Building Bridges, Removing Barriers

The Unacceptable State of Households’ Financial Health and How Financial Inclusion can Help

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INTRODUCTION

Consider the following scenarios of three households that must use their varying resources to afford daily expenses and make ends meet:

The Washington household’s financial health is secure. When payday arrives, they use the money from their paycheck to pay bills and buy groceries. Fortunately for the Washingtons, they have direct deposit with a local bank, so the money from their paycheck is available for immediate use. Even though their bank is located just a mile away, direct deposit saves them from making an extra errand to cash their paycheck. Their account even has automatic bill pay so that their regular payments toward utility bills and auto insurance can be deducted in an easy and timely fashion. Since establishing automatic bill pay, they have never had to remember when these bills come due. They write a check to pay the rent and use their debit card to buy groceries at the store. There’s usually enough money in their account to afford the necessary day-to-day expenses; however, a bank-issued credit card can be used when money is short. When their car broke down a few months ago, the Washingtons took out a small, low-interest loan from their bank. Taking out the loan was easy since they had good credit and a longstanding relationship with their bank. With their current paycheck, they are able to make the final loan payment and save the extra money in their savings account. The Washingtons have been able to save $100 dollars each month for the last year, steadily advancing their financial health by accumulating savings in case the car ever needs another repair and investing in their future.

This scenario is a little different for the Padilla household, who lives on the financial margins. When payday arrives, there isn’t enough money in the Padillas’ bank account to cover all the bills and expenses. Despite knowing that there are limited funds in the account, they write their rent check anyway. After all, there could be a penalty if the rent isn’t paid on time, like losing their security deposit or being evicted. Eventually, this ends up costing the Padillas extra money because the bank charges them a $35 fee for writing a check when their account had insufficient funds. The Padillas worry that the bank may close their account or receive further penalties because they’ve overdrawn before. The Padillas paid this fee quickly the last time it was incurred by taking out a two-week loan from a payday lender that charged an extraordinarily high price for this service; though, they knew they needed to pay the fee quickly before the bank sent it to a collection agency. Otherwise, the unpaid debt could have ended up in the database of a consumer reporting agency, potentially preventing them from being qualified to use other financial products and services or worsening their already mediocre credit score. With an annualized percentage rate at 20%, they borrow $42 from a payday lender to pay the $35 fee. While they’ve managed to pay all their bills and meet their immediate financial obligations this month, new problems have emerged: the car needs to be repaired and the gas bill was higher than usual. The extra money that the Padillas had anticipated in their paycheck now goes toward these unexpected expenses: the insufficient funds fee, car repair, and costly gas bill. The Padillas use this money to pay down their debts instead of invest in future gain.

The Jacobs household has even fewer options when it comes to cashing their paycheck and paying their bills since they are living on the financial margins without access to a bank or savings account. The Jacobs tried to open a bank account a few years ago; however, the bank denied their application after discovering their poor credit history in the database of a consumer reporting agency. Without having an account at a bank, a payday lender or check casher is their next best alternative. The convenience of using these alternative financial services comes at a cost. For the Jacobs, using these services has meant accumulating debt from which
they cannot escape. The Jacobs take out a two-week, $500 loan from the payday lender that is located a few blocks away and end up owing an additional $100 on the original loan as a result of the 20% annualized percentage rate. Since being short on cash is a chronic problem, the Jacobs cannot repay the loan in full and they roll it over into the future, with more of their payments going toward the interest instead of the principal. This helps them to meet their day-to-day expenses, but it also pushes their long term financial health farther out of reach. Perhaps they will be able to pay the loan off when they receive their tax refund. The cash benefits they receive though their public assistance Electronic Benefits Transfer (EBT) card allow them greater flexibility for diverting money from their paycheck and help them to afford some of their day-to-day expenses. However, the Jacobs pay to use these benefits because ATMs exact a $3 fee for each EBT cash withdrawal. They could travel to a designated ATM that does not charge this fee; though, for the Jacobs, it is better to lose $3 to fees than two hours of time to round-trip travel to the designated ATM. In the meantime, the Jacobs cross their fingers and hope to avoid financial emergencies like a major car or home repair between now and the next paycheck.

