*	**88**
Have a saving plan with goals	*11*	**63**
Have a spending plan that allows meeting saving goals	*4*	**56**
Outside of work, save automatically through pre-authorized transfers from checking	*12*	**54**

Table 9: Savings Habits of Moderate-Income Respondents (Feb 2008)

Savings Habit	<$500 EF	>$500 EF
Know net worth	*35%*	**54%**
Have a spending plan with goals	*50*	**78**
Have a saving plan with goals	*21*	**61**
Have a spending plan that allows meeting saving goals	*10*	**48**
Outside of work, save automatically through pre-authorized transfers from checking	*16*	**46**

These are huge differences that, despite small sample sizes, are all statistically significant. For low- and moderate-income respondents, differences in savings habits are strongly associated with having at least $500 in emergency savings.

This association could mainly reflect differences in financial habits, although it could also result from more fundamental differences in personal organization skills and values of which the financial habits are but one expression. However, the experience of some savings programs, such as America Saves, does suggest that persuading some households to develop a savings plan itself has efficacy. What may well be occurring here is that many, if not most, nonsaving Americans have sufficient saving values and personal organizational skills to take advantage of societal encouragement and opportunities to save.

Remedies

The data on personal financial management suggest both that inadequate management is a cause of low emergency savings and that adequate management represents a way to increase these savings. That could also be the case with savings opportunities. For example, not being encouraged to open and maintain an accessible and attractive savings account can be viewed as a cause of low emergency savings. Yet, being urged by one's bank or credit union to open and maintain a savings account with affordable minimums and financial incentives, such as high interest or bonuses, can represent a solution to low savings.

This section focuses most attention on new survey data about the attractiveness of savings account features and communications to encourage purchase and growth of these accounts. This emphasis reflects the reality of today's financial services marketplace where emergency savings opportunities mainly are related to the effectiveness with which LMI households are urged to purchase accounts which they find attractive and accessible. In the future, however, there may be opportunities to use the default option which is increasing workplace retirement saving.

Another promising saving opportunity is provided by the some $80 billion received by LMI households annually in federal income tax refunds and Earned Income Tax Credits. Average payments exceeding $2000 provide the means for recipients to significantly increase emergency funds. The key opportunity to urge and facilitate this saving is tax preparation, and there is much promising research and experimentation in this area.

Savings Opportunities -- Previous Research: A consensus is emerging among savings researchers and practitioners that access to attractive savings opportunities helps explain much of the variation in personal saving behavior. Research on retirement saving at work, for instance, has shown that the probability of saving significantly increases not just because a payroll deduction retirement plan is available, but also because the plan has a default option requiring employees rejecting participation to do so explicitly. (3) Accordingly, if employers were to split directly deposited paychecks between checking and savings accounts, unless requested not to do so, far more households might build up savings sufficient to cover routine unexpected expenditures.

Today, however, there are limited opportunities for Americans to split directly deposited paychecks. Many employees, especially low-income ones, do not even directly deposit their paychecks. According to a May 2008 survey commissioned by CFA and undertaken by ORC, of 2000 representative adult Americans surveyed, 15 percent of those with a regular paycheck said they cannot directly deposit it, and 22 percent of those with a direct deposit option do not utilize this option, so that 34 percent of employees surveyed do not have paychecks directly deposited. More importantly for the purposes of this research, for those employees from low-income households (under $25,000 annual income), 23 percent said they do not have the option of direct deposit, and 36 percent of those with this option do not utilize it, so that less than half of these employees (49%) have paychecks directly deposited. Furthermore, the percentage of employees who said they can and do split directly deposited paychecks between checking and saving is much smaller – in our sample, only 23 percent of all employees and 10 percent of low-income employees.

Splitting directly deposited paychecks, though a very promising strategy that should be vigorously pursued, has other limitations as an emergency savings strategy. First, a significant minority of adult Americans -- 41 percent according to the recent CFA survey -- do not receive regular paychecks, though many of these do receive Social Security and other government checks where splitting could be allowed or even encouraged. Second, employers do not have the financial incentives to embrace paycheck splitting that they have for promoting participation in contributory retirement savings plans.

It would be useful to explore with employers incentives that would persuade them to offer employees paycheck splitting and urge them to do so. In the meantime, banks that service large employers, and their employees, could be encouraged by bank regulators to promote this splitting, which should help them expand their consumer business. Even if they failed to persuade an employer to offer splitting, they could try to persuade employee customers to agree to automatic transfers of a portion of paychecks from checking to saving. A few banks and credit unions have recognized the value of promoting these automatic transfers as a way to build market share. As research has shown, autosave programs such as Bank of America's Keep the Change, Wachovia's Way2Save, and Navy

Federal Credit Union's incremental certificate of deposit have attracted millions of customers. (4)

Savings Opportunities -- Account Features: Certainly when marketed by banks or credit unions, but arguably even if promoted by employers or tax preparers, the features of savings accounts strongly influence their attractiveness. Financial institutions which offer popular accounts believe that the accounts must be marketed aggressively, must require automatic transfers from checking, and must offer financial incentives ranging from higher interest and bonuses to automatic entry in raffles for cash prizes. The October 2008 survey queried 715 representative adult Americans from low- and moderate-income households (incomes under $50,000) about specific savings account features that would "persuade them to open a savings account or add funds to an existing savings account." Potentially attractive features included various financial incentives, free automatic transfers, and free change counting. Potentially unattractive features included charges for and restrictions on withdrawals.

