Financial Inclusion and Economic Recovery

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Financial Inclusion Working Group
Clinton Global Initiative—America

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Outline

- Financial inclusion and economic recovery
- An uneven recovery: whose wealth has recovered?
- Why household wealth matters for families and economic growth
- Why short term savings?
- Seven "moments" to build savings

Financial Inclusion and Economic Recovery

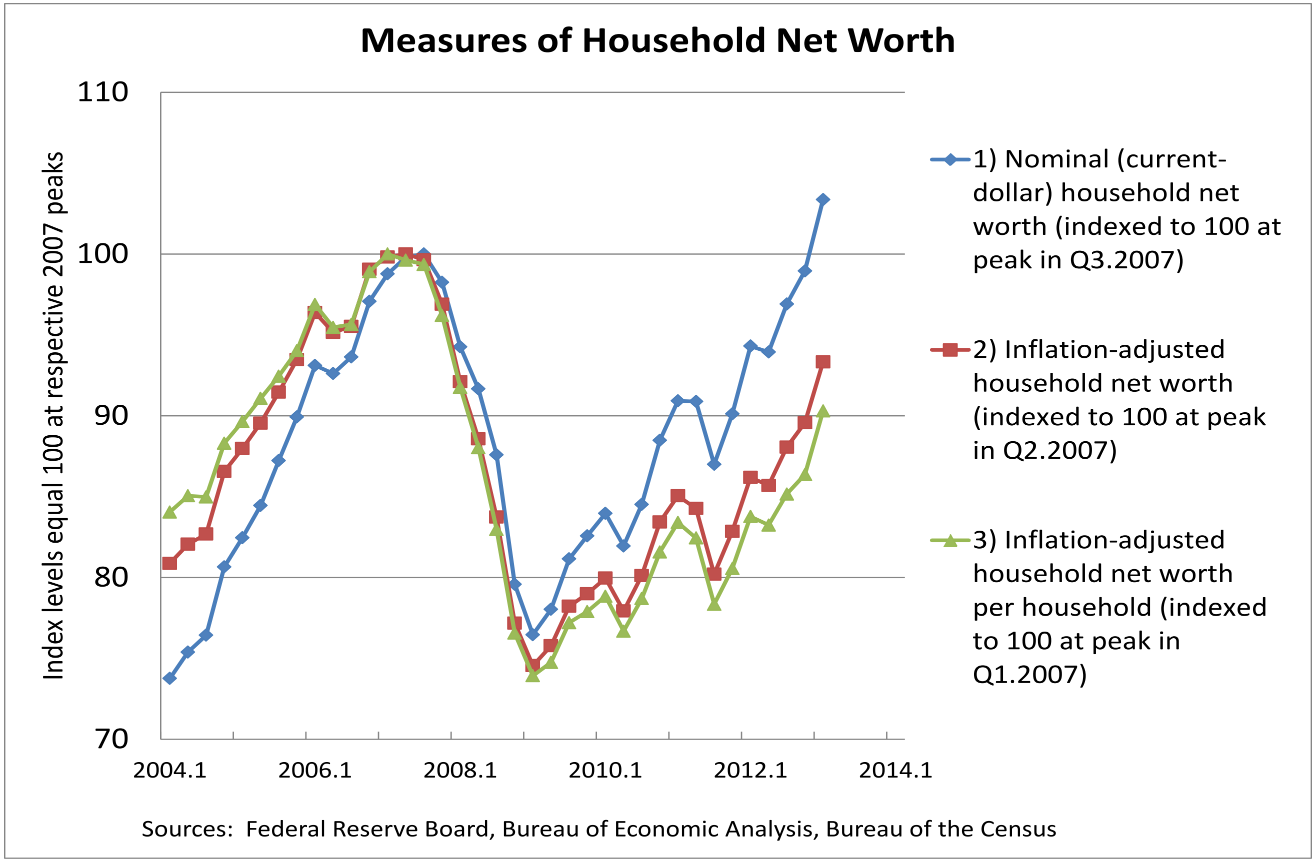
- Household balance sheets could serve as a useful framework for our working group—bringing together the expertise in the room around financial services, financial literacy, savings, consumer debts, asset-building, consumer protection, technology, payments systems, housing, etc.

- Financial inclusion—promoting access to and use of quality financial services—is the *sine qua non* of a healthy balance sheet. Without that, you cannot get the rest of the balance sheet right.

- As I will demonstrate, family balance sheets matter for family stability and upward economic mobility, and they matter for economic recovery and growth.

An Uneven Recovery: Whose Wealth Has Recovered?

(Emmons and Noeth, June 2013)



An Uneven Recovery, con't.

