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THE CYCLE OF SAVINGS

WHAT WE GAIN WHEN WE UNDERSTAND SAVINGS AS A DYNAMIC PROCESS

THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM

CONSUMER INSIGHTS

ACKNOWLEDGMENTS

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ABOUT ASPEN 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.

To learn more, visit AspenFSP.org, follow @AspenFSP on Twitter, or sign up for our newsletter at http://bit.ly/fspnewsletter.

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WHO IS THE CONSUMER INSIGHTS COLLABORATIVE?

The Aspen Institute Financial Security Program convenes the Consumer Insights Collaborative, an effort across nine leading nonprofits to collectively understand and amplify data for the public good, specifically about the financial lives of low- and moderate-income households. The Collaborative's vision is that data-driven insights will prompt a wide variety of actors to develop programs, products, and policies that help more people achieve financial security—and that the insights inspire more organizations to put their data to use for good.

commonwealth

Strengthens the financial security and opportunity of financially vulnerable people by discovering ideas, piloting solutions, and scaling innovations.
www.buildcommonwealth.org
Boston, MA

SaverLife Formerly EARN

Leverages financial technology and economic inclusion to empower low-income Americans to save and take charge of their financial lives.
www.about.saverlife.org
San Francisco, CA

Family Independence Initiative

Provides a technology platform for low-income families to strengthen social networks, record progress towards goals, and unlock dollars to accelerate their mobility.
www.fii.org
Oakland, CA

The Financial Clinic Creators of Change Machine

The Financial Clinic's mission is to build working poor people's financial security through an ecosystem of strategies that includes direct service, capacity building, and systems-level solutions fueled by financial technology.
www.thefinancialclinic.org
New York, NY

inclusiv

Promotes financial inclusion by providing capital, building capacity, and developing innovative products and services for community development credit unions (CDCUs).
www.inclusiv.org
New York, NY

LIFT

Builds relationships with parents to set and accomplish family career and financial goals, connecting them to the resources and networks that make those dreams a reality.
www.whywelift.org
Washington, DC

MAF

Creates a fair financial marketplace for hardworking people by building on what they have through financial products, coaching, and technology.
www.missionassetfund.org
San Francisco, CA

mypath

Equips young people of color growing up in financial deserts with the knowledge and financial tools they need to build wealth and get on the path to economic mobility.
www.mypathus.org
San Francisco, CA

NEIGHBORHOOD TRUST FINANCIAL PARTNERS

Helps everyday people take control of their finances through expert counseling linked to safe and goal-oriented financial products and delivered in convenient settings.
www.neighborhoodtrust.org
New York, NY

Introduction

BUILDING, USING, AND REPLENISHING SAVINGS IS CRITICAL TO THE FINANCIAL STABILITY OF ALL HOUSEHOLDS—AND ESPECIALLY SO FOR LMI HOUSEHOLDS

A consistent body of research in the United States and abroad finds that certain money management behaviors—including having a habit of saving regularly—are associated with better financial health and well-being in the present and in the future, for households across the income spectrum.[1] And according to research by the Consumer Financial Protection Bureau (CFPB), liquid savings is the single factor that is most highly correlated with financial well-being.[2]

Households across the income spectrum recognize the importance of saving and want to save but are not always in the position to do so, nor equipped with the right tools to support these efforts.[3] Moreover, the traditional model of savings—which defines successful savings as a savings balance that is consistently growing—does not reflect the lived financial realities of low- and moderate-income (LMI) consumers and the ways these individuals build and use savings. Data from the U.S. Financial Diaries demonstrate that many lower-income families save, though the total money going into their savings accounts is three times more than year-end account balances.[4] These data clearly reveal that these households do save, then draw on those savings throughout the course of the year for near-term needs and goals. The act of saving over shorter time horizons contributes to maintaining financial stability in the face of volatile finances and thin margins.[5]

The goal of this brief is to provide the growing number of funders, employers, policymakers, financial institutions, and others who are committed to helping households build liquid savings with evidence and insights about the actual experience, process, and value of savings for LMI households. The critical story here is not only what it takes to amass savings, but how that savings functions—over and over again—as a tool that helps people manage day-to-day financial needs, build resilience, and stay on track for their longer-term goals.[6]

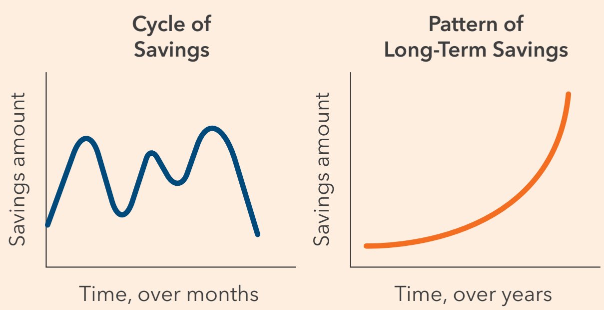
> **Lower-income families are saving, yet, for many, total money going into savings accounts is 3x larger than year-end account balances.**
>
> Source: U.S. Financial Diaries, "Savings Horizons"

This brief draws on the direct work of members of the Consumer Insights Collaborative (CIC), a group of leading nonprofits who provide financial empowerment services and solutions to low- and moderate-income customers across the country. The insights and evidence gleaned from this group can provide financial institutions, employers, funders, benefit providers, and policymakers with clear guidance on design principles and success metrics aligned to the real value add of shorter-term savings in LMI consumers' lives.

