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# Assets Learning Conference

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Leah M. Gjertson

University of Wisconsin-Madison

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# Emergency or 'Contingency' Savings

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- Need for liquid assets
  - Many households are unprepared
- Financial emergencies are common for LMI
  - Unexpected expenses
  - Income shocks
- Economic opportunities

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- Structural
  - Income constraints and variability
  - Asset limits on public benefits
  - Lack of product market
- Behavioral/psychological biases
- Financial literacy/knowledge

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## ● Savings Prevent Hardship

- Low levels of emergency savings (below \$500) are correlated with missed bill payments and bounced checks (Brobeck, 2008)
- Modest amounts of liquid assets reduce material hardship in response to income shocks (Mills and Amick, 2010)
- Liquid savings reduce deprivation when households face job loss, work limiting health event, or death or divorce (McKernan, Ratcliff, and Vinopal, 2009)

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## ● Savings Promote Economic Mobility

- Above median savings is associated with moving up the economic ladder within lifetime and for children (Cooper and Luengo-Prado, 2009)
- Rich literature of matched savings accounts (IDAs) to promote savings for home ownership, education, and small business (see e.g. Sherraden, 2000; Grinstein-Weiss, Wagner and Ssewamala, 2006; Page-Adams and Sherraden, 1997)

# Research Questions

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- 1) Are households saving for an emergency **less likely** to report **material hardships** than non-savers?
- 2) Are households saving for an emergency **more likely** to report **economic mobility activities** than non-savers?

# Making Connections Dataset

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- Annie E. Casey Foundation
- Survey sites: Disadvantaged neighborhoods
- Time frame: Three waves of data collection 2002 - 2011
- Data: demographics, financial, saving behavior, neighborhood characteristics, hardship
- Project Collaborators
  - Urban Institute, Case Western University, University of North Carolina at Chapel Hill, University of Chicago
  - Data is available through the NORC enclave at the University of Chicago

# Making Connections Neighborhoods

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- Logistic regression
  - Predicting experience of hardship for savers compared to non-savers at 3 years and 6 years
  - Predicting economic mobility activities for savers compared to non-savers at 3 years and 6 years
- Control variables:
  - Demographic: age, gender, race, spouse present, home ownership, employment status, education attainment, income, debt, credit card, savings account
  - Saving: home, vehicle, education, retirement, other

# Sample Descriptives

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**Table:** Sample Demographics

	EM Savers	Non-Savers
Age (years)	44.9	48.04
Female	63.9%	67.0%
Spouse	49.7%	39.8%
Employed	67.8%	39.8%
Home Owner	61.4%	46.6%
White	35.7%	33.0%
Black	29.2%	30.7%
Other Minority	35.0%	36.3%
Some College	41.9%	26.8%
Income Below 15K	23.6%	50.5%
Debt Above 20K	49.0%	43.7%
Credit Card	64.5%	42.4%
Savings Acct	75.3%	42.3%
Observations	1,190	1,380

# Sample Descriptives

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**Table:** Saving Behaviors

	EM Savers (46.3%)	Non-Savers (53.7%)
Save Home	21.3%	4.3%
Save Retire	57.9%	14.8%
Save Vehicle	16.6%	3.8%
Save Education	27.2%	5.0%
Save Other	23.3%	4.8%
Observations	1,190	1,380