- $16 trillion in household wealth was lost from 2007-2009.
- In nominal terms, that wealth has been more than recovered (114%).
- However, adjusting for inflation (1.9% per year) and population growth (3.9 million new households) since 2007, only 63% has been recovered by the typical household.
- Furthermore, most of the recovered wealth has been in stocks, which are disproportionately owned by wealthier families.
- The wealth of most families is in housing, which is still down about 30% from the peak in 2005-2006. Housing wealth declines have a larger negative effect on consumption than financial wealth declines.
- Public policy responses (pre- and post-crisis) have been "upside down"—largely benefiting families likely to recover their wealth anyway.
- Accordingly, most families are still struggling, contributing to a sluggish recovery.
- Younger, less-educated, and non-White families lost the greater percentage of their wealth, while older, better-educated, and White and Asian families have recovered well.
- Using these demographic drivers of balance sheet health, families can generally be placed into one of three categories – strong, still struggling, and sinking.

Why Household Wealth Matters for Families

- Net worth drives opportunity from one generation to the next (Conley, 2009)
- Financial capital is one of the three strongest predictors of economic mobility in the U.S. (Butler, Beach, and Winfee, 2008)
- 55 percent of the lowest-income adults with high initial savings left the bottom quartile within 20 years, compared to 34 percent with low initial savings (Cooper and Luengo-Prado, 2009)
- Small amounts of wealth at the right moments can have a "transformative" effect on one's life course (Shapiro, 2004)
- Liquid and non-liquid assets are positively associated with later college completion, while unsecured debt is negatively associated (Zhan and Sherraden, 2009)
- Households with a four-year college graduate and outstanding loans have $185,996 less net worth than similar households with no outstanding student loans (Elliott, forthcoming)
- Americans who borrowed to pay for school are now less likely to have a mortgage at age 30 than those who never had student debt, a reversal of prior trends (Federal Reserve, 2013)

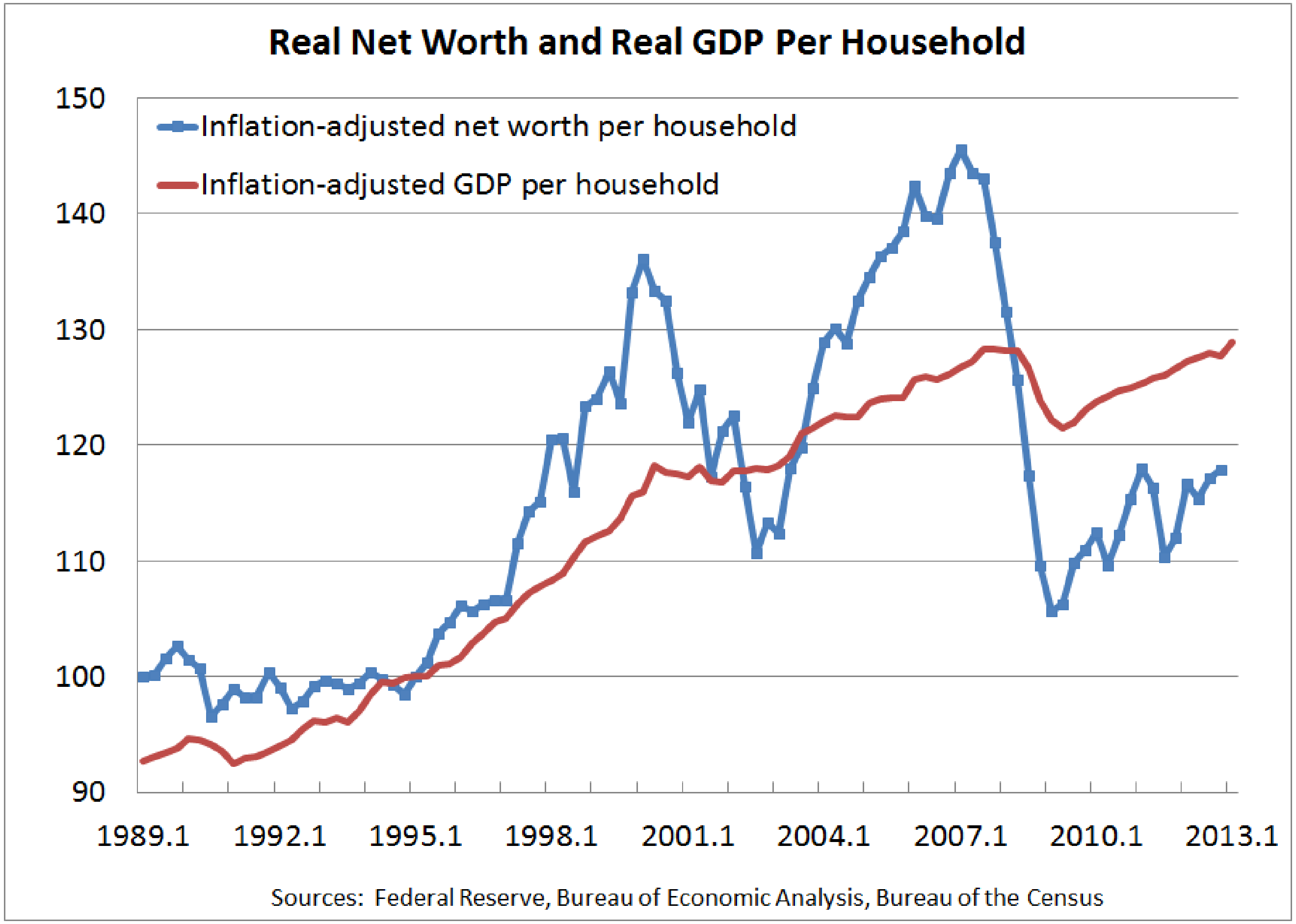
Youth Savings and College Graduation

(Elliott, 2013)

