



Thriving Residents, Thriving Cities

Family Financial Security Matters for Cities

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The economic health of cities and communities depends on the financial health and stability of their residents. Economically secure families are better able to weather temporary income drops independently and are less likely to rely on local services for housing support and cash assistance. Financially healthy adults can contribute more to the local economy, thus supporting property, sales, and income taxes. And financially healthy families are more likely to provide the stable housing conditions and support that children need to thrive and succeed.

This brief builds the evidence for how family financial health—as measured by savings and debts—contributes to city health.¹ We focus on how savings help families survive inevitable setbacks, making it less likely that they will need government subsidies and more likely that they will be able to contribute consistently to local government revenues and the local economy.²

We provide new empirical evidence on the relationship between family financial health and four important outcomes for cities: eviction, ability to pay rent or mortgage, ability to pay utility bills, and reliance on public benefits. We examine family financial health in the face of three income disruptions: an involuntary job loss, a health-related work limitation, or an income drop of 50 percent or more.³ In doing so, we answer two key research questions:

1. Is increased financial health associated with decreased financial hardship?
2. Is increased financial health associated with reduced reliance on public benefits?

Key findings include these two:

- **Families with even a small amount of nonretirement savings are less likely to be evicted, miss a housing or utility payment, or receive public benefits when income disruptions occur.** The savings cushion kicks in with very low savings levels (\$250–\$749); for public benefits, any savings reduce benefit receipt. Higher savings levels, however, are associated with even lower hardship levels and benefit receipt.⁴ These relationships hold when taking account of family incomes.
- **Low-income families with savings are more financially resilient than middle-income families without savings.** Low-income families with savings of \$2,000–\$4,999 are less likely to experience a hardship after an income disruption than middle-income families with no savings.

To provide context for the key findings, we also examine how often families experience income disruptions, how income disruptions relate to financial hardship and public benefit receipt, and family financial health as measured by nonretirement savings:

- **Income disruptions are common.** Over 12 months, about 25 percent of families suffered at least one of the three income disruptions.
- **Families with income disruptions are significantly more likely to be evicted, miss housing and utility payments, and receive public benefits.** This issue doesn't affect just low-income families; middle-income and higher-income families also have above-average hardship levels and benefit receipt after their income is disrupted.
- **Many families lack a savings cushion to ease the blow when income disruptions hit.** Almost 1 in 4 families have no nonretirement savings, roughly 4 in 10 have less than \$750, and about 6 in 10 have less than \$5,000.
- **Savings increase with income, but low savings is not just a low-income problem.**

Steps to improve family financial health could improve the stability and security of both families and the communities in which those families live. Community leaders who care about resilient, inclusive, and productive communities should care about family financial health.

Why Family Financial Health Matters to Cities

Financially healthy families are more likely to be able to contribute consistently to local government revenues and are less likely to need city supports. Cities, counties, school districts, and other jurisdictions operate best with stable revenues and affordable expenditures.

- Property taxes from households and businesses accounted for roughly half (47 percent) of local own-source revenue in 2012, according to Census of Government data. Sales taxes and individual income taxes brought in an additional 11 percent and 3 percent of local own-source

revenue.⁵ When families consistently pay their mortgage or rent they (or their landlord) are more likely to pay property taxes, which feed into city budgets.

- Evictions can lead to homelessness and thus local housing expenditures, which can put pressure on city budgets. These costs can be particularly high in inclement weather, especially when local areas are required to shelter the homeless.⁶ Homelessness among children can disrupt their education; changing schools during the school year can lower children's long-term educational success (Ratcliffe 2015) and increase city school budgets.
- Families with income disruptions can have trouble paying for their utilities, such as electricity, gas, and water. And, when utilities are city-owned, city revenues suffer when residents do not pay their bills.⁷ Though utility costs can be relatively small, particularly in relation to mortgage and rent, failure to pay indicates that families are struggling financially. Even small debts can balloon into large ones if families fall far behind in payments.
- Family financial insecurity can increase the need for local public welfare spending (e.g., food, energy, and homelessness assistance), community development spending (e.g., blight removal and urban renewal), and crime-related correctional spending. Families who suffer income disruptions with no savings are more likely to tap into income maintenance programs. Many public benefits are funded by federal and state governments and can strengthen the local economy by infusing resources. But local governments also spend resources on social service and income maintenance programs; they spent billions on cash assistance payments and other public welfare in 2013.⁸

Thus, family financial health can have direct implications for local communities and their finances.

Savings Help Families Avoid Hardship and Benefit Use

Savings are critical for weathering financial emergencies. Families with savings are more financially secure than families living paycheck to paycheck. To better understand how savings protect families, we take a closer look at families who experience one or more of three major income disruptions: an involuntary job loss, an injury or illness that limits work, or a 50 percent drop in income. Families with higher nonretirement savings are significantly less likely to be evicted, miss a housing or utility payment, or receive public benefits after one of these income disruptions than families with lower savings.

A small amount of savings can cushion the blow of income disruptions: \$250–\$749 helps families avoid hardship. After an income disruption, 21.1 percent of families with \$1–\$249 in savings miss a housing payment, compared with 15.2 percent of families with \$250–\$749 in savings (figure 1)—a 28 percent reduction for families with more savings. Similarly, families with \$1–\$249 in savings are significantly more likely to miss a utility payment than families with \$250–\$749 (24.5 percent versus 18.5 percent—a 24 percent reduction for families with more savings) and are more likely to be evicted (3.2 percent versus 0.7 percent—a 78 percent reduction for families with more savings).

BOX 1

Unpaid Utility Bills Can Reduce City Revenue and Generate Costs from Shutting Off Services

Stepping in to restructure residents' utility debt and connecting them to financial empowerment services appears to be a fruitful way for cities to boost residents' financial health as well as their own.

The Local Interventions for Financial Empowerment through Utility Payments (LIFT-UP) pilot helps families who owe money to municipal utility services repay that debt while connecting them to financial empowerment services such as financial coaching and benefit screening (Moulton, Harlow, and Kondrajteva 2015).

The program, run by the National League of Cities, is being piloted in five cities: Houston (TX), Louisville (KY), Newark (NJ), Savannah (GA), and St Petersburg (FL). Between 20 and 48 percent of municipal water utility customers in these cities were in debt to the city at the start of the program. In addition to restructuring debt payments to allow customers more time to pay back the debt, all five cities provided financial coaching, through referrals to nonprofits, city services, and in Houston's case, training utility staff to act as financial coaches.

Early findings from the LIFT-UP evaluation show promising results. One-third of participating customers repaid their debts and completed the program, even though some programs are still ongoing. In Savannah, 60 percent of participants repaid their debts. Three months in to the program in Houston and St. Petersburg, termination of utility services fell by 30 percent.