DEFINING THE "CYCLE OF SAVINGS" FOR SHORT- AND MEDIUM-TERM USES AND GOALS

In this brief, we define the "cycle of savings" as the ongoing act of building, using, and replenishing savings that strengthens financial resiliency against shocks and allows families to invest in family well-being and economic mobility. In other words, the cycle of savings

Savings Aren't Always Intended to Grow



frames savings as a verb, and not only as a noun. These savings are dynamic and meant to be drawn down when needed unexpectedly, or used towards a specific goal, and then replenished as individuals can once again contribute to them. This type of saving is therefore distinct from long-term savings intended to grow consistently over longer-time horizons, such as saving for retirement during one's working years.

A primary benefit to the cycle of savings is that these savings are protective: They represent a personal safety net of unrestricted cash, or money that can be used for any purpose.[7] Importantly, using liquid savings to address needs is also often the safest and cheapest option for families, which is especially important for LMI households that may not have a buffer between income and expenses.[8] By drawing down cash reserves households can avoid a worse outcome, such as material hardship or having to use expensive forms of borrowing to address an unexpected hardship. In addition to helping families be resilient, these short- and medium- term savings can be mobility-enhancing, supporting families' ability to invest in themselves, such as for education or entrepreneurship. Given the purpose and value of this savings cycle, success should be understood as the ongoing behavior of setting extra funds aside when possible and using these funds to weather income and expense shocks, invest in family goals, and avoid material hardship and high-cost debt.

Measuring the cycle of savings: What are indicators that demonstrate success?

Savings cycle "success" can be achieved by accruing a financial cushion for the near-term, by investing in well-being—such as saving for a specialized training that will unlock a higher-paying job—and by protecting oneself from financial vulnerability by building a personal safety net. For many, simply being prepared for the next financial shock is the goal. In this respect, saving and then spending those savings to cover an expense or a savings goal is a sign of success.

Philanthropic and government funders as well as investors or sponsors of savings initiatives usually require reporting success metrics pertaining to account balances, but savings totals alone are not a useful indicator of measuring savings success.[9] As the Cities for Financial Empowerment Fund notes, "At any given time, the 'stock,' or current amount of savings, will not represent a person's overall savings activity."[10] CIC members have worked to find additional ways to measure

> **Saving and then spending those savings to cover an expense or a savings goal is a sign of success.**

savings as a flow variable, beyond just measuring at a point in time, to better illustrate how their programs help people save and be resilient. A portion of households may be able to save consistently, but it is simply not achievable for all. A more erratic savings behavior emerges for individuals who save when they are able. In this case, the timing of measurement matters, because people may be in the process of building up, drawing down, or replenishing savings depending on when programs measure or collect this data.[11] Moreover, measuring at any one time may obscure a household's finances because of regular, but inconsistent, events, such as when bills become due and when paychecks arrive.

Below we outline a variety of ways to define saving success for this dynamic and ongoing behavior of savings, and some examples of ways to measure these alternate indicators. Together, these measures provide a more holistic view of individuals' ability to engage in the cycle of savings.

- **Displaying consistency in savings behavior within the household's ability to earn and save.** Consistency in savings behavior means that although the frequency of deposits may differ based on a household's income and expenses, savers find ways to make deposits to their accounts over time as their cashflow allows. Tracking whether individuals were able to make any deposits over a period of time, such as whether they saved over the past quarter, is an example of how to measure consistency of saving habits. Another approach is to compare the cashflow and savings behavior of a household over time to identify whether potential savings moments translated into savings.

- **Using savings to maintain resilience and to move forward on goals.** Another important indicator of positive savings behavior is whether individuals are spending saved funds when a goal is met, or when a need arises to maintain financial resilience. In either case, the goal of saving is achieved. Therefore, it is expected that savings will fluctuate, and that the balances may at times be zero—a sign of successfully deploying savings. These dynamics of successful saving can be captured by measuring the flow of funds targeted for savings—what is added and drawn down from savings over time, rather than using a static measurement.[12] Ideally, these indicators should differentiate between emergency savings and goals related to household well-being, to ensure metrics of success are defined by the specific goal for the savings.