As the table below shows, the attractive feature considered by the most respondents (half) to be very important was 4% interest earned. (High interest was the most common incentive used by large banks and credit unions, surveyed by CFA recently, to attract savings.) (5) The feature attractive to the next most respondents (two-fifths) was the 8% interest on $1 transfers from checking to saving for each debit card use. (This feature is similar to that of Wachovia's Way2Save account.) The feature least attractive to the most respondents (52%) was a $2 charge for each withdrawal.

Table 10: Savings Account Features Considered Very Important To LMI Respondents (Oct 2008)

Feature	All Respondents
Attractive	
4% interest earned on savings	50%
8% interest earned on savings from checking to saving transfers of $1 for each debit card use	43
Free monthly auto transfers from checking to saving	29
$25 bank gift card when $250 in savings for 6 months	28
Free change counting for savings deposits	19

Raffled cash prizes in lieu of interest earned	16
Unattractive	
$2 charge for each withdrawal	52%
No more than 2 withdrawals/month	35
Checking required to have savings	35

There are, however, interesting differences among different groups of savers. One would expect that most incentives and disincentives would be more important to those with savings accounts, who could more easily receive the incentives or disincentives, than those without these accounts. As Table 11 reveals, attractive and unattractive features are much more likely to be very important to low- and moderate-income Americans with a savings account than to those without one. There are only two notable exceptions: Receiving 8% interest for $1 transfers from checking is attractive to almost as many with no checking or saving account as it is to those with a savings account. And, raffled cash prizes are most likely to be very important to those with only checking accounts.

Table 11: Savings Account Features Considered Very Important to LMI Respondents by Account Relationship (Oct 2008)

Feature	Savings	Only Checking	Neither Account
Attractive			
4% interest	**59%**	*42%*	*34%*
8% interest on $1 deposits	**43**	*33*	41
Free auto transfers	**37**	*20*	*16*
$25 gift card	**33**	*21*	*22*
Free change counting	20	16	17
Raffled cash prizes	**16**	**20**	*6*
Unattractive			

$2 withdrawal charge	**58%**	***48%***	*32%*
Only 2 withdrawals/month	**39**	34	*24*
Required checking	**38**	**37**	*23*

One would also expect that many of these features would be most attractive to those with modest emergency savings. Members of this group could more easily receive the incentives or disincentives than those without such savings. They should also value more highly, than those with larger emergency savings, incentives of modest dollar amounts such as 8% interest on $1 deposits and $25 bank gift cards, the chance to win money in a raffle, and the convenience of free change counting. As Table 12 shows, this general expectation is largely supported by data from the October 2008 survey. While those with modest emergency savings are most likely to consider 4% interest very important, they are much more likely to consider free auto transfers, free change counting, and access to raffled money prizes to be very important than are those with either no or larger emergency savings. It is noteworthy, however, that many with emergency savings (45%) consider the incentive of 8% interest earned on $1 deposits for debit card use to be very important. (For these three groups, there are not significant differences in the importance they place on the three types of withdrawal restrictions.)

Table 12: Savings Account Features Considered Very Important to LMI Respondents by Emergency Funds Level (Oct 2008)

Feature	No EF	$1-250 EF	>$250 EF
4% interest	41%	***58%***	***54%***
8% interest on $1 deposits	45	*43*	37
Free auto transfers	19	***45***	***30***
$25 gift card	26	*35*	*29*
Free change counting	**20**	**33**	13
Raffled cash prizes	13	**31**	*13*

Some savings account features are more likely to be considered very important to certain demographic groups than to others. Especially striking is the greater attractiveness of raffled money prizes to minorities than to other Americans: Thirty percent of both African-Americans and Hispanic-Americans, compared to only 9 percent of other Americans, said these raffled prizes were very important.

Savings Opportunities -- Communication Vehicles: The October 2008 survey also questioned respondents about the importance of various communication vehicles for persuading them to open a savings account or add to an existing account, assuming the account had attractive features. These vehicles were ads, mail solicitation, and encouragement from various sources.

As Table 13 shows, personal encouragement, especially from family or friends, is much more likely to be considered very important than are bank or credit union ads or mailings, though the percentages for ads and mailings could well have been suppressed by the reluctance of respondents to acknowledge the influence of industry marketing. Moreover, all communication vehicles are somewhat more likely to be considered very important by those with less than $500 in emergency savings than by those with more than this amount. More noteworthy, however, is the relatively low percentages for all six communication vehicles. This finding suggests that more than one, perhaps several, types of communications in combination are needed to persuade LMI households to open or add to savings accounts.