Curing debts that could otherwise end up as collections on a consumer's credit report is another avenue for improving financial health. Credit report information is used to determine eligibility for jobs, access to rental housing and mortgages, insurance premiums, and general access to (and the price of) credit (Traub 2013).^a

^a See also "Credit Scores," Federal Trade Commission, accessed April 15, 2016, <https://www.consumer.ftc.gov/articles/0152-credit-scores>.

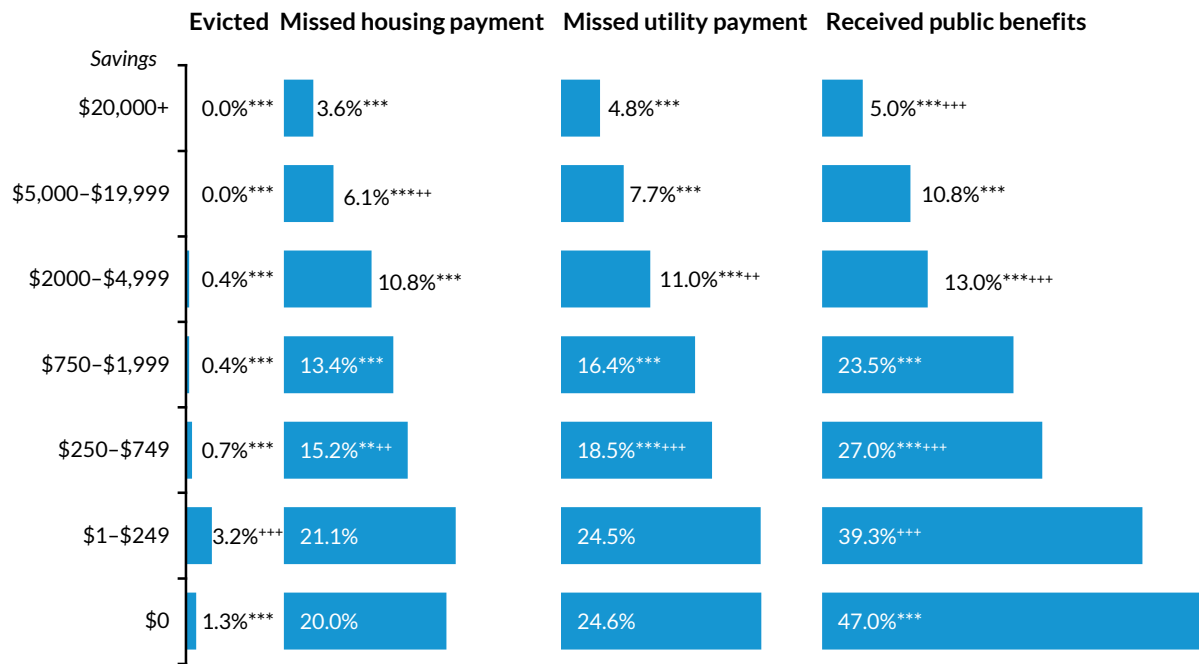
Even smaller savings amounts are associated with lower public benefit receipt. Families with just \$1–\$249 in savings are significantly less likely to receive public benefits than families with no savings (39.3 percent versus 47.0 percent, a nearly 20 percent reduction).⁹ These findings provide new evidence that savings below the asset-poverty level (roughly \$5,000 for a family of three) reduce hardship and public benefit use.

Higher savings are associated with even lower hardship levels. The share of families missing a housing payment falls further from 15.2 percent for families with \$250–\$749 in savings to 10.8 percent for families with savings of \$2,000–\$4,999, 6.1 percent for families with \$5,000–\$19,999, and 3.6 percent for families with \$20,000 or more in savings. We also see missed utility payments, evictions, and public benefit receipt fall as family savings rise.

FIGURE 1

Savings Cushion Families after an Income Disruption

Share of families experiencing hardship and receiving benefits after income disruption, by savings level



Source: Authors' tabulations of the 2008 Survey of Income and Program Participation, waves 4 through 12 (September 2009–August 2012).

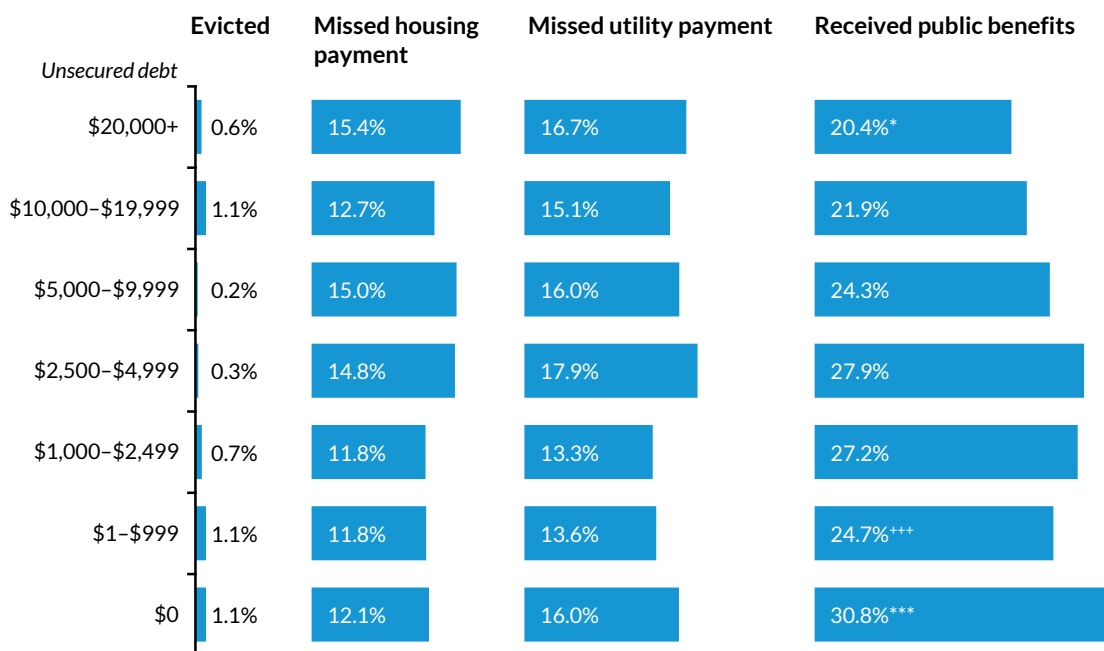
Notes: Data are weighted using SIPP cross-sectional household weights. Savings are in 2015 dollars. See appendix for details.
 / Savings category differs significantly from \$1–\$249 at the 0.05/0.01 level. No differences are significant at the 0.10 (*) level.
 **/+++ Category differs significantly from previous category at the 0.05/0.01 level. No differences are significant at the 0.10 (*) level.