- **Avoiding expensive forms of debt.** When households have short-term savings available, they can tap into these funds rather than having to access costly forms of borrowing such as payday loans or other non-loan products—including late fees, overdraft charges, and deferred or unpaid bills and credit card balances—when hardships arise. Reducing or eliminating reliance on these types of loans and fees could be a metric of successful savings behavior, while their use serves as a warning indicator of a lack of financial cushions available to address financial needs.

- **Not tapping into long-term savings to weather a financial shock.** Another success metric for healthy ongoing savings behavior is not having to take a hardship withdrawal or otherwise tap into money that is intended for retirement or other long-term savings. This metric won't be relevant for all households, given that 29 percent of workers, disproportionately LMI, Black, Hispanic, and female, do not have access to a workplace savings plan.[13] To measure this success indicator, one needs only to know whether households have taken or plan to take a hardship withdrawal, 401(k) loan, or otherwise tap into money they consider their retirement or other long-term savings.[14]

What Gets in the Way of the Savings Cycle?

Despite the critical role that this savings cycle plays in people's financial security, many families struggle to build a sufficient buffer to withstand a simultaneous income and expense shock. According to the JPMorgan Chase Institute, families need approximately six weeks of take-home income set aside to weather a simultaneous income and expenditure shock, but their data show nearly 2 in 3 (65 percent) people do not have this buffer.[15]

Families need approximately **six weeks** of take-home income set aside to weather a financial shock, but nearly **two in three** (65 percent) people do not have this buffer.

Source: JPMorgan Chase Institute, "Weathering Volatility 2.0"

Low- and moderate-income families experience barriers when trying to save in an ongoing or routine way. Individuals can save only when there is money left over after meeting basic needs and making debt payments. Then, savings is hindered by a lack of savings options that match LMI savings habits and financial realities, and restrictive practices that make access and utilization of savings difficult.

A LACK OF ROUTINELY POSITIVE CASH FLOW HINDERS FAMILIES' ABILITY TO BUILD, USE, AND REPLENISH SAVINGS

A major barrier to financial security broadly, and to saving generally, is income that does not cover expenses. Just over half (53.5 percent) of households report that their spending over the course of a year is less than their income. For households with annual income of less than $30,000, this number drops to under 2 in 5 (38.5 percent).[16] If household income typically covers the cost of household expenses, a state of routinely positive cash flow exists, and this provides an opportunity to save. Without this, families struggle to cover their basic needs, create financial buffers to withstand everyday shocks, maintain financial stability, and make mobility-enhancing investments.[17] LIFT finds that a lack of routinely positive cash flow is the most common barrier for its members, about 90 percent of whom are female and nearly all are people of color.[18]

There is well-documented evidence demonstrating why many households lack routinely positive cash flow, including income volatility—where take home pay may differ from paycheck to paycheck, month to month, or over the course of the year—or unstable income. Both are common among hourly workers, whose schedules can be changed or cut with little notice.[19] When polled, SaverLife members often cite inconsistent or unpredictable work schedules that lead to income volatility as a barrier to their ability to save.[20] Income that is too low, or expenses that are too high or volatile each contribute to a lack of routinely positive cash flow or a sense that there is little room to save. SaverLife members report that wages are simply not livable in many parts of the country, particularly in places where the cost of living has increased dramatically.[21] High expenses and resulting cash flow issues are a barrier to savings as Neighborhood Trust Financial Partners financial coach Hector Hidalgo comments, "Some clients have little to no money left over once bills are paid and they don't see the point in saving that small amount that's left over." Similarly, when asked, in a survey by Commonwealth, what factors prevent them from saving, nearly 77 percent of employees reported that they did not save because they simply could not afford to put any money into savings.[22]

Debt can hinder people's ability to have consistently positive cash flow

CIC members have found that consumer debt is often a major inhibitor to their clients' ability or perceived ability to save. In 2019 and 2020, financial coaches at Neighborhood Trust identified managing debt as the primary barrier for 27 percent of their clients, second only to cash flow issues (35 percent).[23] And in a 2019 nationally representative survey of lower wage workers, Commonwealth found that 67 percent of employees indicated that paying off debt was their most important financial priority.[24] SaverLife has found that individuals can save and make debt service payments at the same time, and that members with over $1,000 in debt are able to save, but paying down debt often took precedence over accumulating savings.[25]

Saving while paying down debt: Joan's story

Joan had over $1,500 of debt in collections due to a past financial emergency when she became a coaching client at The Financial Clinic. Despite having this debt, she wanted to also build a financial buffer to protect her from needing to turn to expensive credit again if faced with another financial setback. Together with her coach, she set up a small, automatic transfer to her savings account at each paycheck. Having these savings in place helped her feel more confident in paying down her debt.[26]

MANY FEATURES OF SAVINGS PRODUCTS AND SERVICES MAKE ACCESS AND UTILIZATION DIFFICULT

Mainstream financial products and services disproportionately bar lower-income individuals and people of color through inaccessibility, ChexSystems, and limited non-English language materials and services

Mainstream financial products and services leave many LMI households locked out of new and traditional savings vehicles. Data demonstrate that households that are lower-income, Black, Hispanic, working-age disabled, younger, less-educated, and those with volatile income are also more likely to be unbanked or underbanked.[27] A lack of familiarity with financial products and services and mistrust of banking institutions, especially among undocumented families, contribute to difficulty with saving in formal accounts.[28] Additionally, concerns about losing public benefits due to asset limits, concerns related to immigration status, and the fear of wage garnishment create barriers to saving in traditional accounts.[29] Many customers use cash and do not have access to formal banking options, including those that are in ChexSystems.[30] (See below for more on the history of racial and ethnic economic exclusion.)