**FINANCIAL STRUGGLE IS UNIVERSAL, FINANCIAL INCLUSION IS NOT**

The three scenarios above provide the reader with a glimpse into the financial lives of real individuals and households in the United States. While not all households struggle to make ends meet, there is evidence that the majority of households do struggle (Edin & Shaefer, 2015). Fifty-seven percent of households are unable to keep up with their day-to-day expenses (Center for Financial Services Innovation [CFSI], 2015). More specifically, 27% of households are behind on their utility bills and 60% have to deal with unexpected financial emergencies like a major car or home repair (Gould-Werth & Seefeldt, 2012; Pew Charitable Trusts, 2015b). In other words, it is common for most households in the US to experience financial struggles like the Padillas and Jacobs. Financial struggle is a fairly universal experience.¹

While financial struggle is universal, financial inclusion is not. Too many households do not have access to the most basic financial tools (i.e., bank and savings accounts) that they so desperately need to manage their financial lives. Twenty to 25% of the most financially vulnerable households, lower-income households like the Jacobs, do not own a basic bank or savings account (Federal Deposit Insurance Corporation [FDIC], 2014a). Their insufficient funds and poor credit histories can create barriers to the owning this type of an account in the financial mainstream (FDIC, 2014a): barriers that are impossible or take too much effort to overcome. About 20% of households have poor or nonexistent credit (Consumer Financial Protection Bureau [CFPB], 2015; Traub, 2013). Since credit is often a prerequisite for using basic financial products like a bank account or a small, low-interest loan, poor or nonexistent credit may prevent a substantial percentage of households from using financial products. One third of households, like the Padillas who are living on the financial margins, use a combination of bank or savings accounts from mainstream financial services in addition to high-cost alternative financial services like payday lenders. This suggests that they don't have enough money in the bank to cover their expenses and rely on alternative financial services when they need extra money. Eighty percent of households who take out a loan from these alternative financial tools...
services renew their loan within 14 days (CFPB, 2014a). Moreover, 15% of households that renew their loan do so at least 10 times.

Lower-income households and households on the financial margins end up paying a lot of money to use the financial products and services that are supposed to make their lives easier. For example, households earning less than $25,000 per year spend $2,412—roughly 10% of their annual income—on interest and fees to alternative financial services (KMPG, 2011). Another way that lower-income households pay is with their time (Hayes, 2008; Roberto, 2008; Sampson, 2008). Those from lower-income households often travel longer distances to get to work, the doctor's office, and the grocery store since these places are not always located near where they live. Banks also tend not to be located in their communities (Gallmeyer & Roberts, 2009; Smith, Smith, & Wackes, 2008; Temkin & Sawyer, 2004), so lower-income households either spend more time traveling to the bank or spend more money to use high-cost alternative financial services that are more accessible. Indeed, it is expensive to be poor, as has been well-documented over many years by scholars, journalists, consumer advocates, and policymakers alike (Baradaran, 2015; Blow, 2015; Brown, 2009; Collins, Morduch, Rutherford, & Ruthven, 2009; Edin & Shaefer, 2015; Ehrenreich, 2014; Sprague, 2015).

Households like the Washingtons are far too rare. Forty-three percent of households can be defined as financially healthy, meaning that they are able to plan for and manage day-to-day finances, adjust to unexpected expenses, and plan for long term financial goals (CFSI, 2015). These households still have financial struggles; however, they also have the resources to deal with those struggles like earning adequate income and accessing safe and affordable financial products and services. Financially healthy households earn enough income to afford their expenses, pay their bills on time, and use debt productively without accumulating burdensome outstanding balances. They have diverse financial portfolios and enough money saved to afford and recover from a financial emergency. They also plan for long term financial goals by keeping their debt at a manageable level and saving for retirement. That is, they are able to maintain their ability to afford day-to-day living expenses without falling behind and work toward and achieve their long term goals for the future. In all, financially healthy households are both stable or secure and advancing or mobilizing.

**TOLLS AND DETOURS: BARRIERS TO HOUSEHOLDS' FINANCIAL HEALTH**

Households often experience barriers on their journey to financial health: tolls and detours that can make it hard to achieve the financial health enjoyed by the Washingtons. These tolls and detours are often outside of households' control. For example, macroeconomic conditions like the availability of well-paying jobs and the flexibility of lending markets can contribute to households' abilities to secure and improve their financial health. Households may find it easier to earn an income and pay their bills during times of macroeconomic growth and widespread employment opportunities, whereas they may struggle during times of macroeconomic decline and high unemployment (Mishel, Bivens, Gould, & Shierholz, 2012). Likewise, households may receive lower interest rates on their home mortgages or home equity lines of credit when lending markets are relaxed (Mian & Sufi, 2014). The benefits of receiving lower interest rates are substantial and can compound over time, including having lower monthly payments, shorter mortgage terms, and a quicker accumulation of home equity. Households who apply for home mortgages when lending markets are contracting may not receive lower interest rates nor any of their benefits.
Financial emergencies are also costly and are almost impossible for households to avoid. For instance, it is unlikely that a household could have accurately predicted that they would lose their job during the macroeconomic decline of the Great Recession that lasted from 2007 to 2009. It is also unlikely that a household could anticipate when they would need to make a major home repair that was not covered by their insurance. Unfortunately, and as a testament to the unacceptable state of their financial health, many households probably could not overcome these barriers even if they could anticipate them in advance. This is because many households simply do not have enough savings or other financial resources to deal with financial emergencies, such as would be needed to supplement their income while they looked for another job or to afford a major home repair like a new roof. For instance, 41% of households do not have enough savings to cover the expense of a financial emergency like a job loss or home repair. To afford these expenses, the average household would need to increase their savings by over $9,000 (Pew Charitable Trusts, 2015a).

