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Emergency Savings:

A Life Jacket in Rough Seas

By Melissa Gopnik, Senior Vice President, Commonwealth
and Dr. Daryl Collins, co-author Portfolios of the Poor

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Introduction

The COVID-19 recession has exacerbated the financial challenges faced by millions of Americans before the pandemic, including volatile income and expenses, and a lack of tools to effectively manage that volatility. Our interviews over the last few months show that households with emergency savings going into the crisis were better prepared, even if they faced extreme income volatility. We also found that people who were habitual savers before the pandemic were able to continue saving unless they lost their job. Additionally, some households that received additional income tried to start to save during the crisis, but struggled to change their financial habits in the midst of a crisis.

Based on our research, it is clear that having savings matters in times of extreme volatility. Households need the support of employers, financial institutions, fintechs, and policymakers to build a saving habit and to maintain it in moments of crisis.

About the Financial Resilience Project

In June 2020, we launched the Financial Resilience Project to better understand how low- and moderate-income Americans are navigating the COVID-19 economic crisis and the resulting impact on their financial resilience. In our biweekly interviews, we follow how households are earning money, paying bills, using savings, and managing debt. This project uses an innovative tech-enabled methodology that allows us to gather and analyze our interviews quickly and efficiently and as a result, capture and share rapid insights in near-real time.

The Households: We selected 56 households from 24 states across the continental United States with a median annual income of $50,500. Our diverse sample enables us to analyze the data by race, gender of respondent, traditional employment vs. gig or contract work, and household composition (with and without children).

Rapid Insights

Having Savings Matters

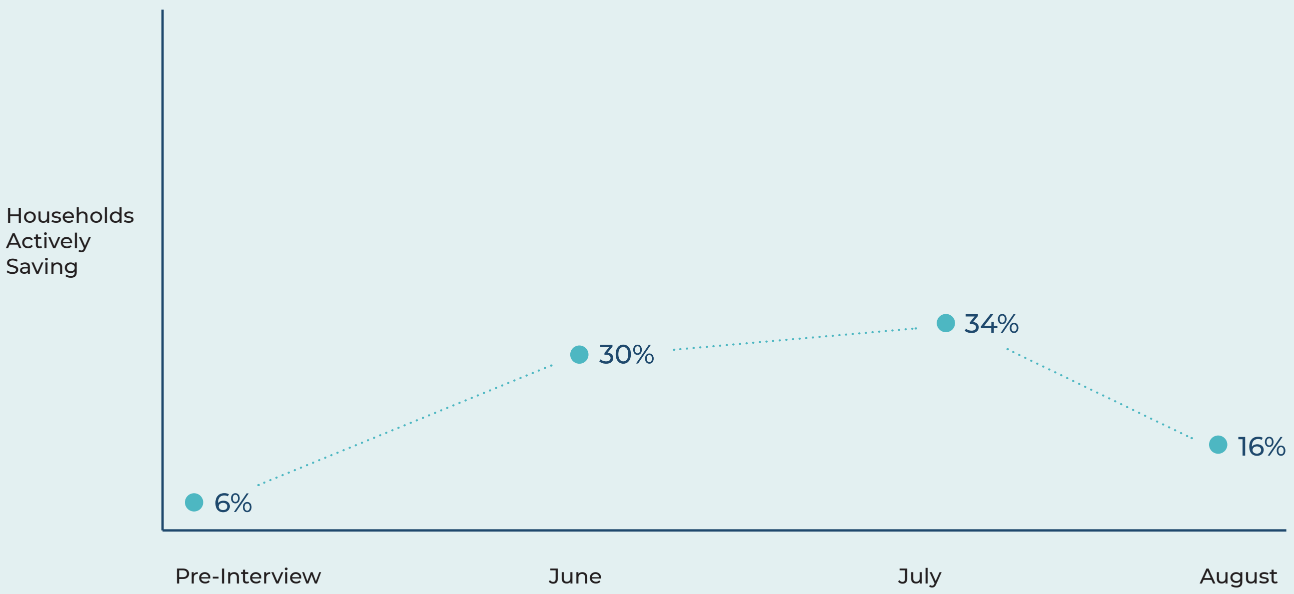
Slightly more than half of the households in our sample experienced a significant drop in income due to the economic crisis; it took about two months for these households to recover. Those households that had accumulated savings before the crisis (50% of those who underwent such a drop in income) did not have to borrow, accumulate debt on their credit card, or postpone bills. They also saved more of their stimulus and tax refund. When their income went up again two months later, either due to getting a job or receiving unemployment benefits, they were more financially healthy than those who did not have savings.