An additional barrier is the unavailability of written resources and customer service in languages other than English. LIFT staff found a lack of documentation available in Spanish—a needed resource for many of their clients—to be a barrier when they were selecting among payment service options to distribute emergency funds to members.

An insufficient number of savings products and services match the way individuals save

Unfortunately, savings product and platform design does not always mirror the cycle of savings in LMI households, where the use of savings is just as important as the building up of savings. Instead, savings accounts and other financial tools "are designed to support a version of savings based purely on rising balances over time," as Commonwealth's Executive Director Timothy Flacke recently noted.[36] For example, many of these accounts are focused on long-term needs and discourage other uses through penalties for early withdrawal. Moreover, the design of many savings products makes it

Racial and ethnic economic exclusion: a historic lens on its lasting impact

Lower levels of income and wealth make it disproportionately difficult for Black, Indigenous, and People of Color (BIPOC) households to engage in the cycle of savings. These disparate economic outcomes have historic roots. The United States has historically excluded BIPOC households from its main pathways to financial security and upward economic mobility, including limiting access to educational and labor market opportunities, as well as credit and investments, while offering subpar loans with high costs, and engaging in redlining practices that limit homeownership opportunities and diminish property values in non-White neighborhoods.[31] Indigenous peoples faced additional, unique difficulties as the federal government implemented policies that forcibly removed them from their lands, and today are more likely to suffer from a lack of opportunity, including having higher levels of poverty and unemployment and lower levels of wealth.[32]

Data demonstrate that both Black and Hispanic or Latinx[i] people are overrepresented in low-wage work, relative to their share of the total workforce, whereas White and Asians Americans are underrepresented.[33] American Indian and Alaskan Natives also have lower earnings than the population as a whole.[34] These realities ensure a racial division in financial security outcomes and today can still be seen clearly in the persistent racial wealth gap: In 2016, the median wealth of White families ($171,000) was nearly 10 times greater than the median wealth of Black families ($17,409) and eight times greater than that of Hispanic families ($20,920).[35] These income and wealth gaps erode households' ability to save and simultaneously reinforce and widen these gaps by leaving individuals with less of a financial cushion to turn to in times of need.

i Hispanic and Latinx are not being used interchangeably in this brief. Rather, each term is used specifically to correspond to the underlying data source.

seem as though drawing down savings is the wrong choice. As a result, some people are reluctant to use savings when a need arises, as it can seem like a failure, despite it being a rational and financially prudent way to address an unexpected need compared with alternative financial services such as payday loans.[37]

Automation is a tremendous tool to support ongoing savings behavior. For instance, research demonstrates that individuals who have been successful at saving for retirement tend to do so because they have been enrolled automatically, and their contributions continue (and sometimes escalate) automatically.[38] LMI individuals are less likely to have access to any automatic options for short-term or long-term savings.[39] Moreover, traditional savings automation features are often ill suited for the dynamic fluctuation of cash flows experienced by many LMI households, thus excluding consumers that do not have consistent income and expenses.

Automation helps make saving a habit: Leia's story

When Leia first met with a coach at The Financial Clinic in November 2017, she had no money set aside as savings. She worried about her ability to save because she had a low fixed income. She and her coach worked to build an emergency savings account by identifying a monthly transfer amount that was manageable and comfortable for her. Together, they set up a $25 automatic monthly deposit that Leia would supplement with manual deposits when possible. She has internalized that **"savings is a habit, not an amount,"** and has found that automaticity has been an important way for her to keep building her savings, even when she has to tap into the money she has set aside.[40]

Digital savings products include many, but make access more difficult for others

Financial institutions increasingly make use of technology to reach customers more efficiently, but many of their tools—including digital banking apps designed to make savings easier—are often not accessible to those individuals with limited access to a computer or a cellphone, reliable and affordable internet service, or a lack of the technological skills needed to access online banking. The FDIC finds that fully banked consumers are significantly more likely to have smartphones and home internet access than their unbanked counterparts.[41] Neighborhood Trust Financial Partners found this to be the case for many of their unbanked clients, which recently made it difficult to provide cash relief to clients needing financial support because of the economic and health impacts of COVID-19. As financial institutions and community-based organizations have increasingly had to rely on technology, MyPath has also found this to be a barrier for their clients.[42] And this issue is likely to grow as COVID-19 accelerates the digital push, intensifying the need to intentionally acknowledge this barrier and make these systems more inclusive. One Neighborhood Trust financial coach, Ivania Teran, says, "In spite of the advantages with online savings accounts (no fee zero balance, better interest rates, etc.), many of my clients still prefer in-person banking either because of habit or because the products require a certain level of tech literacy."