Financial emergencies are almost impossible for households to avoid. Many households probably could not overcome financial emergencies even if they could anticipate them in advance. The average household would need to increase their savings by over $9,000 in order to afford financial emergencies.

The financial services industry itself can be a barrier to financial health, even though the industry offers the products and services that many households need in order to save and to manage their day-to-day financial lives. Mainstream banks and credit unions and fringe or alternative financial services like payday and auto title lenders can create barriers to financial health by how they price and promote their products and services. Banks and credit unions use information from consumer reporting agencies like ChexSystems to screen new applicants for bank or savings accounts (CFPB, 2015b). Banks can deny applications based on the information in those reports—even if the information is vague or inaccurate. Banks and credit unions also require initial deposits when opening accounts and these deposits can be as much as $500 or $1,500 (Friedline, 2013). This means that in order to open an account, many households need to provide a large amount of money up front that is equivalent to the cost of a financial emergency. Households can then incur fees against their account if they withdraw money to cover the expense of an emergency and cause their balance to dip below a minimum threshold. Banks and credit unions respond by assessing overdraft and insufficient fund fees to account holders when they do not have enough money to make a withdrawal. In practice, these fees operate much like the high-cost, short-term loans offered through alternative financial services like payday lenders (California Reinvestment Coalition [CRC], 2014; Urban & Plunkett, 2014).

Policies and programs are supposed to help households in times of financial struggle, temporarily assisting with expensive tolls and detours so that households can secure their financial health more quickly. Yet these policies and programs can send mixed messages and make households’ journeys to financial health unnecessarily complicated. Public assistance programs like Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance to Needy Families (TANF) are designed to help lower-income households during times of financial struggle by getting enough food to eat and managing day-to-day expenses. At the same time, these programs place limits on how and when these benefits can be used and reward improvements in financial health by removing access to benefits—sometimes before households’ financial health is secure. One example of this is the limits that programs place on the amount of savings and assets that households can own before becoming eligible to receive benefits (Vallas & Valenti, 2014; Huang, Nam, & Wikoff, 2012;
Households make tradeoffs to receive these benefits that weaken their financial health, such as depleting their savings or selling their car in exchange for monthly food or cash support (Sullivan, 2006). Some have gone so far as to say these programs have become “extinct” (Edin & Shaefer, 2015, p. 8), not delivering on their promises to even help households in times of financial struggle let alone secure their financial health. In effect, these programs can leave households stranded.

**FINANCIAL INCLUSION: A BRIDGE TO HOUSEHOLDS' FINANCIAL HEALTH**

This report proposes that financial inclusion—access to a basic bank or savings account—can operate as a “bridge” to households’ financial health. A bridge is a systemic and infrastructural solution that offers safe passage over rough terrain and a connection to new opportunities. A system is a set of interconnected parts, much like a bridge that, in order to be build, relies on connecting the expertise of engineers, architects, construction workers, city planners, and many others. To build a bridge, these experts survey the terrain and surrounding landscape, calculate the weight that the bridge should support, make decisions about supplies and materials, apply for permits, and seek external consultation. These experts must do their jobs well because thousands of commuters rely on bridges to consistently provide safe passage over rivers and valleys for many years. Eventually, bridges become part of the landscapes on which they were built and become fundamental for commuters’ day-to-day and long-term functioning. Commuters hardly acknowledge or appreciate the role bridges play in society until they are damaged or their structural integrity comes into question. In other words, once built, bridges become part of society’s infrastructure.

