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OF ST. LOUIS

CENTRAL TO AMERICA'S ECONOMY
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Building Savings and Financial Capability

Money Smart Week Kick-off Breakfast

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Household Financial Stability Project

- Families improve their financial stability through broad-based economic growth, higher net household incomes and, especially, stronger balance sheets.
- Financially stable families face less economic risk and more economic mobility within and across generations.
- Financially healthy families spend, save and invest more, and thus contribute to economic growth.

"Our overall economic stability relies ultimately on the collective financial health of all American households."

- Fed Governor Sarah Bloom Raskin, June 2011

The Savings Challenge

- Stagnant or declining labor-market incomes.
- Mounting fiscal concerns and political paralysis → declining public resources likely.
- Savings leads to better economic and financial capability outcomes for households.
- Balance sheet repair is critical for broader economic recovery.
- Nearly half of all Americans consider themselves financially fragile, meaning that they would "probably" (22.2 percent) or "certainly" (27.9 percent) be unable to come up with $2,000 in 30 days to cope with a financial emergency. (Lusardi, Schneider and Tufano, 2011)

Savings increasingly necessary but increasingly harder to do.

Research Findings

- Combining financial education and accounts leads to several positive outcomes: active use of accounts, enrollment in financial education, demonstrated acquisition of knowledge and changed behaviors. (Baker and Dylla, 2007)
- Financial capability may be the *result* of regular saving, instead of the source. (Hilgert, Hogarth and Beverly, 2003)
- High school and college students exposed to cumulative financial education show an increase in financial knowledge, which in turn drives increasingly responsible behavior as they become young adults. There's a snowball effect – linkages between repeated financial education and higher levels of good financial behavior such as tracking expenses, paying credit cards in full and saving money each month. (Shim et al., 2011)
- Parents are 1.5 times more likely than continuing financial education and friends to help develop positive financial attitudes and behaviors in their children. (Shim et al., 2011)
- Savings, even modest amounts, lead to many positive educational and economic mobility outcomes. (Elliot and Beverly, 2011; Butler et al., 2008; Zhan and Sherraden, 2009; Shapiro, 2004; Shanks, 2005)
- Income is not the strongest predictor of savings, even for families with low incomes. (Schreiner et al., 2002)

How to Make Savings Easier

Good: More financial education, as early as possible

Better: Financial education combined with savings accounts

Best: Pro-saving programs or "institutional models"

Who's behaving? Generally, the lower your income, the more you have to "behave."

Promising Savings Opportunities

<u>Children and Youth</u>

- *Starting at birth*
  - UK Child Trust Fund
  - Oklahoma SEED for Kids
  - Roth at Birth concept
- *Saving for college*
  - Kindergarten to College (San Francisco)
  - Partnership for College Completion (five cities)
  - "Gear Up" program for middle school children

<u>Adults</u>

- Promote access to financial services (bank the unbanked)
- Develop emergency, unrestricted savings
- Leverage the tax-filing moment
- Leverage the employer's payroll system