Minimum account balances, banking fees, and other account features effectively exclude households with less money to save

Savings options that require large initial deposits, automatic monthly contributions, or minimum monthly contribution amounts to keep accounts active or to avoid fees all present potential utilization barriers, especially to those without routinely positive cash flow, and may bar individuals from being banked at all. Restricting the number of withdrawals to an account limits its usage for LMI individuals who often tap into these accounts more frequently than higher-income individuals.[43] Sometimes these barriers negate the benefits of having a dedicated savings account entirely. Julianna Samper, a financial coach with TrustPlus,[i] Neighborhood Trust's workplace-based employee financial wellness benefit, notes that some clients do not open a savings account—and may simply hold all funds in a transaction account—because the amount they are able to save in a month is less than the fees associated with keeping a dedicated savings account open.[44]

Contribution control and immediate access to funds is essential for many

Some CIC members have found that their clients prefer to save in cash because many banks and services are not able to provide families fast enough access to their savings. For instance, many families that work with The Financial Clinic save in cash because of the immediate access it provides if an emergency or a need arises. Similarly, when AARP asked survey respondents to react to a hypothetical employer-based rainy day savings program, the ability to access cash immediately and the ability to change the amount or stop contributions to the account at any time were critical features in respondents' willingness to participate.[45] Savers themselves are unlikely to sign up for a savings program if they don't have some assurance that they will be able to get to their money in an emergency.[46] Without immediate access to one's savings to turn to, the alternatives can be very costly (involving fines, fees, or high annual percentage rate credit) and consequential, such as the disruption of utilities or postponement of needed medical care.[47]

For individuals who work for employers that offer employees a savings option, the savings product is typically a 401(k) or other retirement option, and not a means for shorter-term use. The associated penalties and the time it takes to

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i To learn more about TrustPlus, see https://mytrustplus.org/.

access these accounts via hardship withdrawals or loans is also a barrier for families who may need faster and more frequent access, making this an ill-suited vehicle for these savings.[48]

Retirement-adjacent emergency savings are an option that can leverage the existing defined contribution platform and its automaticity to help people build savings for shorter-term needs.[49]

Principles to Support People's Ability to Build, Use, and Replenish Savings: How Programs, Products, and Design Elements Can Help

Product design, product distribution channels, and the regulatory environment that exists around savings products all affect people's ability to successfully engage in the savings cycle. As described in the last section, individuals are motivated to save and work hard to build their own financial stability, but they face barriers to building, using, and replenishing savings. Consumers generally—and low- and moderate-income individuals in particular—need inclusive financial systems and a regulatory environment that rewards and facilitates the accumulation and use of savings. To meet the needs of LMI households, these realities must inform the regulation, design, and distribution of savings programs and products. **Figure 1** summarizes these design principles and the stakeholders who can act on them.

IMPROVE THE PROBABILITY OF ROUTINELY POSITIVE CASH FLOW

As described above, a lack of routinely positive cash flow is a major barrier to effective engagement in the savings cycle. Government benefits increase the likelihood of positive cash flow and the ability of individuals to save by boosting income or lowering expenses through programs like Unemployment Insurance, SNAP (formerly food stamps), or traditional public cash assistance.[50] The federal government could also bolster the earnings of low-wage workers through a wage subsidy provided at each paycheck.[51] Guaranteed income[ii] and other cash infusions represent another potential on-ramp to ongoing savings, and can come from a variety of actors, including nonprofits, and city, county, state, and federal governments.[52] CIC members Family Independence Initiative and LIFT provide members with cash infusions and have found that this supports their members' ability to save.[53] In addition, government and other actors, including employers, benefit administrators, and nonprofits, can come together to support more consistent, livable wages and an integrated system of benefits—provided by both the public and private sectors—to improve the financial security of workers and their ability to engage with the cycle of savings.[54]

ii A guaranteed income program provides a steady, predictable, and unrestricted amount of money to recipients. Guaranteed income does not necessarily cover a person's basic needs, such as the costs of food, shelter, utilities, and other living expenses. For more on guaranteed income, see Aspen Institute Financial Security Program. "Guaranteed Income and Other Cash Infusions: A Review of the Evidence." April 2020. https://www.aspeninstitute.org/publications/guaranteedincome.

Figure 1: Barriers to, strategies for, and stakeholders that can support the cycle of savings

Barrier: A lack of routinely positive cash flow hinders LMI families' ability to engage with the cycle of savings.