# Regression Results: Saving and Hardship

**Table:** Model 1: Material Hardship at 3 Years + Saving Controls

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	No Rx	Skipped Bill	Utility Off	Phone Off	Food Insecurity	Repossess	3+ Hardship
EM Saver	0.687* (0.106)	0.448*** (0.069)	0.648 (0.206)	0.573** (0.108)	0.586** (0.101)	0.497 (0.257)	0.386*** (0.078)
EM Saver	0.795 (0.136)	0.556*** (0.094)	0.720 (0.274)	0.619* (0.132)	0.775 (0.147)	0.468 (0.255)	0.514** (0.112)
Save Home	0.785 (0.210)	1.167 (0.287)	1.412 (0.658)	1.158 (0.325)	0.662 (0.216)	0.593 (0.697)	0.739 (0.268)
Save Retire	0.799 (0.151)	0.666* (0.120)	0.676 (0.257)	1.011 (0.236)	0.547** (0.119)	0.664 (0.441)	0.573* (0.141)
Save Auto	1.297 (0.331)	0.772 (0.214)	0.739 (0.443)	0.652 (0.224)	0.805 (0.252)	1.288 (0.988)	0.483 (0.194)
Save Education	0.709 (0.164)	0.992 (0.218)	1.638 (0.720)	1.187 (0.305)	1.335 (0.343)	1.619 (1.271)	1.313 (0.378)
Save Other	0.710 (0.167)	0.763 (0.176)	0.539 (0.330)	0.818 (0.240)	0.548* (0.167)	2.088 (1.430)	0.573 (0.198)
Observations	1128	1128	295	1124	1127	1125	1129

Exponentiated coefficients; Standard errors in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

# Regression Results: Saving and Hardship

**Table:** Model 2: Material Hardship at 6 Years + Saving Controls

	(1)	(2)	(3)	(4)	(5)	(6)
	No Rx	Skipped Bill	Utility Off	Phone Off	Food Insecurity	3+ Hardship
EM Saver	0.397** (0.120)	0.241*** (0.076)	0.944 (0.595)	0.334** (0.129)	0.524* (0.170)	0.311** (0.130)
Save Home	0.903 (0.391)	0.413 (0.193)	2.018 (2.070)	1.094 (0.505)	0.986 (0.432)	0.820 (0.449)
Save Retire	0.857 (0.257)	0.645 (0.189)	1.373 (1.031)	1.576 (0.627)	0.479* (0.160)	0.713 (0.277)
Save Auto	0.801 (0.360)	0.508 (0.244)		1.312 (0.630)	0.849 (0.407)	0.750 (0.460)
Save Education	1.193 (0.393)	2.273* (0.803)	1.373 (1.073)	1.152 (0.519)	1.709 (0.633)	1.998 (0.841)
Save Other	1.164 (0.376)	0.421* (0.169)	3.019 (2.641)	0.557 (0.256)	0.934 (0.358)	0.791 (0.370)
Observations	499	497	112	497	499	499

Exponentiated coefficients; Standard errors in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

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**Table:** Model 3: Mobility Activities + Saving Controls

	(1) Adult Ed	(2) Job Training	(3) Computer	(4) Vehicle	(5) After School	(6) 2+ Mobility
EM Saver (3)	0.970 (0.151)	1.062 (0.184)	0.994 (0.166)	0.970 (0.225)	0.777 (0.138)	0.976 (0.186)
EM Saver (6)	0.924 (0.214)	1.129 (0.295)	1.029 (0.269)	2.007 (0.985)	NA NA	1.125 (0.295)

Exponentiated coefficients; Standard errors in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

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- Significant Control Variables
  - Age (less likely as age increases)
  - Married
  - College education
  - Income above \$30,000
  - Having a credit card
  - Saving for a car
  - Saving for education

# Emergency Saving Behavior Impacts Household Well-being

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- Emergency saving influences household well-being by reducing likelihood of material hardship
  - Financial consequences: late fees and damaged credit
  - Access to prescription drugs
  - Food security
  - Utilities: heating and cooling, light, food safety
  - Phone: communication
- Relationship between emergency saving and mobility activities is unclear



# Questions Raised

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- What is behind the emergency saving behavior?
- How often were funds exhausted and replenished?
- How are funds stored and does that have an impact?
- How are households thinking about when to spend reserved savings? Is this type of asset appropriate for other uses?

# Policy to Support Emergency Saving

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- Remove structural barriers
  - Eliminating assets tests for SNAP, TANF, Medicaid
- Use findings from behavioral economics to support development of savings behaviors
  - Market place of attractive and accessible products
- We are learning what works to build emergency savings - bring effective mechanisms to scale

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- Three Focus Areas
  - Measurement of Financial Capability
  - Targeting Interventions to Populations at Risk
  - Testing Strategies, Products and Services

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Leah M. Gjertson

lmgjertson@wisc.edu