Saving During a Crisis is Tough—But Not Impossible

The percentage of households that have reported actively increasing savings has changed dramatically over the course of our research. While only 6% of respondents reported saving in the two weeks prior to our conversations in June, that percentage grew to 30% then to 34% in July. However, by early August, most were not able to sustain that behavior; only 16% reported actively saving in our August interviews.

Households Actively Saving

The percentage of households that have reported actively increasing savings has changed dramatically in a short period of time.



We examined the data to understand these trends and found, importantly, that this behavior was not related to income. Instead, we identified two types of savers:

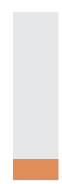
- **Switchers:** They had not accumulated savings before the crisis, but reported increasing savings at least once since June. These savers represent 25% of our entire sample.
- **Always Savers:** They had accumulated savings equal to at least one month of income before the crisis, *plus* they reported continuing to save. They also are 25% of our sample.

Switchers made a valiant effort to start saving during this crisis, though many were unable to sustain those efforts for a variety of reasons, including:

- **Lack of know-how and tools:** Lawrence, a 30-year-old single Black man in upstate New York, said he put savings away one week, but also that he's been trying to find information on better ways of saving. He's not sure if simply putting his money in a different account is the best way to do it.
- **Struggling to pay increased expenses:** Sophie, a 35-year-old White woman who just moved from California to Arizona, says she's used to being "on the poorer side of the spectrum." Some of her expenses have increased as a direct result of COVID-19. Her husband's income has been stable through the crisis, but she has three children at home and the electricity bill to pay for air conditioning has skyrocketed: *"bills are getting higher because it's getting hotter and the kids are still home all day."*
- **Lack of a sustained motivation:** Joshua, a 38-year-old Black man living in rural Georgia, has experienced income fluctuations throughout the crisis. He briefly received unemployment benefits and set some of that money aside, citing concerns about finding another job. However, he quickly found another job and stopped saving, saying that he didn't have the motivation to continue once his immediate crisis passed.

Why Having Savings Matters

Of households who lost 50% of their pre-COVID income:



8%

of those with savings had to borrow compared to **31%** of those without savings

15%

of those with savings increased their credit card debt compared to **25%** of those without savings

49%

of those with savings partially paid or postponed bills compared with **70%** without savings

How do Always Savers continue to save during this crisis?

- **Saving is a habit:** Theresa, a 46-year-old Black woman in California, has experienced a gentle decline in income but is still saving. When asked how, she told us about a time when she had quit her job to take care of her disabled daughter and lived on much less than she was earning at the start of COVID-19. She is now simply reverting to the budget, mental accounting, and saving practices she used then. Lucy, a 30-year-old Hispanic woman in Texas, explains that her rule is saving what she earns in her side job, putting it aside *"[...] as if I didn't earn it."*
- **Saving requires determination:** Courtney, a 39-year-old Black single mother in Rhode Island, lost half of her income at the start of the pandemic, yet she kept putting aside small amounts of money. She made changes in her expenses by cancelling streaming app subscriptions, no longer ordering take-out, and cutting down on electricity use. She talks about wrestling down these expenses in the same breath as she talks about her determination to save: *"I can't afford to give up. I have a kid."*
- **Saving can be motivated by the past or the future.** Lucy describes her savings habit as being motivated by fear of repeating the past: *"We can't go back to feeling that shame."* Courtney's savings habit is driven by the goal of buying a three-family house where she can live and earn rental income. When the crisis hit, she quickly diverted the money saved for that goal toward her current expenses, but often comments on her determination to reach her goal when her income recovers.