From this perspective, financial inclusion by having access to a basic bank or savings account can have the dual effects of stabilizing or securing financial health and advancing or mobilizing it. For households stranded on islands of financial struggles, a bridge may be a welcomed passageway to secure ground. Households may be able to afford their day-to-day expenses like rent and utility bills and save for financial emergencies like an unexpected job loss or major car or home repair. Once on secure ground, households can advance on their journey more easily. They have enough money saved to recover from financial emergencies, keep their debt at manageable levels, and begin to invest in the future by saving for retirement.

At the same time, the financial inclusion bridge must be built well if it is to become a systemic and infrastructural solution to households' financial health. That is, in order for households to rely on financial inclusion for managing their day-to-day finances and investing in their futures, experts need to ensure that financial inclusion becomes part of society's infrastructure. In this case, the experts that are needed to build the financial inclusion bridge are policymakers, regulators, consumer advocates, and financial services professionals. Together, these experts make decisions about where and how different types of financial services can operate, the fees that banks and credit unions can charge for their financial products and services, and the information that is used to calculate credit scores.
The decisions that policymakers, regulators, consumer advocates, and financial services professionals make have consequences for the integrity of the financial inclusion bridge. That is, a policy decision to allow banks to serve national markets may result in bank branch closures in less-profitable local communities, which was the case following changes to banking regulation in the 1990s (FDIC, 1997). Without a bank branch in their community, where should a household cash their paychecks? A bank or credit union may make business decisions to set the minimum opening deposit for their most basic bank or savings account at $500 or to process account transactions in ways that increase the likelihood of charging their customers overdraft fees. Can households afford these minimum opening deposits and overdraft fees? Experts must make these decisions with care so that households are able to rely on financial inclusion for managing their day-to-day finances and investing in their futures. This report is dedicated to building bridges to financial health, bridges that are reliable or built to last, toll-free, and relatively easy to access for households from all walks of life.

**WIDENING AND DEEPENING FINANCIAL INCLUSION TO AVOID TOLLS AND DETOURS**

Widening and deepening financial inclusion are required in order to secure and advance households' financial health. Widening financial inclusion refers to increasing access to basic bank or savings accounts among underserved groups: essentially, expanding the bridge so that it has low or no tolls and more lanes. It could be argued that financial inclusion is fairly universal or widespread with 92% of households owning a basic bank account and 68% of households owning a savings account (FDIC, 2014a). However, 20% to 25% of households headed by those with lower incomes and educational backgrounds, those from racial or ethnic minority groups, women, and young adults does not own even the most basic bank account when compared to their more advantaged counterparts (FDIC, 2012a). Thirty-two percent do not have a savings account (FDIC, 2012a). Moreover, one third of households rely on piecemeal financial products and services, using alternative financial services like cash advances and payday lenders that charge exorbitant interest rates in addition to holding accounts at mainstream financial institutions (FDIC, 2014a). From this perspective, financial inclusion is not nearly as widespread as it needs to be.

As financial inclusion becomes more widespread and better reaches underserved groups, efforts should turn to deepening households' financial inclusion. Deepening financial inclusion refers to diversifying financial portfolios and accumulating savings and wealth: in other words, lengthening the bridge so that it takes more households farther on their journey to financial health. This is because households need more than the most basic financial products to secure and advance their financial health. Deeper inclusion via ownership and use of a range of mainstream financial products and services may be needed to improve households' abilities to manage their day-to-day financial lives and to invest in their financial futures (Friedline, Johnson, & Hughes, 2014). Examples of other types of financial products and services include using low-interest credit, investing in stocks, and saving in retirement accounts.

Growing evidence suggests that owning a savings account is related to securing and advancing financial health and that efforts to expand savings account ownership may help with financial inclusion’s current problems of width and depth. Research suggests that when households own a savings account, they tend to be better off on average than households who do not own a savings account by accumulating more savings and assets, gaining access to lower-cost credit, and avoiding burdensome debt (Friedline & Freeman, 2016; Friedline, Johnson, & Hughes, 2014). Moreover, a savings account may be even more important when mac-
roeconomic conditions are working against financial health. For example, a savings account may protect households from accumulating high-cost, high-interest debt from payday lenders when the economy is shrinking and the unemployment rate is rising, instead giving them access to more affordable, low-cost debt (Friedline & Freeman, 2016; Friedline & Kepple, 2016).

Efforts that support financial inclusion may help to build bridges to financial health and, at the same time, remove or at least lower some of the barriers. These efforts are underway in the US; though, the US has not necessarily taken a cohesive or comprehensive approach to building the financial inclusion bridge by establishing financial inclusion as a national priority. However, efforts at local, state, and national levels have potential for widening and deepening financial inclusion. For example, in 2003, a national demonstration—Saving, Education, Entrepreneurship, and Downpayment (SEED)—opened specially-designed savings accounts called Child Development Accounts (CDAs) for young people ages birth to 23 around the US to determine whether they were capable of using savings accounts and saving (Sherraden & Stevens, 2010).