We find no significant evidence that families with more unsecured debt are harder hit when an income disruption occurs.¹⁰ In fact, we find some evidence that families with unsecured debt are more self-sufficient; that is, they are less likely to receive public benefits (figure 2). Nearly one in three families (30.8 percent) with no unsecured debt receives public benefits, while only one in four families (24.7 percent) with \$1–\$999 in debt and one in five families (20.4 percent) with \$20,000 or more in unsecured debt receive public benefits. This finding suggests that unsecured debt is related to access to credit, so families with more debt are typically more advantaged than families without debt.

FIGURE 2

Debt Doesn't Hurt Families after an Income Disruption

Share of families experiencing hardship and receiving benefits after income disruption, by unsecured debt level



Source: Authors' tabulations of the 2008 Survey of Income and Program Participation, waves 4 through 12 (September 2009–August 2012).

Notes: Data are weighted using SIPP cross-sectional household weights. Unsecured debt levels are in 2015 dollars. See appendix for details.

*/** Debt category differs significantly from \$1–\$999 at the 0.10/0.01 level. No differences are significant at the 0.05 (**) level.

⁺⁺⁺ Category differs significantly from the previous category at the 0.01 level. No differences are significant at the 0.10 or 0.05 (^{+/+}) level.

A Savings Cushion Is Important for All Families

Savings are critical for avoiding hardships and better positioning families to contribute to their local communities, and this holds true for families at different income levels. Income matters, but **low-income families with savings are better off than middle-income families without savings.**

In analyses that take account of income level and age, the savings cushion kicks in at \$250–\$749 for three outcomes—missing housing or utility payments and being evicted—and at \$1–\$249 for public benefits receipt (not shown). The results after adjusting for income and age continue to suggest a larger cushion against the consequences of disruptions for families with higher savings.

To help further disentangle income from savings, we measure the relationship between any of our hardship measures and savings for low-income, middle-income, and higher-income families. For convenience, families in the bottom, middle, and top income thirds are referred to as low-, middle-, and higher-income families. We group the savings ranges into broader groups than those used for figure 1

BOX 2

When Homeowners Cannot Pay Their Property Tax Bills It Hurts a City's Bottom Line

During the Great Recession, delinquent property tax bills in the United States reached \$15 billion annually (Rao 2012). Delinquency rates have declined recently but remain substantial (Cannon 2015). Some homeowners stop paying property taxes because they are underwater on their mortgage and abandon their property, but others who experience income disruptions may simply have cash flow or liquidity constraints (Dewar, Seymour, and Druta 2015). Many subprime lenders did not include property tax escrow accounts when making loans, in order to make the monthly payment smaller. As a result, many homeowners were unable to meet their property tax obligations or believed their taxes were included in the payments they were making (Rao 2012).

Detroit's uncollected property taxes total more than \$100 million, and the city had almost 30,000 properties up for auction due to tax foreclosure in 2015. Though back tax amounts can be in the low thousands, they are impossible for some to pay.³ For Detroit residents who do not have property tax escrow accounts or own their homes outright, property taxes come due twice a year, so savings are a must. A manageable monthly payment can become an impossible burden when paying six months at a time, especially as interest compounds on late payments.

Cities and service organizations are looking to decrease these foreclosures, which can devastate cities and communities. Though cities rely on property taxes for revenue, foreclosures aren't free; it can cost up to \$15,000 to demolish an abandoned home in Detroit, far more than what many homeowners owe in taxes. Vacant homes in neighborhoods decrease property value (Immergluck and Smith 2006), and blighted homes can discourage other residents from maintaining their properties or businesses from investing in neighborhoods (Dewar, Seymour, and Druta 2015).

Educating homeowners about the need for savings and escrow accounts, and providing greater access to financial capability services, can help city residents meet their financial obligations and, in turn, help city finances.

³ Joel Kurth and Christine MacDonald, "Detroit Braces for a Flood of Tax Foreclosures," *Detroit News*, September 8, 2015.

(and the regression analyses) because splitting the sample by income results in few families per group. The results continue to suggest that savings matter across the income distribution and that smaller amounts of savings are of greater benefit to low-income families than to higher-income families.

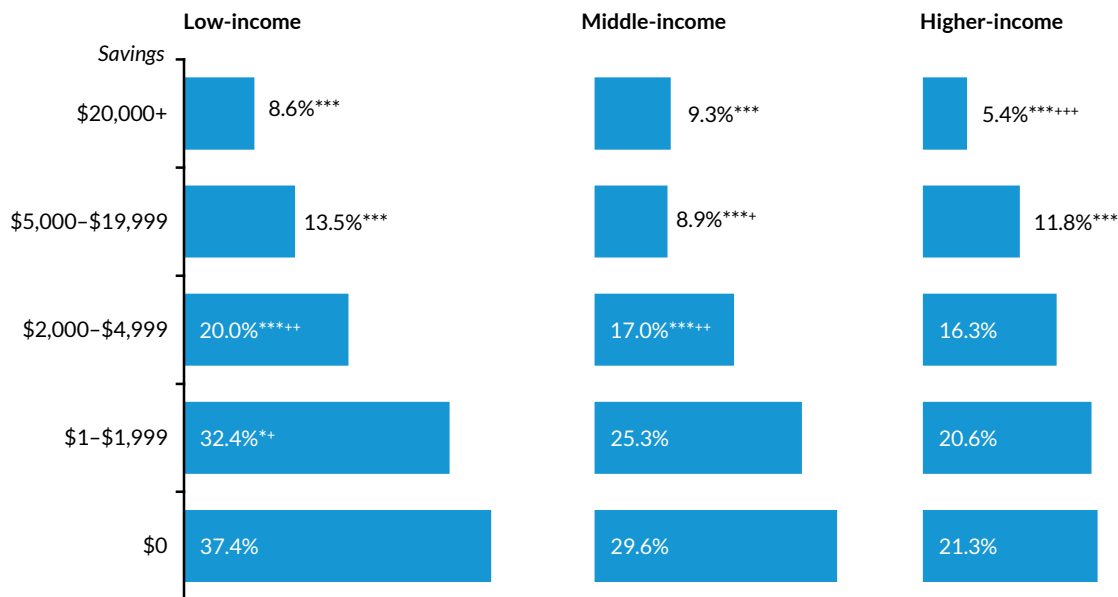
After an income disruption, hardship is greater among *low-income families* without savings than similar families with savings (figure 3, left bars). For example, 37.4 percent of low-income families with no savings experience a hardship, compared with 32.4 percent of low-income families with \$1–\$1,999 in savings. However, hardship rates are still high for low-income families with less than \$2,000 in savings; that amount is not enough to cushion nearly a third of low-income families from hardship. Above \$2,000 in savings, hardship rates fall steeply and are as low as 8.6 percent for low-income families with \$20,000 or more in savings.

