

THE EARN STARTER SAVINGS PROGRAM

ENCOURAGING SAVINGS AND FINANCIAL SECURITY

Frequently Asked Questions

WHY IS IT IMPORTANT TO HAVE SAVINGS?

Having savings can help families handle economic shocks. Furthermore, savings can ensure that a household will not lose key wealth building vehicles, such as a home or business, during a financial set back, which could possibly threaten the household's long-term financial well-being. [Research](#) has found that households with assets are much less likely to suffer serious hardships in the event of an economic emergency. Building, maintaining, and rebuilding savings may make households more resilient and financially secure.

WHY ARE EMERGENCY SAVINGS IMPORTANT?

The majority of American households (55%) are savings-limited, meaning they can replace less than one month of their income through liquid savings. The poorest households are least likely to have emergency savings and are particularly unprepared for emergencies: The typical household at the bottom of the income ladder has the equivalent of less than two weeks' worth of income in checking and savings accounts and cash at home.¹

Studies show that many low-income households are saving for near-term small "emergencies." And those emergencies—months where income is well below normal, or expenses spike above normal—happen so often that it prevents households from building up larger amounts for larger emergencies.²

An emergency fund of as little as \$500 can make a difference. One [research report](#) showed that low-income families with at least \$500 in an emergency fund were better off financially than moderate-income families with less than this amount.

WHY IS HAVING A SAVINGS ACCOUNT IMPORTANT?

Savings accounts are one of the most basic asset-accumulation tools. Without a savings account, households hit many barriers to climbing the economic ladder. Households without a savings account and emergency savings are often ill-prepared to weather any financial shock, like a job loss or serious illness. Savings account ownership is particularly low among certain subgroups. Only 52.1% of African-American and 53.2% of Hispanic households have a savings account, compared to about three-quarters of Asian and white households. Only about one-third of the lowest-income households (those making less than \$15,000) have a savings account, compared to almost 90% of households making \$75,000 or more a year.³

¹ The Pew Charitable Trusts, *The Precarious State of Family Balance Sheets*, 2015

² Jonathan Morduch and Rachel Schneider, *Emergency Savings*, U.S Financial Diaries, 2015.

³ Assets and Opportunity Scorecard, *Households with Savings Accounts*, CFED, 2013

WHAT SHOULD YOU LOOK FOR IN A SAVINGS ACCOUNT?

A savings account is one of the simplest bank accounts available to consumers. Nearly all U.S. banks and credit unions offer savings accounts. It's worth it to shop around because accounts have widely varying fees, minimum balances, and interest rates. Keep the following things in mind when selecting an account.

- 1. FDIC Deposit Insurance:** You should only bank with financial institutions that are FDIC insured. FDIC insurance protects customer bank deposits up to \$250,000 per depositor, in the event of bank failure. If a financial institution doesn't have FDIC protection, pass on it.
- 2. Monthly Fees:** Read the fine print before opening a new savings account. Some banks will charge fees and you need to know what they are up front. Here are examples of some fees you may encounter:
 - Account maintenance or administration fees.
 - Withdrawal penalty fees.
 - Minimum balance penalty fees.
 - Deposit penalty fees.
 - ATM use fees.
 - Account link/online banking fees.

If your bank does charge any of these fees (not all do) always ask your account manager if you can get a fee waiver.

- 3. Online Account Access:** Today, almost every banking institution has an online presence. You want to make sure you can sign in and access your savings account online so you can bank when, where, and how you want to. Plus, the EARN Starter Savings Program only works with savings account that have online access.
- 4. Automatic Transfers:** Setting up automatic fund transfers to your savings account is one of the best ways to easily save money each month. Make sure that your financial institution and savings account has this capability.
- 5. Interest Rates:** Financial institutions have varying interest rates so make sure to comparison shop before settling on an account as you'll want to earn the most competitive savings rate possible. Interest rates at most financial institutions are low right now (generally 1% or less) but it's still worth it to get the best rate possible.

CAN LOW INCOME FAMILIES REALLY SAVE?

Low-income families can and do save. When given the mechanisms to do so, low-income families successfully save and develop strategies for handling financial emergencies. For example, EARN is the nation's leading microsavings provider and since 2002 EARN has helped nearly 7,000 low-income families **save and invest over \$6.8 million of their own money in assets such as emergency savings, small businesses, educations, and first-time homes**. The average household income of an EARN Saver is \$21,100.



I KEEP HEARING ABOUT THE RACIAL WEALTH GAP. WHAT IS IT?

Wealth isn't just money in the bank, it is insurance against tough times, a catalyst for education and jobs, savings for retirement, and a springboard into the middle class. Wealth translates into opportunity. Wealth disparities are much greater than income disparities: three times as much by one measure.

The wealth of white households was 13 times the median wealth of black households in 2013, compared with eight times the wealth in 2010, according to a new Pew Research Center analysis of data from the Federal Reserve's Survey of Consumer Finances. Likewise, the wealth of white households is now more than 10 times the wealth of Hispanic households, compared with nine times the wealth in 2010.⁴

White families accumulate more wealth over their lives than African American or Hispanic families do, widening the wealth gap at older ages. In their 30s, whites have an average of \$140,000 more in wealth than African Americans (three times as much). By their 60s, whites have over \$1 million more in average wealth than African Americans (11 times as much).⁵

The typical white household has slightly more than one month's income in liquid savings, compared with just 12 days for the typical Hispanic household and only five days for the typical African-American household. In fact, a quarter of black households would have less than \$5 if they liquidated all of their financial assets, compared with \$199 and \$3,000 for the bottom 25 percent of Hispanic and white households, respectively.⁶

WHY SHOULD FAMILIES USE THE EARN STARTER SAVINGS PROGRAM?

Income alone, no matter how consistent, does not guarantee that households can accumulate a sufficient financial cushion to protect themselves from the unexpected. 1 in 3 American families reports having no savings at all, including 1 in 10 of those with incomes of more than \$100,000 a year. This lack of savings tops the list of financial worries in many American households.⁷

In light of this kind of data, it's clear that families need access to an easy savings program that helps build a long-term habit of saving. With EARN, Savers develop a lifelong habit of saving that leads to improved financial security and upward mobility. After completing our program, Savers can weather financial storms, plan for the future, budget finances and build confidence. After completing the program, 80% of EARN Savers continue to save.

For additional questions, contact:

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⁴ Rakesh Kochhar and Richard Fry, *Wealth inequality has widened along racial, ethnic lines since end of Great Recession*, Pew Research Center, 2014

⁵ The Urban Institute, <http://apps.urban.org/features/wealth-inequality-charts/>

⁶ The Pew Charitable Trusts, *The Role of Emergency Savings in Financial Security: What Resources do Families Have for Emergencies*, 2015

⁷ Ibid.