The Federal Deposit Insurance Reform Act of 2005 (Pub. L. No. 109-171) and its companion statutes requires the FDIC to produce regular reports on financial inclusion as well as mainstream financial institutions' efforts to reach traditionally underserved groups like lower-income households. In 2006, the Advisory Committee on Economic Inclusion (ComE-IN) and the Alliance for Economic Inclusion (AEI) were established by the FDIC to expand basic financial products like savings accounts to underserved groups. The Cities for Financial Empowerment (CFE) Fund is working with local and regional governments to establish Offices of Financial Empowerment and Bank On coalitions that engage in activities to widen and deepen financial inclusion within their jurisdictions. These efforts are important and commendable and can be leveraged alongside a few other policies to build the financial inclusion bridge: one with strong infrastructure that can stand the test of time.

Households’ financial lives are complicated and financial inclusion is not a silver-bullet solution that can eliminate all of their financial struggles. Financial inclusion in and of itself is unlikely to eliminate macroeconomic conditions that create barriers to employment opportunities and constrain lending markets and cannot entirely compensate for the cost of a major home repair. However, given the consistency of financial inclusion’s relationship with healthy financial outcomes, it holds much promise and deserves attention.
CHAPTER 1

THE UNACCEPTABLE STATE OF HOUSEHOLDS’ FINANCIAL HEALTH

The majority of households in the United States—57%—are struggling financially (CFSI, 2015). In other words, a majority of Americans are barely able to keep up with their day-to-day expenses, let alone invest in their futures. All households are struggling to some degree, though financial health may be more worrisome for lower-income households who have fewer financial resources and opportunities (CFSI, 2015; Pew Charitable Trusts, 2015a). This chapter describes the unacceptable state of financial health in the US: from earning an income through gainful employment to accumulating assets and debts.

WHAT IS FINANCIAL HEALTH?

Financial health has been defined as being able to plan for and manage day-to-day finances, adjust to changing financial circumstances and unexpected expenses, and plan for long term financial goals (CFSI, 2015). This definition is comprehensive and recognizes that households need to work on a daily basis and/or earn enough income to afford their expenses, pay their bills on time, and use debt productively without accumulating burdensome, outstanding balances. A financially healthy household achieves their short term financial goals, begins to diversify their financial portfolio, and has enough money saved to afford and recover from a financial emergency. They are also able to plan for long term financial goals by keeping their debt at a manageable level and saving for retirement. This definition recognizes financial health as being both stable or secure and advancing or mobilizing. In other words, a financially healthy household maintains their ability to afford day-to-day living expenses without falling behind and works toward and achieves their long term goals for the future, whatever those goals might be.
EARNING AN INCOME, FINDING EMPLOYMENT

Part of being financially healthy is earning enough income to afford day-to-day or monthly expenses (CFSI, 2015). In other words, households need to earn enough money to live. However, almost half of all households are not lucky enough to be able to cover their expenses or to avoid scraping by between paychecks. About 42% of households report that they run out of money before the month’s end and 59% are living paycheck to paycheck (CFSI, 2015). One third cannot rely on a steady paycheck because their amount of work and pay varies from week to week (Board of Governors of the Federal Reserve System, 2015).

It is unsurprising that many households may struggle to earn an income and make ends meet given that income and wages have failed to grow and remained fairly constant over the last few decades. The median income for working-age households in 2013 was $58,000, which is about the same as it was in 1990 (Mishel, Bivens, Gould, & Shierholz, 2012). In other words, households have failed to increase their incomes in the span of over two decades. Unfortunately, household expenditures have also increased during this time (Bureau of Labor Statistics, 2015), creating a gap between the amount of money households are earning and the amount of money they are spending. Somehow, households must find ways to fill this gap and manage the difference between their income and expenses.

Lower-income households may especially struggle to fill the gap between income and expenses since their incomes have declined significantly over the last decade (Mishel et al., 2012). The poorest households (i.e., households in the bottom fifth of the distribution) have lost 2% of annual income between 2007 and 2013. In addition, the percentage of the population living in extreme poverty—households living on $2 per day or less—has increased by 130% over the last 15 years (Edin & Shaefer, 2015). Taken together, lower-income households must make their limited incomes stretch even farther.