Having an adequate savings cushion is also important for the well-being of *middle-income families*. Among middle-income families whose income is disrupted, hardship is significantly higher among those with no savings than those with \$2,000 or more in savings (figure 3, middle bars), suggesting that it

FIGURE 3

Savings Matter for Families at All Income Levels

Share of families experiencing any hardship after income disruption, by savings and income levels



Source: Authors' tabulations of the 2008 Survey of Income and Program Participation, waves 4 through 12 (September 2009–August 2012).

Notes: Data are weighted using SIPP cross-sectional household weights. Income and savings are in 2015 dollars. See appendix for details. Annual family income thirds are as follows: bottom third, \$0–\$32,280; middle third, \$32,281–\$72,120; top third, \$72,121 and higher.

*/** Savings category differs significantly from \$0 at the 0.10/0.01 level. No differences are significant at the 0.05 (**) level.

/ Category differs significantly from the previous category at the 0.10/0.05/0.01 level.

takes at least \$2,000 to protect middle-income families from hardship. Larger savings amounts continue to be associated with greater reductions in hardship.¹¹ For example, 29.6 percent of middle-income families with no savings experience a hardship, compared with 17.0 percent of similar families with \$2,000–\$4,999 in savings and 9.3 percent of similar families with \$20,000 or more in savings.

Higher-income families need a greater savings cushion to help with potential income disruptions. Significantly more higher-income families without savings experience hardship than similar families with over \$5,000 in savings,¹² suggesting that it takes at least that amount to protect these families from income disruptions. Higher-income families likely need this larger cushion because their standard of living is higher, resulting in higher fixed expenses (e.g., housing costs, utility bills, vehicle loans). Among higher-income families, 21.3 percent with no savings experience hardship, compared with 11.8 percent of similar families with \$5,000–\$19,999 in savings and 5.4 percent with \$20,000 or more in savings.

Low-income families with savings are more financially resilient than middle-income families without savings. The share of families experiencing hardship after an income disruption is lower for low-

income families with savings of \$2,000–\$4,999 (20.0 percent) than for middle-income families with no savings (29.6 percent). And the share of families experiencing hardship after an income disruption is lower for low-income families with \$5,000–\$19,999 saved (13.5 percent) than for middle-income families with \$1–\$1,999 saved (25.3 percent). This finding shows that both income and savings contribute to family well-being.

Income Disruptions Happen Often and Are Linked to Greater Hardship and Higher Use of Public Benefits

We see how savings can cushion the blow of income disruptions for families at all income levels, but how often do families experience such disruptions? Roughly one in four families (25.7 percent) suffers at least one of these three income disruptions in a year (table 1). A large drop (50 percent or more) in family income is the most common, affecting 17.6 percent of families. We also find that 6.2 percent of families experience an involuntary job loss and 5.1 percent experience a health-related work limitation.

Low-income families are slightly more likely to experience an income disruption, but the differences are relatively modest.¹³ For example, 20.6 percent of low-income families experience an income drop of 50 percent or more, compared with 15.8 percent of middle-income and 15.9 percent of higher-income families (not shown).¹⁴ Thus, emergency savings are important for families across the income distribution.

TABLE 1

Share of Families with an Income Disruption over a Year

Income disruption	Share of families
Involuntary job loss	6.2%
Health-related work limitation	5.1%
Income drop of 50 percent or more	17.6%
Any of three disruptions	25.7%

Source: Authors' tabulations of the 2008 Survey of Income and Program Participation, waves 11 through 13 (January–December 2012).

Notes: Data are weighted using SIPP cross-sectional household weights. Involuntary job loss means the household head or spouse lost a job involuntarily for any length of time during the previous 12 months. Health-related work limitation means the household head or spouse experienced the onset of a health-related work limitation (of any length) during the previous 12 months. Income drop is a 50 percent or more decline in average family income between any given 4-month period over the previous 12 months.

Families who experience income disruptions are significantly more likely to be evicted and miss rent, mortgage, and utility payments than those who do not experience these disruptions. With this financial strain, families are also more likely to receive public benefits, such as food, housing, and cash assistance. This higher level of hardship and benefit receipt among families who experience income disruptions holds for each disruption.

Families who lose a job are about twice as likely to miss housing and utility payments as families who do not lose a job (figure 4). Among families who lose a job, 15.8 percent miss a housing payment and

19.5 percent miss a utility payment. Among those who do not experience a job loss, the numbers are 7.3 percent and 9.7 percent, respectively. Evictions happen infrequently, but families who experience an involuntary job loss are still more likely to be evicted (1.1 percent) than families who do not (0.4 percent). When evictions happen, the ramifications can be great.¹⁵ They can lead to homelessness or force families to move to worse neighborhoods. Children may have to change schools during the school year. Even if children are able to stay in the same school, the instability of moving from place to place can still harm their ability to succeed. Residential instability can also make it difficult for parents to work or find work.

Government benefit receipt is significantly higher—by over 60 percent—among families who have experienced a recent disruption. For example, 29.2 percent of families who experience an involuntary job loss receive public benefits, compared with 17.5 percent of families who do not experience a job loss.

Results for the other income disruptions examined—onset of a health-related work limitation and an income drop of 50 percent or more—are similar to those above. These families, however, are slightly less likely to miss housing or utility payments. For example, about 13 percent of families with either of these two disruptions miss a housing payment versus roughly 16 percent of families with an involuntary job loss. Benefit receipt is also slightly lower for families with new health limitations or income drops than families who lose a job (27 percent versus 29 percent).

Instability Is Not Only an Issue for Low-Income Families

The relationship between income disruptions and hardship (and benefit receipt) may differ by family income level, as income can directly affect well-being and the need for public benefits. To better understand who is vulnerable to instability, we examine income disruptions for low-income, middle-income, and higher-income families.¹⁶ Here we combine families that experience any one of the three income disruptions because figure 4 shows only modest differences between the disruptions.

