



Policy Recommendations for Helping U.S. Households Build Emergency Savings

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In households without emergency savings, events like an expensive car repair increase financial strain and make it harder to meet basic needs.¹ Most U.S. households experienced a financial shock in the past year.² Recovering from one is also difficult, particularly for low- and moderate-income (LMI) households.³ They struggle to pay bills when the timing of paychecks does not align well with due dates and paycheck amounts vary.⁴

Less than half of U.S. households have set aside enough emergency savings to cover 3 months of living expenses.⁵ A 2015 study found that households in the lowest income quintile had enough emergency savings to cover only 9 days of living expenses; the next highest quintile was not much better off: Those households were able to cover only 15 days of expenses.⁶ To help “Build Financial Capability for All,” we recommend three types of policies that will improve the ability of LMI and other households to cope with financial shocks by saving for emergencies.

Recommendation 1:

Expand access to and use of savings accounts

Owning a bank account is correlated with positive savings outcomes,⁷ yet 30% of households that save for emergencies do not use such accounts.⁸ Expanding access to savings accounts will facilitate saving and protect the assets that accumulate.

The Federal Deposit Insurance Corporation’s Model Safe Accounts Pilot suggests a path forward: 95% of customers who opened basic savings accounts through the pilot retained their accounts 1 year later.⁹ The accounts required minimum-opening and monthly balances of \$5, charged no monthly maintenance fee, enabled free direct deposit, and offered a free automatic savings feature. The Community Reinvestment Act of 1977 should be modernized to require Model Safe Account compliance by banks under the service

test.¹⁰ Banks should receive additional credit under the act’s service test when they help LMI consumers build savings through innovative product enhancements.¹¹

A portion of increased appropriations to the Community Development Financial Institutions Fund could be earmarked for building the capacity of those institutions to offer savings products and incentives. Also, employers should be encouraged to offer direct deposit with the option to automatically split funds into multiple accounts, enabling employees to direct a percentage of their pay toward a savings account.

Recommendation 2:

Expand tax-time savings opportunities

Tax refunds are an opportunity for LMI households to save and to reduce the risk of experiencing material hardship after tax filing.¹² Only three states, California, Hawaii, and Maryland, permit split deposits of state income tax refunds.¹³ Other states should pass legislation allowing tax filers to split refunds across up to three different bank accounts. With this change, state policy would be consistent with the split deposit functions that the Internal Revenue Service offers through Form 8888.

Also, as proposed in Section 4 of the Financial Security Credit Act of 2015,¹⁴ the U.S. Department of the Treasury should enable tax filers to open savings accounts when they file their taxes. These accounts should conform to the Model Safe Accounts template, and banks that enable filers to open these accounts at tax time could receive additional credit under the Community Reinvestment Act service test. To facilitate household saving, the Internal Revenue Service should encourage companies in the Free File Alliance to incorporate simple messages and choice architecture into tax-filing software.¹⁵

Recommendation 3:**Create incentives to save for emergencies**

Federal policy should offer LMI tax filers incentives to save their tax refunds, and legislative proposals have identified specific measures. The Financial Security Credit Act of 2015 would have provided a match of up to \$500 for refund amounts that LMI filers put into savings products and retained for 8 continuous months. The Refund to Rainy Day Savings Act proposed in 2016 would have established a 3-year pilot program to provide savings matches of up to 20% of expected refunds deferred for a 6-month period.¹⁶

Enacted in 2014, the American Savings Promotion Act permits banks with federal charters to offer savings promotion raffles. Evidence has shown that prize-linked savings lotteries encourage saving with little risk to consumers.¹⁷ In addition, 20 states allow savings promotion raffles.¹⁸ The other 30 states should consider legislation to enable these raffles among state-chartered banks.

These recommendations hold promise, but their full potential will not be realized unless policies improve and expand the job opportunities available to LMI households. Proposed in 2015, the Workplace Democracy Act would have amended the National Labor Relations Act to encourage employees to form and join unions.¹⁹ Another policy proposal is a federal job guarantee, whereby every person who wants to be employed would have guaranteed access to a job, living wages, and benefits such as health insurance and retirement savings options.²⁰

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Notes

- ¹ On connections to strain, see Rothwell and Han (2010); on difficulty meeting basic needs, see Gjertson (2016).
- ² Pew Charitable Trusts (2017).
- ³ Pew Charitable Trusts (2017).
- ⁴ Morduch and Schneider (2017).
- ⁵ Board of Governors of the Federal Reserve System (2016).
- ⁶ Pew Charitable Trusts (2015).
- ⁷ Friedline, Johnson, and Hughes (2014).
- ⁸ Federal Deposit Insurance Corporation (2016).
- ⁹ Federal Deposit Insurance Corporation (2012).
- ¹⁰ Rand (2015).
- ¹¹ Cohen et al. (2015); Khashadourian (2015); Manturuk, Dorrance, and Halladay (2015).
- ¹² Beverly, Schneider, and Tufano (2006); Grinstein-Weiss et al. (2016); Grinstein-Weiss, Russell, Gale, Key, and Ariely (2017); Key, Tucker, Grinstein-Weiss, and Comer (2015).
- ¹³ Flores (2011).
- ¹⁴ Financial Security Credit Act (H.R. 4236, 2015).
- ¹⁵ Grinstein-Weiss et al. (2017). The Free File Alliance is a nonprofit coalition of tax software companies that have partnered with the Internal Revenue Service to offer free, online, federal income-tax-return filing to lower income filers.
- ¹⁶ Edin, Greene, Halpern-Meeekin, and Levin (2015); Refund to Rainy Day Savings Act (S. 2797, 2016).
- ¹⁷ Atalay, Bakhtiar, Cheung, and Slonim (2014).
- ¹⁸ Morton (2016).
- ¹⁹ Workplace Democracy Act (S. 2142, 2015).
- ²⁰ Paul, Darity, Hamilton, and Price (2017).

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