Higher-than-usual national unemployment rates are another indicator that households’ progress toward financial health may be slow or stalled. The unemployment rate during the Great Recession between 2007 and 2009 peaked at nearly 10%, which was more than double the average unemployment rate for the decade (Mishel et al., 2012). The unemployment rate for individuals with fewer employment options (i.e., those with less than a high school degree) also doubled during the decade, reaching a high of 18% in 2011. For Blacks who had less than a high school degree, their unemployment rate soared to 32%.

Higher-than-usual unemployment rates suggest that more households are losing or changing jobs, which can contribute to irregular and unpredictable incomes. About 60% of households experience an unexpected drop in their income in any given year, and about half of those households describe this drop in income as harmful (Pew Charitable Trusts, 2015a). In other words, a majority of households can expect the unexpected: losing income, perhaps due to employment-related reasons like receiving a pay cut, having their hours reduced, or becoming unemployed. About one third of all households can expect a loss of income to be destabilizing or ruinous to their financial health.

Bills and emergencies come regularly even when income does not. Households struggle to pay their bills and deal with financial emergencies. One out of every two households struggles to afford at least some of their day-to-day expenses.
Taking into account the aforementioned trends in earning income and finding employment, households also struggle to pay their bills and deal with financial emergencies. Bills and emergencies come regularly even when income does not. Studies on households’ financial health have revealed that one out of every two households reports struggling to afford at least some necessary expenses (Gould-Werth & Seefeldt, 2012; Heflin, 2014) such as housing payments, groceries, and utility services. In fact, Gould-Werth and Seefeldt (2012) found that over one quarter of households (27% to be precise) are behind on their utility payments and 7% have had their utilities shut off in any given month. Once utilities have been shut off, they can be expensive to reinstate. Households may have to first pay any outstanding bills in addition to service fees before gas or electric companies will reinstate utilities.

It is no wonder that some households struggle given that so much of their incomes is dedicated to housing costs. Households spend an average of 30% of their income on housing; for households living at or below the poverty line and for those who are renting, this percentage can rise to over 50% (Desmond, 2015). About 9% of households are behind in their rent or mortgage payments (Gould-Werth & Seefeldt, 2012), though this number is higher at 13% for the lowest income households (Mills & Amick, 2010). Households having difficulty making timely and regular housing payments like rent or mortgage may find themselves at risk of being evicted or foreclosed, moving in with friends or family, or becoming homeless. For poor households that are renting, 13% cannot pay all their rent and 15% are evicted (Desmond, 2015). An alarming share of poor households headed by black females are evicted, a percentage that reaches 30% (Desmond, 2014).

Medical bills are no different, and in fact, a medical emergency can be financially debilitating for many households. Nearly 23% of households forego routine or preventative medical treatment like a visit to the dentist (Gould-Werth & Seefeldt, 2012) and 20% report having difficulty paying their medical bills (Karpman & Long, 2015). Many households deplete their assets and net worth to afford unexpected medical bills (Conley & Thompson, 2011, 2013), leaving them financially vulnerable to cope with other expenses that might arise.

In any given year, a majority of households—60%—deal with at least one financial emergency like an unexpected medical bill or major home or car repair and 32% deal with two or more of these unexpected emergencies (Pew Charitable Trusts, 2015a). The median cost of a household’s most expensive emergency is $2,000, which is approximately half of a household’s monthly income (Pew Charitable Trusts, 2015a). For a lower-income household earning less than $25,000 per year, the median cost of their most expensive emergency is $1,000, which is the equivalent of 31 days’ worth of income. In comparison, for a moderate-income household earning between $50,000 and $85,000 per year, the average cost of their emergency is $2,500 and is the equivalent to 13 days of income (Pew Charitable Trusts, 2015a). After experiencing this financial emergency, 55% of households report struggling financially with higher percentages reported by households half of all households with a savings account report that their account is empty.

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headed by young adults (69%), headed by Blacks and Latinos/as (62%), and earning less than $25,000 per year (73%).

**DECLINING SAVINGS, ASSETS, AND NET WORTH**

A household may find it difficult to save and accumulate assets and net worth when their income is stagnant or inconsistent and much of the income that they do earn is diverted toward bills and managing financial emergencies. Among households who owned checking or savings accounts and saved any money in 2013, their median savings amount was $4,000 (Bricker, Dettling, Henriques, et. al., 2014). This is substantially less than the $13,200 in median savings that households accumulated in 2004 (Bucks, Kennickell, & Moore, 2006). Despite the substantial loss in savings over time, the median amount of $4,000 may seem encouraging at first glance. This amount is enough to cover many of the bills and financial emergencies that they may experience throughout the year. However, this amount masks the fact that many households do not have any savings at all. Half of all households with a savings account report that their account is empty (Pew Charitable Trusts, 2016). Thirty percent of all households are not saving any of their income; this percentage rises to 53 for lower-income households earning $40,000 per year or less (Board of Governors of the Federal Reserve System, 2015). In other words, over half of lower-income households are not saving any money.