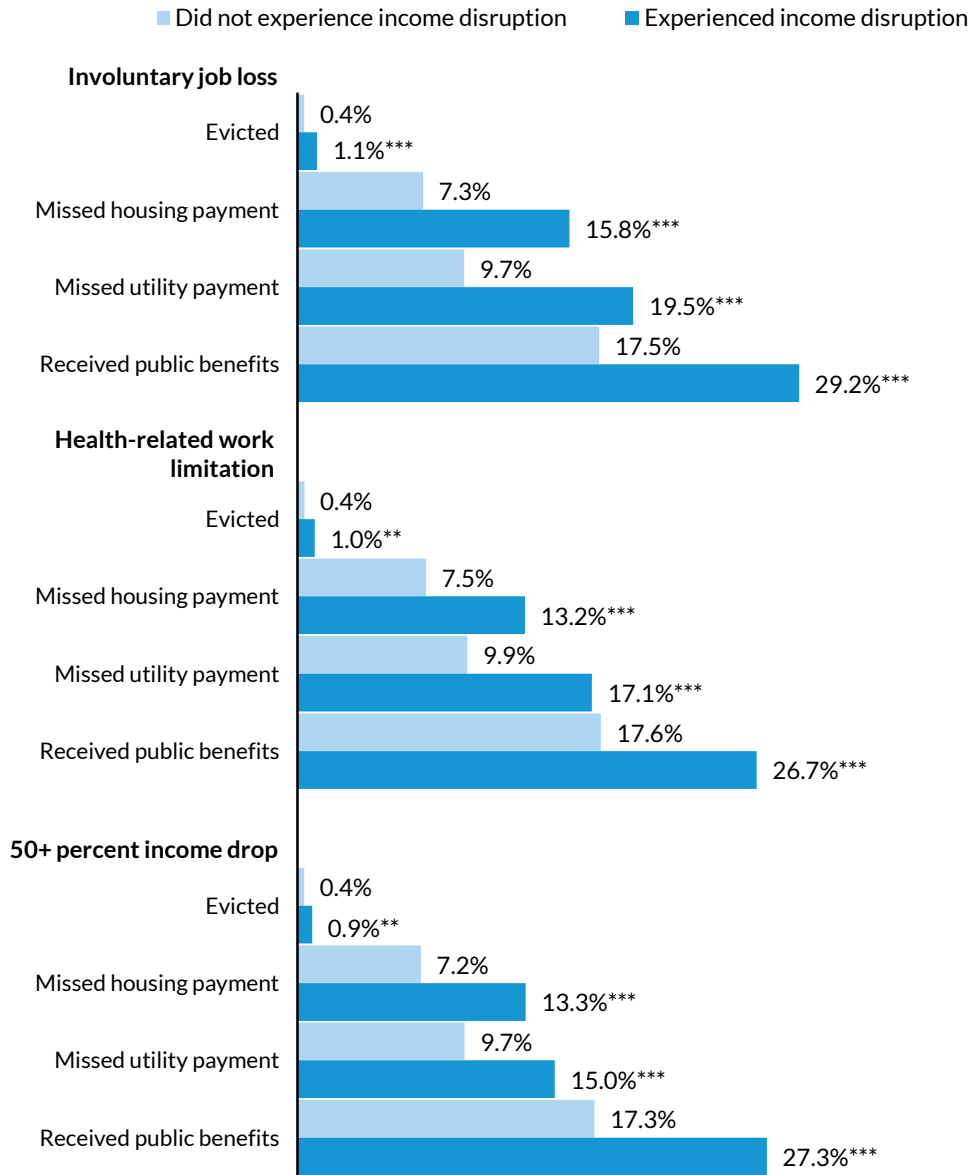
In each income group, those who experience an income disruption have higher hardship levels than families who do not (figure 5).¹⁷ Among low-income families, 18.9 percent of families who experience an income disruption miss a housing payment compared with 9.9 percent of families who do not experience an income disruption (top panel). The differences are slightly lower among middle-income and higher-income families. When looking at eviction—the most severe form of hardship—we find that income disruptions are associated with a higher share of low- and middle-income families being evicted, but not higher-income families. Some of this could reflect a larger and more financially secure network of extended family and friends among higher-income families. All three income groups saw significant differences in the likelihood of missing a utility payment or receiving public benefits when families experience an income disruption.

Income disruptions are not only a concern for low-income families. To be sure, hardship is greater among low-income families—making stability particularly important for low-income families and their communities—but middle-income and higher-income families and their communities are not immune.

FIGURE 4

Families Who Experience Income Disruptions Face More Hardship

Share of families experiencing hardship and receiving benefits, by income disruption



Source: Authors' tabulations of the 2008 Survey of Income and Program Participation, waves 5 through 12 (January 2010–August 2012).

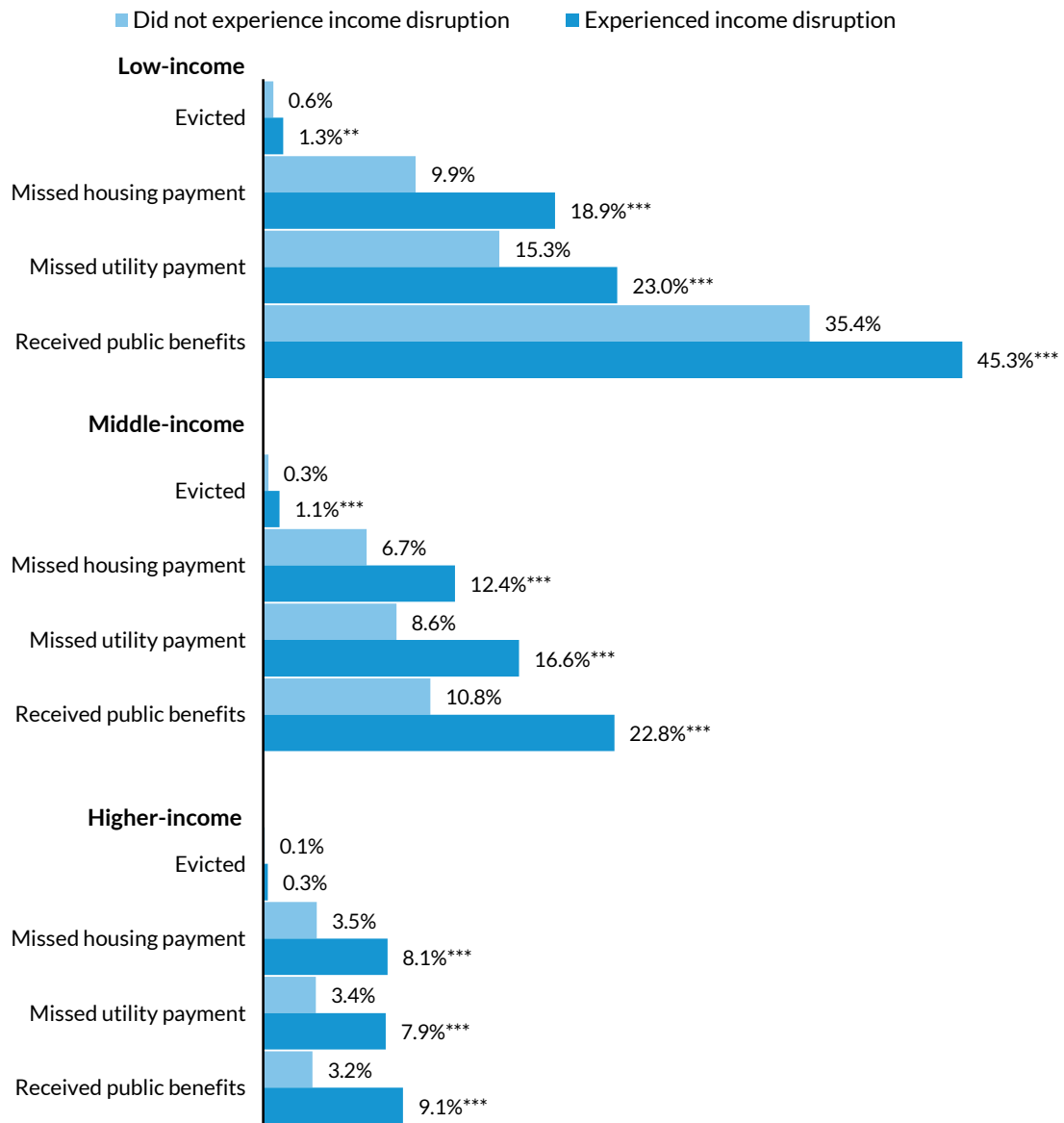
Notes: Data are weighted using SIPP cross-sectional household weights. Evicted means being evicted over the previous 12 months. Missed housing payment means not paying rent or mortgage at least once over the previous 12 months. Missed utility payment means not paying a utility bill at least once over the previous 12 months. Receipt of public benefits includes receipt of any means-tested public benefit, including SNAP, TANF, and Section 8 housing vouchers over a four-month period. See appendix for details.