What can be done to support LMI households' ability to save in an ongoing way?

Improve the probability of positive cash flows turning into savings:

- Cash infusions and wage subsidies are a potential onramp to ongoing savings.
- Mechanisms that easily capture large spikes in income flows or other potential savings moments can help families address their debt and increase their savings.

Who can take this action?

- A variety of stakeholders, including nonprofits, funders, and private organizations, as well as city, county, state, and federal governments can offer and expand cash infusion programs. In addition, government and other actors, including employers, benefit administrators, and nonprofits, can come together to offer more consistent, livable wages, and a strong system of benefits to support the financial security of workers.
- Fintech, employers, benefit providers, and other product designers can develop mechanisms that help capture large income spikes and other savings moments.

Barrier: Many features of savings products and services make access and utilization difficult for LMI consumers.

What can be done to support LMI households' ability to save in an ongoing way?

Ground product design and distribution in ways that reflect LMI households' realities:

- 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.
- Conduct consumer insights research to design and refine offerings.

Who can take this action?

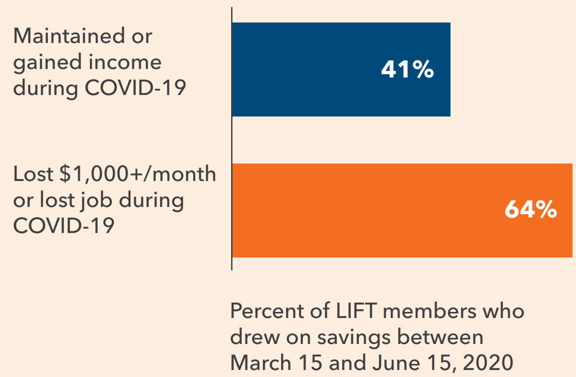
- Financial institutions and platforms can expand the types of identification that they accept to allow access to financial products and promote inclusive financial systems. Cities, counties, and states can also lead efforts to expand allowable identification options.
- Employers, fintechs, and benefit providers can provide savings options via their platforms, including programs like sidecar savings and other automatic savings programs that make saving easy and affordable.
- Regulators must make it clear that innovative programs and products that incentivize new forms of saving, including automated savings that link short- and long-term savings such as sidecar accounts, are allowable.
- Regulators should consider ways to promote inclusive financial systems.
- Employers, fintechs, benefit providers, government, and financial institutions can design and offer needed savings products with an eye toward customer financial health. These stakeholders should collect input from current and potential consumers to make it easier for them to engage with the cycle of savings.

Cash infusions during COVID-19 provide an opportunity to save

By the end of June 2020, more than 32 million workers were receiving benefits through the enhanced Unemployment Insurance that provided an additional $600 a week in response to the COVID-19 health and economic crisis.[55] These benefits help individuals pay for food, rent, and other regular expenses and support their ability to save in this time of uncertainty. For some individuals, such as Neighborhood Trusts' members, these benefits have created space for some people to save regularly for the first time. Many households are financially vulnerable because they were already in precarious positions before the crisis: For instance, 50 percent of Bronx residents that received cash relief from a partnership between CIC members SaverLife and Neighborhood Trust had no savings before the crisis hit.[56] TrustPlus financial coach Tiffany Ordoñez has observed that some clients have found this moment to be a huge opportunity to save, as some expenses like commuting no longer apply. The Economic Impact Payment (EIP), the checks of up to $1,200 that millions qualified for, have also created an opportunity to save. The top three ways that The Financial Clinic's customers reported that they would spend their EIP was on rent, utilities, and savings.

Savings are buffering households experiencing job losses or a decrease in income due to COVID-19. For instance, 64 percent of LIFT members who have lost $1,000 or more per month in income (or who have lost their jobs entirely) have drawn on their savings during the pandemic, compared with 41 percent of members who have not lost income or have increased their income. (See **Figure 2**.) Members are using financial cushions to weather the pandemic, which is an integral part of the savings cycle. In addition, members who have not lost any income or those that experienced an income boost during the pandemic have saved $510 on average during the pandemic.[57] Together these observations suggest that unrestricted cash is readily used to boost savings balances when it isn't needed to cover basic needs.

Figure 2. Savings Are Especially Important when People Lose Income



Source: Based on internal data from LIFT.