	No Savings Account	Only Basic Savings	School Savings < $1	School savings $1 - $499	School savings > $500
% Who Graduate From College – All Children	14%	26%	30%	31%	49%
% Who Graduate From College – Lower-Income Children	5%	9%	13%	25%	33%

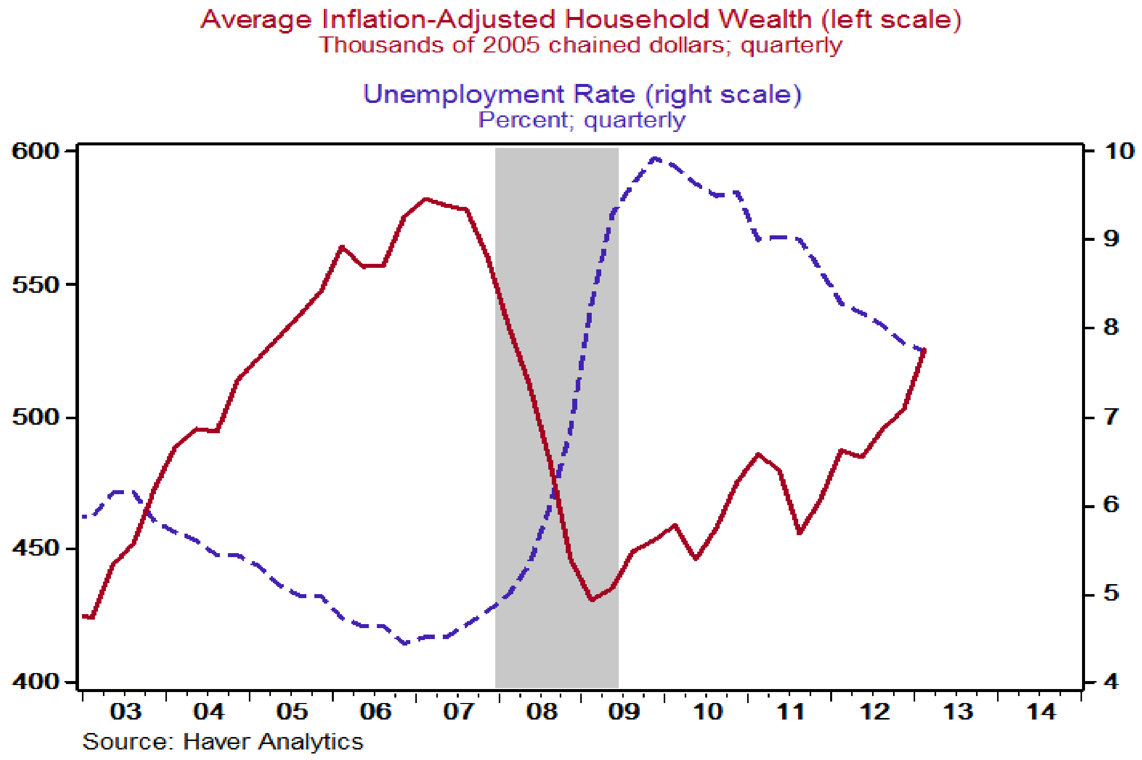
Household Net Worth and Economic Growth

(Emmons, 2013)



Household Net Worth and Economic Growth, cont.

(Emmons, 2013)



Why Short-Term Savings?

- *Short-term savings are necessary for smoothing consumption and investment.* Families can no longer assume rising asset values and easy access to credit, especially with stagnant wages among LMI and middle-income families and declining public expenditures.

- *Short-term savings cut across the health of family balance sheets.* Families with short-term savings have better access to qualify financial services, can begin to invest in longer-term assets (homes, businesses, education, retirement accounts), are better able to diversify their assets, and can better pay down high-cost debts.

- *There is a great need for short-term savings.* Recent Fed data show that short-term savings is the top savings priority among families (whereas retirement savings was three years ag0), and that roughly half of all Americans have less than $3,000 in short-term savings.

- *Short-term savings are associated with family stability and economic mobility.* Several recent studies show that families with short-term saving are less likely to experience material hardship following an income shock, more likely to attend college, and more likely to move up the economic ladder than those with no or lesser amounts of short-term savings.

Seven "Moments" to Build Savings

What "moments" do people interact with an "institution" that could help families begin saving, save more, and save more regularly?

1. At birth
2. Entering school (at all levels)
3. Employment
4. Filing taxes
5. Spending
6. Debt repayment (mortgage and consumer debts)
7. Receiving public benefits