/ Difference significant at the 0.05/0.01 level. No differences are significant at the 0.10 (*) level.

FIGURE 5

Families of All Income Levels Experience More Hardship Following Income Disruptions

Share of families experiencing hardship and receiving benefits, by income disruption and level



Source: Authors' tabulations of the 2008 Survey of Income and Program Participation, waves 4 through 12 (September 2009–August 2012)

Notes: Data are weighted using SIPP cross-sectional household weights. Evicted means being evicted over the previous 12 months. Missed housing payment means not paying rent or mortgage at least once over the previous 12 months. Missed utility payment means not paying a utility bill at least once over the previous 12 months. Receipt of public benefits means receipt of any means-tested public benefit, including SNAP, TANF, and Section 8 housing vouchers, over a four-month period. See appendix for details. Annual family income thirds are as follows: bottom third, \$0–\$32,280; middle third, \$32,281–\$72,120; top third, \$72,121 and higher.

/ Difference is significant at the 0.05/0.01 level. No differences are significant at the 0.10 (*) level.

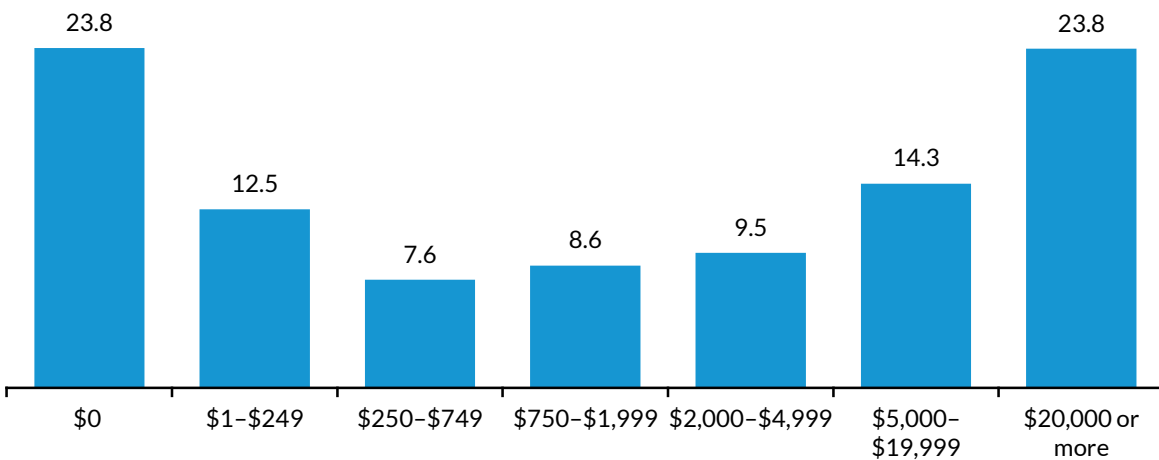
Many families are not prepared to weather income disruptions. Nearly one-quarter of families (23.8 percent) have no nonretirement savings, and more than half (52.4 percent) have less than \$2,000 (figure 6).¹⁸ Roughly 10 percent of families have savings between \$2,000 and \$5,000. In total, more than 6 in 10 families have less than \$5,000 in savings, meaning that many families are financially vulnerable.¹⁹ While \$5,000 in savings can help weather an income disruption, this amount will only allow a family of three to live at the federal poverty level for three months without additional resources.

While the share of families with no nonretirement savings declines with income, a nontrivial share of middle-income and higher-income families have no savings. More than 4 in 10 (41 percent of) low-income families have no savings, but so do 2 in 10 (20 percent of) middle-income families and nearly 1 in 10 (8 percent of) higher-income families.

FIGURE 6

Many Families Have Only a Small Financial Cushion

Share of families by nonretirement savings



Source: Authors' tabulations of the 2008 Survey of Income and Program Participation, wave 11 (January–April 2012).

Notes: Data are weighted using SIPP cross-sectional household weights. Savings, which are in 2015 dollars, include transaction accounts, interest-earning accounts, and other financial assets; they do not include retirement accounts.

Summary and Implications

Because financially healthy families can better contribute to the health of their community, savings are an important indicator for resilient communities. Families with more savings—an important component of financial health—experience less hardship than families with fewer savings. Among families who experience an involuntary job loss, a health-related work limitation, or a 50 percent drop in income, those with more nonretirement savings are less likely to be evicted, miss a housing or utility payment, or receive public benefits.

The savings cushion kicks in early. It starts with \$250 to \$749 in assets for the three hardship measures and even earlier—with \$1 to \$249 in assets—for public benefit receipt. These relationships hold after accounting for age and family income. In fact, low-income families with \$2,000–\$4,999 in savings are better off than middle-income families with no savings. These findings reinforce the importance of savings in improving household financial health and hold important implications for local officials when crafting public policies and municipal programs.

