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# FEW LOW- AND MODERATE-INCOME HOUSEHOLDS ARE HEAVILY BURDENED BY DEBT, BUT MOST LACK ADEQUATE EMERGENCY SAVINGS

Washington, D.C.—The Consumer Federation of America (CFA) and Employee Benefit Research Institute (EBRI) released new research today that found: Few low- and moderate-income (LMI) households emerged from the Great Recession with heavy debt burdens, but a large majority of these households lack adequate emergency savings.

The research, based on analysis of the Federal Reserve Board's latest Survey of Consumer Finances (2010 data), focused on the financial condition of the 40 percent of all U.S. households with the lowest incomes (under $35,600 a year).

"Tens of millions of families struggle to afford a car repair or dental treatment because they lack sufficient emergency savings," said CFA Executive Director Stephen Brobeck. "It is shocking that less than two-fifths of low- and moderate-income families even have a savings account," he added.

"Having emergency savings is a first step toward being able to save for education, retirement, vacations, and more," said Dallas Salisbury, EBRI president and CEO.

This research, assisted by Professor Catherine Montalto of The Ohio State University, was undertaken for America Saves, sponsored by CFA, and for the American Savings Education Council (ASEC), sponsored by EBRI, which together co-sponsor America Saves Week each year.

**Few LMI Households Crushed by Consumer, Mortgage Debt**

One widely used measure of debt sustainability is whether households have debt payments that are greater than 40 percent of their income. In 2010, only 13 percent of LMI households exceeded this percentage, the same as in 2007, the CFA/EBRI research shows.

Another widely accepted measure of debt sustainability is whether households have any debt payment that is 60 days or more past due. In 2010, only 11 percent of LMI households had a debt payment this delinquent, marginally higher than the 8 percent level in 2007.

An important reason for these low percentages is that in 2010, just three-fifths of LMI households had any consumer or mortgage debt. In fact, only 28 percent had outstanding credit card balances, 38 percent had installment loan debt, and 22 percent had mortgage debt secured by their home, the CFA/EBRI research notes.

In 2007, these percentages were the same for mortgage debt, higher for credit card balances (33%), and lower for installment loan debt (35%) because of increases in student loan debt.

**But Most LMI Households Are Not Prepared for Financial Emergencies**

The typical LMI household said it desires $3,000 in "precautionary saving." But the median financial assets of these households, including retirement savings, were only $2,700.

Only 37 percent of LMI households had a savings or money market account at a bank or credit union. And the median (mid-point) amount in this account was less than $1,000—$700 for low-income households (lowest-income quintile) and $1,000 for moderate-income households (second-income quintile).

Moreover, few LMI households had accounts other than checking that could be used for routine financial emergencies. Only 9 percent held certificate of deposits, 5 percent held U.S. Savings Bonds, and 5 percent owned stocks (outside of a retirement account).

**ASEC and America Saves Urge Greater Use of Automatic Saving**

During America Saves Week, ASEC and America Saves urge greater use of automatic saving by families and greater promotion of this saving by financial institutions and employers. The next America Saves Week is February 25–March 2, 2013.

"One of the most effective ways to save is through automatic payroll-deduction," said Nevin Adams, director of ASEC. "Once you've set it up, the savings continue, and if you do so with a savings plan at work that pays you a "matching contribution," the savings can add up even faster," he added.

"Banks and credit unions should urge every customer to save automatically," said Nancy Register, CFA Associate Director and Director of America Saves. "In particular, they should urge every low- and moderate- income customer opening a checking account to also open a savings account and agree to regular fund transfers from checking to saving," she added.

*The Employee Benefit Research Institute (www.ebri.org) is a private, nonpartisan, nonprofit research and education institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. EBRI's American Savings Education Council® and its Choose to Save® programs deliver free savings education and tools to all Americans. www.asec.org, www.choosetosave.org*

*The Consumer Federation of America (CFA) is a nonprofit association of nearly 300 consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education. http://consumerfed.org/ It founded America Saves, a campaign to encourage and assist Americans, especially those with low- or moderate-incomes, to save and build wealth: http://americasavesweek.org/*