Even without savings, households may be accumulating other financial assets such as stocks, bonds, investment funds, retirement accounts, and life insurance. Most households (98%) held at least one type of financial asset in 2013 and their median amount accumulated was $21,000 (Bricker et. al., 2014). Though, the median amount of households' financial assets declined 8% from $23,000 in 2010 and was consistent with the median amount held in 2004 (Bricker et. al., 2014; Bucks et. al., 2006). For lower-income households in the bottom percentile of the income distribution, their median amount of financial assets was $1,300 (Bucks et al., 2006). This amount held by lower-income households is much lower than the aggregate amount held by all households, providing additional evidence that the households that need to accumulate these assets the most are struggling financially.

Lower-income households with negative net worth may find themselves drowning in debt rather than building assets.

Most households (91%) accumulate nonfinancial assets, which include the values of vehicles, homes, properties, or businesses (Bricker et. al., 2014). Nonfinancial assets must be turned into cash for their value to be realized, making them harder to access in an emergency. For example, a household would need to sell their vehicle to receive its value in cash. Nonetheless, these assets are important to households' financial stability.

The value of households' nonfinancial assets has fluctuated over time, with some households gaining value and others losing value on their nonfinancial assets. The median value of households' accumulated nonfinancial assets was $121,000 in 2004 compared to $148,000 in 2013 about a decade later (Bricker et. al., 2014; Bucks et. al., 2006). From this perspective, households' nonfinancial assets are gaining in value or are, at the very least, stable. However, in recent years, the value of their nonfinancial assets declined by 10% between 2010 and 2013 driven by declining home and business equity. The fluctuating value of nonfinancial assets suggests that they can contribute as much to households' financial struggles as to their financial stability.
Trends in households’ accumulated savings and assets shed light on their accumulated net worth, which includes the summed values of all assets minus debts or liabilities. On the whole, and like the median amounts of savings and assets, median household net worth has declined over the last decade. Median net worth for all households in 2007, for example, was estimated at $107,800 while in 2010 the amount was $57,000 (Mishel et al., 2012). This median loss of half their net worth or roughly $50,000 was spurred mostly by the Great Recession and the decline of the housing market, given that the largest share of households’ net worth comes from home ownership (Shapiro, Meschede, & Osoro, 2013).

Lower-income households in the bottom fifth of the income distribution have negative net worth, valued at −$14,100 in 2007 and −$27,500 in 2010 (Mishel et al., 2012). Lower-income households with negative net worth may find themselves drowning in debt rather than building assets, with the Great Recession pushing them even further into debt. By comparison, higher-income households in the top fifth of the income distribution had median net worth valued at $2,396,700 and $2,061,600 during these two respective years (Mishel et al., 2012). These median amounts of net worth for higher-income households are both positive and exorbitant in comparison to the amount held by lower-income households, demonstrating in part the extent of the unequal wealth distribution.

**ESTABLISHING CREDIT**

Since credit functions as a gatekeeper to better or more affordable financial products and services, households that struggle to establish good credit may also find it hard to establish good financial health.

Credit is often a prerequisite for using financial products like bank accounts or small, low-interest loans that can be used for saving and building wealth. To establish credit and, more specifically, a FICO credit score, households must have maintained some type of financial product or service for at least six months that is reported to one of the three national credit bureaus: Experian, Equifax, and TransUnion. These credit scores range from 300 to 850 with higher scores representing better credit and creditworthiness. Credit scores are calculated based on households’ payment history like bankruptcy and late payments, debt burden, length of credit history, and recent credit inquiries made when applying for credit cards or loans. Unfortunately, many of the regular and timely payments that households make for rent, utility, or phone bill payments aren’t used to calculate credit scores.

Since credit functions as a gatekeeper to better or more affordable financial products and services, households that struggle to establish good credit may also find it hard to establish good financial health. If households establish good credit and have good credit scores, accessing the needed financial products and services to manage their day-to-day financial lives can be easier because banks and credit unions will provide services and lend to them. For example, a higher credit score can help a household to qualify for a lower interest rate when financing a car or buying a home. Lower interest rates can translate into lower monthly payments, helping households to pay off their loans more quickly and divert their money to other expenses or investments. A higher credit score can even help with finding a job: employers are increasingly using credit scores to make hiring decisions (Gallagher, 2006). Households with poor or nonexistent credit likely do not receive the lowest interest rates or more affordable terms for using financial products. These households may end up paying more money over longer periods of time for using the same types of financial products as those...
with higher credit scores.