Unemployment Overshadows Savings

For the 50% of households in our study that dramatically lost income at the start of COVID-19, just under half started receiving unemployment benefits within two months. At that point, they had, at the median, about 20% more monthly income than before COVID-19. This scenario is described in our first Financial Resilience Project brief, *A Tsunami of Volatility*. Most of these households did not maintain a saving habit or start saving despite having this extra income. We heard two key reasons why not:

- **The "tsunami of financial volatility" left them confused:** For Hannah, a 36-year-old White mother of two living in Idaho, unemployment benefits *"took the pressure off financially."* However, she also reports feeling that so much was still out of her control. She commented that if she had more control, she would have a better idea of how much to spend and save.
- **Finding a new job and paying off debt mattered more:** Many unemployment benefit recipients spent what time and energy they had looking for a new job. Even if they weren't looking for a job immediately, they were using their extra income to invest in themselves—mostly through online courses or writing to build their public profile—to increase the likelihood of finding a better job. For others, the goal was bringing down debt. Linda, a 38-year-old White woman in rural Texas, was razor-focused on using her extra unemployment income to bring down the size of her mortgage.

Recommendations for Resilience

Policy Considerations

Making financial decisions is hard in the best of times, but it is made much more difficult in times of uncertainty. The lack of longer-term fully funded consistent public policies has exacerbated this crisis for many. Federal, state, and local governments can:

- Pass longer-term consistent policies to reduce that uncertainty including not only unemployment benefits, but moratoriums on evictions and loan payments.
- Pass policies that are not bound to a specific arbitrary time period, but rather remain in place until the crisis abates.
- Provide for additional funds to quickly and fairly administer new policies so they have the intended effect.

Financial Services Considerations

Financial institutions and fintechs can support both the households who want to begin saving and those who are determined to continue saving. Key opportunities include:

- Use data analytics to analyze when a customer's income has dramatically increased and automatically offer them a no-fee, no-minimum savings account.
- Simplify the process to transfer funds into savings accounts and allow customers to personalize the name of their account to a meaningful goal to them.
- Implement the elimination of Regulation D so that customers know they can access their savings as often as they need it.

Employer Considerations

Switchers are people who are mostly employed; they want to start saving because they have more flexibility in their budgets based on increased income or reduced expenses due to COVID-19. Employers should support these efforts, because Commonwealth research found that employees with more than $400 in savings had fewer financial concerns and worried the least among all employees.

Some key recommendations for how employers can support employees in starting and maintaining a savings habit:

- Employers can make it easy for employees to sign up for split deposit. Our research found that employees who use split deposit are 23% more likely to have $400 in savings.
- Employers can ask the financial institution they work with to offer no-fee, no-minimum accounts to their employees to make savings more accessible; Commonwealth research found that 43% of low-wage workers do not have a savings account.
- Employers can work with their retirement record keeper to offer an emergency savings product.
- With health on everyone's mind right now, it's a great time to encourage employees to save in an HSA and begin offering one if it's not already available. Commonwealth research found that 45% of survey respondents with an HSA would access healthcare more regularly if their employers contributed. A small seed contribution could generate a lot of goodwill among employees, particularly during this time, as they will feel that you are looking out for their best interest.

Conclusion

While there is no clear end in sight for the current economic crisis, savings is a crucial tool in households' ability to stay afloat. Major systems actors (financial institutions, fintechs, employers, policymakers, and others) can take steps to support lower-income households as they try to make savings a potent financial resiliency strategy.

BlackRock's Emergency Savings Initiative

This report is made possible thanks to the generous support of BlackRock's Emergency Savings Initiative. BlackRock has announced a $50 million philanthropic commitment to help people living on low- to moderate income gain access to and increase usage of proven savings strategies and tools to help them establish an important safety net. Led by its Social Impact team, BlackRock, along with nonprofit experts known for their innovative approach to consumer finance, Commonwealth, and Common Cents Lab, and Financial Health Network (formerly CFSI) are working to address the savings crisis and fuel the future of savings innovation.

For more information on this brief, please contact Melissa Gopnik at [info@buildcommonwealth.org.](mailto:info@buildcommonwealth.org)

Follow the Financial Resilience Project online for our latest insights, stories from the households we are following, and more:

https://info.buildcommonwealth.org/frp