CREATE MECHANISMS THAT EASILY CAPTURE LARGE SPIKES IN INCOME FLOWS

One way to support individuals engaging in the savings cycle is to help them save portions of one-time or ongoing cash infusions, such as at tax time, or when a worker receives a raise.[58] Several noteworthy programs that save tax refunds include SaveYourRefund and SaversWin.[59] (See "Saving through tax refunds" for more information.) Commonwealth has also explored capturing the gains when an employee receives a raise, and MyPath, which works with youth, helps save a portion of a person's paycheck into a youth-friendly savings account.[60] Mobile apps like Qapital, Digit, and Honeyfi and other fintech nudges and mechanisms support people's efforts to save by identifying moments to automatically set aside money or encouraging users to save when the app detects an opportunity.[61]

Saving through tax refunds

Capturing key savings opportunities is a critical way to encourage more individuals to save, and for many LMI households, tax refunds often represent the biggest cash infusion of the year. In 2016, the JPMorgan Chase Institute found that tax refunds represented the single largest cash infusion of the year for 40 percent of households in their sample. There are important lessons learned from products that have incentivized tax filers to save. For instance, 38 percent of SaveYourRefund savers had not planned to save before being introduced to this product that incentivizes savings through a chance of winning money.[62] Data from SaverLife have shown that saving tax refunds allows members to smooth their incomes over the following months, reduce outstanding debt, pay for medical services, and get current on utility bills.[63]

GROUND PRODUCT DESIGN AND DISTRIBUTION IN WAYS THAT REFLECT LMI HOUSEHOLDS' REALITIES

Products and platforms that better match the lived financial realities of low- and moderate-income individuals—such as by recognizing the income and expense inflows and outflows of individual savers—and those that charge few or no fees to open and maintain accounts will encourage more utilization.[64] Similarly, there are access and distribution barriers that can be addressed in the design of savings programs and products by incorporating insights about LMI households' demographics. This may include ensuring that there are a variety of identification options to open accounts, that forms and platforms are available in multiple languages, and that options take into account differing levels of technological abilities.[65] It is also important that these options are offered via trusted institutions to increase the number of LMI individuals that access these available platforms and products. Finally, surveying customers about their needs and user experiences can improve the design of product and program offerings that support the cycle of savings.

Provide automaticity and tailored automaticity for those without consistent cash flow.

Saving options that provide automaticity are an important way to help some consumers increase savings, particularly those who have predictable income and expenses, and for whom automaticity is appealing and safe. Commonwealth research has shown that employees who use an employer-facilitated split direct deposit to automatically save were more likely to have more than $400 saved than individuals who made manual savings deposits (59 percent and 41 percent, respectively).[66] Other supportive options include digital-based services and add-ons that enable new ways to follow up on savers' behavior based on expenses, use, or location. Additionally, there are savings tools, such as "round up" or consumption-based savings—often utilizing an app that rounds up expenses to the next dollar or next five dollars, etc. and saves that rounded-up portion. Fintechs and other platforms that automate and reinforce consistent saving can also support those individuals without consistent income, such as some gig and contract workers, if these options include ways for the user to easily control, change, or stop saving when they are unable to save or need to access those funds.

Build rewards that appeal to individuals into savings product design.

Another method to encourage the savings cycle is to reward savings behavior, through a match or other monetary incentives,[67] or though messaging that congratulates individuals for both adding to or using savings toward their goals or to address a need. Thoughtful design can overcome the natural tendency for people to feel a sense of defeat, rather than success, when accessing savings. As Common Cents Lab's Principal Mariel Beasley and Commonwealth's Timothy Flacke recently noted, branding the use of shorter-term savings to promote their purpose as a financial buffer in everyday situations, and not just larger crises, would help overcome this barrier to use.[68] CIC members and other organizations have seen that households respond positively to goal setting, earmarking the purpose of savings, and salient reminders. The households saved at higher rates or with more account activity, relative to members that did not disclose a clear purpose for their saving efforts.[69]

Extend access to savings products, programs, and platforms to more individuals, and where possible, connect people via trusted institutions.

There are many ways to expand savings product access to more individuals, especially low- and moderate-income consumers, by identifying ways to better reach people through trusted institutions and by expanding eligibility. One important barrier identified by CIC members and other organizations is the lack of trust in traditional financial institutions. To overcome skepticism and raise awareness of new programs and services, LIFT, The Financial Clinic, and Neighborhood Trust work with local partners and trusted institutions to help individuals feel comfortable and overcome worries about scams.[70]

Some cities and counties are offering new photo identification cards through partnerships with trusted community-based organizations to help marginalized groups, including the elderly, individuals experiencing homelessness, and undocumented families, access financial institutions.[71] Other populations are also locked out of product access. MyPath finds that expanding non-custodial accounts to youth under the age of 18 would help with banking access for foster youth and those youth whose parents are undocumented, in ChexSystems, or otherwise unavailable.[72] These access barriers are problematic both for the youth affected as well as the adults who are experiencing them.

Others are experimenting with employer platforms as a way to connect underserved consumers with savings opportunities. Commonwealth is working with trusted institutions, such as employers, to build and pilot savings solutions for employees, gig workers, and customers. And AARP Public Policy Institute recently proposed the use of the established system of payroll cards—a version of prepaid cards that are loaded with employer-paid wages—to help employees save for shorter-term needs, through a payroll deduction deposited to the card.[73]

Offer appropriate, accessible accounts without expensive fees.