Table 13: Savings Account Communication Vehicles Considered Very Important to LMI Respondents (Oct 2008)

Vehicle	All	<$500 EF	>$500 EF
Personal encouragement from family or friends	**32%**	**37%**	25%
Encouragement from new President of US	***23***	**29**	16
Personal encouragement from your bank or credit union	22	**25**	17
Personal encouragement from your employer	***20***	**27**	13
Mailings to you	18	20	15
Advertisements	*10*	***27***	*13*

One demographic difference worth noting is the fact that for almost all communication vehicles, much higher percentages of minorities than other Americans said they would be very important, as Table 14 reveals. These statistics may help explain why savings programs emphasizing personal encouragement from various sources, such as America Saves, appear to have greater appeal to minorities, especially African-Americans, than to others.

Table 14: Savings Account Communication Vehicles Considered Very Important to LMI Respondents by Ethnicity (Oct 2008)

Vehicle	White	Afr-Am	Hisp-Am
Personal encouragement from family or friends	28%	**40%**	37%
Encouragement from new President of US	*17*	**39**	**33**
Personal encouragement from your bank or credit union	14	**38**	**37**
Personal encouragement from your employer	*15*	**35**	**27**
Mailings to you	12	**26**	**28**
Advertisements	*8*	***21***	*7*

Summary

For both low- and moderate-income survey respondents, not having adequate funds to cover unexpected expenditures appears to increase the difficulty of managing personal finances and the chances of suffering related psychological costs such as lost sleep and poor health. For both income groups, those with less than $500 in emergency funds are often more than twice as likely to experience financial and psychological problems than are those with more than this amount. Strikingly, moderate-income respondents with low emergency funds are far more likely to experience these problems than are low-income respondents with high fund levels.

For both low- and moderate-income households, income cannot adequately explain differences in emergency fund levels. For both groups there is little difference in the median income between those with more than $500 in emergency funds and those with less than this amount. Nor are other demographic factors – including gender, marital status, and employment status – very useful in accounting for emergency fund differences. The only factors that may help explain low emergency fund levels are not having a high school degree, especially for low-income respondents, and having children under 18, especially for moderate-income respondents. Those without a degree may well be less literate and numerate, and thus less able to manage their finances adequately, including creating and maintaining emergency funds. Those with children may have greater household expenses and thus have greater difficulty maintaining emergency funds.

The relation of expenses to emergency fund levels was researched very incompletely. While little difference was found between the monthly housing costs and use of cable television of those with varying emergency fund levels, the survey data did not permit examination of the relation between discretionary spending and these fund levels, which could vary either positively or negatively. The survey data, however, do not reveal differences, between low and high emergency savers, in their perceptions of the importance of unexpected expenditures in making it difficult for them to save.

For both income groups, however, there was a strong relation between having spending and saving plans, on the one hand, and maintaining emergency funds, on the other. Particularly for low-income respondents, those with a spending plan with goals were far more likely to have emergency funds than were those without such a plan. And for both low- and moderate-income respondents, those with a saving plan with goals were far more likely to have these funds than were those without such a plan.

Encouraging and assisting individuals to develop and implement a saving plan, with specific dollar goals, is the central focus of programs such as America Saves. Only between one-fifth and one-third of low-income respondents said personal encouragement from friends and family, your bank or credit union, and your employer, respectively, would be very important in persuading them to open a savings account or add to an existing account. But between one-third and two-fifths of minority respondents indicated that this personal encouragement would be very important. This finding may help explain why minorities appear more likely to participate in America Saves than do whites.

The success of this encouragement would seem to be related to the specific features of accessible savings accounts. LMI respondents indicated that higher interest yields are more important savings incentives than are a free $25 gift car, free change counting, and raffled cash prizes in lieu of interest earned. Half of respondents said a four percent yield would be very important in persuading them to save. And, more than two-fifths (43%) indicated that an eight percent yield, paid on one dollar transfers from checking to saving for each debit card purchase, would be very important. These and other incentives were most often very important to those with emergency funds of between $1 and $250. Raffled cash prizes were most often very important to minorities.

There is growing evidence that preauthorizing deposits from payroll or checking to savings greatly increases the accumulation of savings. The February 2007 survey, for instance, found that for those respondents with a separate emergency savings fund, over half (52%) maintained this fund through automatic regular transfers from checking while nearly one-third (31%) did so through regular automatic payroll deposits. Accordingly, it is wise to continue exploring the potential for employers, government, and financial institutions to promote and facilitate these automatic savings deposits, preferably through a default option. As this is done, however, it would be sensible to also consider the role of saver understandings, saver motivations, and the attractiveness of savings accounts as factors likely influencing the success of this automatic saving, even that with automatic enrollment.

Notes

(1) Stephen Brobeck, "Unmet Emergency Savings Needs and the Role of Financial Institutions in Meeting Them" (Consumer Federation of America, 2007).

(2) Stephen Brobeck, "How Americans Conceptualize Emergency Savings: Evidence From Consumer Surveys" (Consumer Federation of America, 2008).

(3) Contributions to Pension Design and Structure: New Lessons from Behavioral Finance, edited by Olivia S. Mitchell and Stephen P. Utkus (Oxford University Press, 2004).

(4) Unpublished Consumer Federation of America survey of savings accounts at large banks (2007).

(5) Stephen Brobeck, "The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergencies" (Consumer Federation of America, 2008).