Steps by cities to improve family financial health could improve residents' well-being, while also driving inclusive economic growth (Bernstein 2015). When residents are financially secure, they are better positioned to buy homes, support city businesses, and contribute to the local economy (Bernstein 2015; English and Greer 2015; Marr et al. 2015; Smeeding 2014). When residents can't meet their financial obligations, cities lose revenue and incur other costs. Unpaid property taxes in Detroit and other cities, for example, decrease city revenue and have a secondary effect through tax foreclosures. Foreclosures create other struggles and costs for cities, including neighborhood disinvestment, lower property values, and vacant property demolition costs (Dewar, Seymour, and Druta 2014).²⁰ Unpaid utility bills reduce the revenue of city-owned utilities and generate costs from shutting off services. Evictions generate homelessness (United States Conference of Mayors 2015), which increases local housing expenditures (Tull and Macy-Hurley 2008). Evictions also lead to residential instability, which often creates further instability for families, communities, and schools (Desmond 2015).

When families can navigate income disruptions, municipalities can focus social services on their hardest-to-serve families, allowing more investments in education, asset building, and workforce development. Getting families on the savings track today can also improve the prospects of the next generation if children adopt their parents' savings habits.

Cities have been using several approaches to address family financial health, many which are integrated into other programs and services. The Cities for Financial Empowerment Fund is working to integrate financial capability services in local programs. Their Financial Empowerment Centers provide one-on-one financial counseling in settings that focus on workforce development, housing services, homelessness and foreclosure prevention, domestic violence prevention, and asset building, among others. Financial coaching programs, which work one on one with clients to achieve financial goals, have been found to increase the frequency of saving (i.e., making savings deposits) and the amount of savings (Theodos et al. 2015).

Integrating financial capability into public programs provides an opportunity to “meet families where they are” and address consumers' multiple needs in order to put them on a more secure path. Working with people seeking employment services to create a household budget and set up a savings account, for example, can improve financial stability when people find jobs. Greater stability can in turn help them retain employment. Financial capability programs are one piece of a larger puzzle to help families get on firm footing.

Through various public platforms, cities are also beginning to invest directly in programs focused more directly on helping families build savings, such as matched savings at tax time, children's savings

accounts (CSAs), and individual development accounts (IDAs). Schools can serve as an entry point for CSAs, and affordable housing sites can serve as entry points for tax-time savings, IDAs, or other savings-targeted efforts. Efforts to increase savings at tax time leverage an opportune moment to promote savings, as many low-income tax filers receive a substantial tax refund. SaveUSA, a demonstration project in New York City (NY), Newark (NJ), San Antonio (TX), and Tulsa (OK) provided a financial match for tax refund dollars saved for a year. A recent evaluation of SaveUSA found that the program increased savings by an average of \$512 and increased the share of people who reported a continued commitment to save (Azurdia et al. 2014).²¹ Many cities, in partnership with local providers, have applied these lessons to improve family financial health by increasing “rainy day” savings.²²

Creating financially healthy communities is an important goal of city leaders. Helping families improve their financial security can further this goal because improvements in family financial health ripple through to benefit cities and communities.

BOX 3

How This Brief Relates to Other Studies on Financial Stability and Material Hardship

The literature suggests that families with savings are significantly less likely to suffer hardship (Bowdler and Gorham 2014; Gjertson 2016; McKernan, Ratcliffe, and Vinopal 2009; Mills and Amick 2010; Mills and Zhang 2011). Most of the literature uses broad savings definitions. For example, Mills and Amick (2010) and Mills and Zhang (2011) divide families into three groups: families with no liquid assets, asset-poor families with some assets, and non-asset poor families. Gjertson (2016) uses self-reported indicators of whether a family has emergency savings. Virtually all studies are based on data before the Great Recession of 2007–09. Gjertson (2016) is an exception, with data spanning from 2002 to 2011.

Different from this study, most past studies include hardship outcome measures that are mostly important at the family level, such as food insecurity (McKernan, Ratcliffe, and Vinopal 2009) or doctor’s appointments missed because of lack of funds (Mills and Amick 2010). Virtually none discuss their implication for cities and communities. Bowdler and Gorham (2014) is an exception; they summarize the benefits of consumer financial stability to employers, taxpayers, and the economy.

This brief contributes to this literature on at least four dimensions. First, it focuses on city-relevant outcomes. Second, it uses data from after the Great Recession. Third, it focuses on finer measures of savings and their relationship to hardship and benefit use. Fourth, while the literature has focused on liquid assets, this brief also explores the relationship between unsecured debt and material hardship.

Appendix: Data and Definitions

To examine the role financial health plays in hardship and benefit use, we use 2009 to 2012 data from the 2008 SIPP panel. The 2008 panel includes 42,000 households and is representative of the US noninstitutionalized civilian population when weighted. SIPP respondents are interviewed every four months about the previous four months, a period referred to as a wave. We use data from the monthly SIPP core files and the SIPP topical modules. The primary unit of analysis for this study is a household, which we refer to as a family for simplicity.

Hardship and public benefit receipt. Our measures of hardship are indicators for whether a family missed a mortgage or rent payment, was evicted, or did not pay utility bills. This information comes from the adult well-being topical module where respondents are asked to report incidents of hardship that occurred over the past year. A family is defined as using public benefits in a month if anyone in the family received a means-tested benefit. Benefit receipt is available in the core data.

Income. To help disentangle the role of assets from income, we examine individuals in the bottom, middle, and top thirds of the family income distribution. Families in the bottom third of the income distribution have annual incomes of \$32,280 or less in 2015 dollars. Families in the middle third of the distribution have annual incomes between \$32,281 and \$72,120, and families in the top third have annual incomes above \$72,120. We refer to these families as low-income, middle-income, and higher-income. Family income is available in the monthly core data.

Income disruptions. We examine three income disruptions that may require a family to rely on savings: the family head or his/her spouse experiences an involuntary job loss, head or spouse experiences the onset of a health-related work limitation, and family income drops at least 50 percent. These examples do not define all disruptions, which can also include expenses such as a new child in the family or an unexpected bill (e.g., medical, car repair). The variables are generated from the monthly core data.

Savings and debts. To assess family financial health, we examine their assets and debts, which are measured in the asset and liability topical module. For assets, we focus on nonretirement savings, which capture the value of transaction accounts, interest-earning accounts such as certificates of deposit and money market accounts, mutual funds, savings bonds, US securities, stocks, and other financial assets (but excludes money held in retirement accounts). For debts, we focus on unsecured debt, which includes debts such as credit card debt, installment loans, and student loans. Unsecured debt excludes debts that can be paid off by selling the asset securing it (e.g., vehicle loans and mortgages), so better measures economic distress. Savings and debts measure objective components of financial health and well-being. The Consumer Financial Protection Bureau provides a tool to measure subjective components of well-being that we are unable to capture with our data. See <http://www.consumerfinance.gov/newsroom/cfpb-releases-tool-to-help-measure-financial-well-being/>.