Low- and moderate-income households need ways to save that do not charge high monthly or annual fees, that have low or no minimum balance requirements, and that do not limit the number of transactions that the account allows.[iii] The associated fees of maintaining an account can sometimes be more costly than the deposits made into or kept in the accounts. This diminishes both the value and the purpose of having a formal savings account, given that many consumers do not have a steady cash flow and cannot contribute to savings monthly. This may be one reason that digital financial services like the Cash App have gained traction with unbanked and younger consumers.[74]

Provide immediate access to funds to meet the cash flow needs of LMI households.

Immediate access to funds is often a key component to a person's willingness to engage with a formal savings account or product. Because, on average, LMI households are less likely to own their own home or have money held in stock market investments, savings are a significant proportion of any assets they may have.[75] In addition, as these households often have little or no buffer between income and expenses—and less access to affordable credit as a result—fast access to one's own savings is an important resource to address an immediate need.

Conduct consumer insights research to design and refine offerings.

Savings program and product design should be informed by input from current and potential customers. This user-centered approach supports individuals' engagement with the cycle of savings by ensuring that offerings meet savings needs and goals, and avoids instituting unintentional barriers that make offerings hard to access or utilize. Incorporating the expertise and voice of those who could benefit from these programs and products to the design and testing process could build trust between consumers and institutions offering savings products and platforms, improve user experience, and increase the number of people successfully engaging with the cycle of savings.

ADDRESS BARRIERS THAT HAMPER EMPLOYERS, TECHNOLOGY FIRMS, AND POLICYMAKERS TO PROVIDE PRODUCTS THAT SUPPORT ONGOING SAVINGS

Regulatory barriers that impose fees and restrictions, and a lack of clarity on short-term savings and other non-retirement accounts, hinder households' efforts to save and limit product designers' attempts to create innovative solutions that improve ongoing savings. The ability to automatically enroll workers into emergency savings is an important enabler to make savings convenient, increase enrollment in savings products, and ensure those products are financially viable.[76] However, lack of regulatory clarity on how emergency savings can be automated by employers presents a challenge. A range of regulations, including state anti-wage garnishment laws and Know-Your-Customer (KYC) laws, have made it unclear whether automatic emergency savings products would be legal.[77] That uncertainty has been cited by employers, record keepers, and other companies as a barrier to creating such products including those with automatic enrollment and automatic saving features. Enabling employers, fintechs, and others to enter into this space and incorporating behavioral insights into short-term savings products will pave the way for new features that better respond to household cash flow.[78] One prominent example of such a savings option is retirement-adjacent emergency savings (also called "sidecar" savings accounts), a model that connects a short-term, liquid savings account to long-term savings products.[79]

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iii For instance, Cities for Financial Empowerment Fund has created national account standards that "identify critical product features for bank or credit union accounts appropriate to those currently outside of the mainstream banking system. Core account features include low costs, no overdraft fees, robust transaction capabilities such as a debit or prepaid card, and online bill pay." See Cities for Financial Empowerment Fund. "Bank On National Account Standards (2019-2020)." https://cfefund.org/bank-on-national-account-standards-2019-2020/.

Regulations and supporting policies should promote inclusive financial systems that incentivize household savings, but business models must also be aligned to the financial health of customers to ensure the provision of needed products. For instance, while Regulation D historically limited the number of withdrawals on saving accounts, penalizing consumers who need to access funds more frequently, the recent deletion of this regulatory limitation, without corresponding changes to account features, demonstrates that regulation alone is not enough to close access gaps for LMI customers.[80] Business models must be rethought to encourage banks and other financial institutions to orient their offerings toward customer financial health.[81] The Financial Health Network articulates the business case for doing so.[82] There is also an opportunity for regulators to encourage improved service offerings of employers by extending current allowances beyond long-term savings accounts to short-term savings products.[83]

Conclusion

The traditional model of savings assumes a unidirectional flow of money into savings vehicles, but this misses the important role that the dynamic cycle of savings plays for the financial stability of individuals and families. For many LMI households, saving in this important financial process is hampered because of a lack of routinely positive cash flow and the many features of mainstream financial products and services that make access and utilization difficult. This brief highlights an important opportunity to recalibrate our understanding of shorter-term savings through consideration of the savings cycle—the building, using, and replenishing of savings that is critical to support families working toward their financial goals, weather financial shocks, and make mobility-enhancing investments. With this savings cycle in mind, policymakers, philanthropists, and program and product designers including financial institutions, employers, fintechs, and benefit administrators can take a new perspective, understanding savings as a flow variable as much as a stock, in reviewing their solutions, success metrics, and offerings. Developing high-quality products and services that reflect how individuals engage with the savings cycle, and removing barriers to access to them, would support household financial stability in the short- and medium-term, and put them on track for longer-term economic mobility.

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