Timing. The timing of the analysis is structured partly around the availability of information on families' savings and debts, hardship, and public benefit receipt during the SIPP panels. In the hardship analyses, we look at a family over two years, captured in waves 4–9 of the SIPP. We measure the family' savings

and debts at the beginning of the first year (wave 4). An income disruption is measured over the next eight months (waves 5 or 6). We then measure the family's hardship during the following 12 months (waves 7, 8, and 9). For the public benefit analysis, we look at families over one year. We measure their savings and debts at the beginning of the year (which could be wave 4, 7, or 10), the income disruption in the next four months (waves 5, 8, and 11, respectively) and public assistance receipt in the next four months (waves 6, 9, and 12, respectively). In total, our hardship analyses sample includes 28,000 families, and the public benefit analysis sample includes 89,000 family-year observations.

Notes

1. The Center for Financial Services Innovation defines financial health as smooth and effective management of one's day-to-day financial life, resilience in the face of inevitable ups and downs, and the capacity to seize opportunities for financial security and mobility (Gutman et al. 2015). The Consumer Financial Protection Bureau defines financial well-being as having financial security and financial freedom of choice in the present and in the future (CFPB 2015). This brief measures family savings and debts, important components of financial health and well-being.
2. Future research can examine the links between family and city financial health for specific cities.
3. These analyses use nationally representative data from the US Census Bureau's Survey of Income and Program Participation (SIPP) from 2009 to 2012. We examine outcomes related to city revenues or expenditures that we can measure with SIPP data. Similarly, we focus on financial disruption and financial health (savings and debt) measures that we can construct with SIPP data. Details about our data and approach are provided in the appendix.
4. Our finding that nearly any amount of savings is associated with lower benefit receipt could stem partly from real or perceived asset limits in public benefit programs.
5. These are large sums for individual cities. In 2012, Detroit collected \$600 million (or 30 percent of its own-source revenue) in property taxes, \$233 million (11 percent) in individual income taxes, and another \$224 million (11 percent) in sales and gross receipts taxes. Houston collected \$3.7 billion (nearly 50 percent of its revenue) in property taxes and about \$1.1 billion (15 percent) in sales taxes; it does not have an individual income tax.
6. For example, Governor Andrew Cuomo signed an executive order early this year requiring local governments in New York to provide shelter for the homeless in freezing temperatures (Executive Order 151, "Emergency Declaration Regarding Homelessness during Inclement Winter Weather," State of New York, January 5, 2016, <https://www.governor.ny.gov/sites/governor.ny.gov/files/atoms/files/EO151.pdf>).
7. The National League of Cities' initiative Local Intervention for Financial Empowerment through Utility Payments (LIFT-UP) is designed to help low-income residents with outstanding debt from city-owned utilities and help cities increase utility revenue (Belser and Karpman 2013). Further information on LIFT-UP is available at <http://www.nlc.org/find-city-solutions/institute-for-youth-education-and-families/family-economic-success/financial-empowerment/lift-up>.
8. See <http://www.census.gov/govs/local/> for information on state and local government revenues and expenditures.
9. This negative relationship between savings and benefit receipt could result because savings cushion families so that they do not need to rely on benefits, or because real or perceived asset limits in benefit programs discourage saving.
10. Unsecured debt excludes debt secured by a home or automobile, for example. With unsecured debt, a household cannot sell something to pay off the debt, so is a better measure of economic distress than debt secured by a home or automobile. More detail is provided in the data and definitions appendix.

11. The savings cushion appears to start at \$1–\$1,999 in the middle bars of figure 3, but this 4 percentage point (29.6 percent versus 25.3 percent) difference is not statistically significant at the 0.10 level.
12. Figure 3 shows some declines in hardship before \$5,000, but the earlier declines are not statistically significant at the 0.10 level.
13. Other research finds similarly consistent levels of volatility across the income distribution. For example, an analysis of bank account data finds that individuals in the bottom income quintile have a 25 percent chance of experiencing an income drop of 9 percent from month to month, while an individual in the highest income quintile has a 25 percent chance of experiencing an income drop of 15 percent from month to month (Farrell and Greig 2015). Data on a small sample of low- and moderate-income families also show high rates of income volatility. The average household in this sample experienced 2.5 income drops over the course of a year, with higher income households (above the poverty line) experiencing 2 income drops and lower income households (below the poverty line) experiencing 3.4 drops (Hannagan and Morduch 2015).
14. For the other income disruptions, middle-income families are more similar to low-income versus higher income families. While 6.9 percent of low-income and 6.7 percent of middle-income families experience a job loss, 4.8 percent of higher income families do so. For the onset of a health-related work limitation, the numbers are 5.6, 5.2, and 4.3 percent, respectively.
15. See, for example, Desmond (2015).
16. Recall that low-income, middle-income, and higher-income families are those with incomes in the bottom, middle, and top third of the income distribution.
17. All but one of these differences is statistically significant.
18. The share of families with no savings in the SIPP (23.8 percent) is similar when calculated with data from the Panel Study of Income Dynamics (PSID, 22.3 percent), but substantially higher than when calculated with the Survey of Consumer Finances (SCF, 5.5 percent). The share of families with savings below \$2,000 is higher in the SIPP (52.4 percent), than in the PSID or SCF (38.8 percent and 38.2 percent, respectively). The SCF over-samples higher income households, in order to understand more about financial assets.
19. The Assets & Opportunity Scorecard (Wiedrich et al. 2016) estimates that 44 percent of households do not have enough liquid assets to live at the federal poverty level for three months (i.e., are liquid asset poor). When we add retirement savings to our savings measure, we find that 44 percent of families do not have \$5,000.
20. See also Joel Kurth and Christine MacDonald, “Detroit Braces for a Flood of Tax Foreclosures,” *Detroit News*, September 8, 2015.
21. This \$512 increase in savings was found 18 months into the program, meaning people were able to keep money in savings over time.
22. These programs include incentive programs (raffles, gift cards for savers) through VITA tax sites and other tax-time incentives in cities such as Austin, Newark, Boston, Louisville, and Baltimore, as well as prize-linked savings in Michigan.

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The Urban Institute's Collaboration with JPMorgan Chase

The Urban Institute is collaborating with JPMorgan Chase over five years to inform and assess JPMorgan Chase's philanthropic investments in key initiatives. One of these is financial capability, a multipronged effort to improve household and community financial health by identifying, supporting, and scaling innovative solutions that help low- and moderate-income families increase savings, improve credit, and build assets. The goals of the collaboration include using data and evidence to inform JPMorgan Chase's philanthropic investments, assessing whether its programs are achieving desired outcomes, and informing the larger fields of policy, philanthropy, and practice. This brief highlights the interconnectedness between family financial health and the resilience of their surrounding communities. As cities strive to foster growth inclusive of families from all economic strata, Urban Institute research will identify and track key outcomes for cities and their partners to consider as they develop solutions to help families improve their financial health.

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