It turns out that many households struggle to establish credit. About 20% of households have poor credit or do not have any credit history at all (CFPB, 2015; Traub, 2013). Disproportionate percentages of these households have lower incomes, comprising about half of all households with poor or nonexistent credit (CFPB, 2015). By comparison, less than 10% of higher-income households have poor or nonexistent credit.

**INCREASING DEBT BURDENS**

Difficulties establishing credit and declining net worth are in part functions of the increasing amount of debt that households are accumulating, which can strain households' financial health. Debt in and of itself is not necessarily problematic; households use debt in productive ways to manage their financial lives like purchasing a car, traveling to and from work, or paying unexpected bills or expenses with credit (Friedline & Freeman, 2016). However, debt may be unproductive or become problematic when its repayment strains households' finances and causes them to forgo other financial obligations (Mishel et al., 2012).

Debt may be more problematic for households today than in the past given the simultaneous trends of declining income and net worth and increasing debt. For example, all households experienced an increase in their average amounts of debt between 2001 and 2010; however, lower-income households experienced the largest increase (Mishel et al., 2012). This suggests that lower-income households, who are disproportionately faced with stagnant or declining wages and had fewer assets and net worth to begin with, may be increasingly relying on debt to make ends meet. The amount of debt held by households in the bottom two percentiles of the income distribution nearly doubled between 2001 and 2010, increasing from an average of $31,000 to $57,000 in constant dollars (Mishel et al., 2012). These households spend a much higher percentage of their income repaying debt. In 2010, these lower-income households spent 24% of their income on repaying debt compared to 18% spent by households in the top fifth percentile of the income distribution.

There has been particular concern about the amount of debt being accumulated by young adult households. Current young adult generations are beginning life with larger debt burdens relative to those of previous generations—driven in part by rising debt from student loans. For example, the reported debt burden—the ratio of debt relative to assets—in young adult households increased from about 2% to 23% percent between early Baby Boomers and Generation Y, and the percentage reporting negative net worth almost doubled (Houle, 2014). Among Millennials, 85% hold some type of debt and their average debt is $60,000 (Hodson & Dwyer, 2014), with the most common debts stemming from credit cards, auto loans, and payday or cash advance loans (Chiteji, 2007). While holding debt from student loans is less common compared to other types of debt, student loan debt is rapidly increasing in prominence on young adult households’ balance sheets and it encroaches on their share of net worth. This is of concern for young adults who want to secure their place in the labor market and achieve financial health via postsecondary education (Elliott & Lewis, 2014).

**MACROECONOMIC CONDITIONS IMPEDE FINANCIAL HEALTH**

The macroeconomic conditions of the last few decades have contributed to the current state of households' financial health. In other words, the nation’s financial health provides an important context for understand-
ing households’ financial health (Financial Crisis Inquiry Commission, 2011). The rates of economic growth, unemployment, or inflation may be associated with a household’s abilities to manage day-to-day finances and save for emergencies. For instance, a household may understandably struggle to manage their finances while its members are looking for work during a period of high unemployment.

The contrasting macroeconomic conditions of the last two decades help to explain the current state of households’ financial health. For example, the 1990s was a period of macroeconomic stability and growth, with low unemployment and inflation rates. In comparison, the 2000s ended with one of the worst macroeconomic declines in the last 100 years, with record-high unemployment rates and declining wages. The Great Recession jolted the economic landscape and changed the course of households’ financial futures. Some predict that the Great Recession ushered in a new economic era, offering a glimpse of the volatility that can be expected from the economy in the future (Cynamon & Fazzari, 2014; Galbraith, 2012). Households may continue to struggle for decades to secure their financial health if this forewarning comes true.

**MACROECONOMIC STABILITY AND DECLINE**

The economy was strong during the latter years of the 1990s. Low inflation and unemployment rates have been attributed to this period’s strong economy. The inflation rate remained below 3% for the majority of the decade, and the 8% unemployment rate that was recorded at the beginning of the 1990s dropped by half by the end of the decade (Bureau of Labor Statistics, 2015; Frankel & Orszag, 2002). An unemployment rate of 4% can essentially be interpreted as an unemployment rate of zero in a capitalist economy (Board of Governors of the Federal Reserve System, 2015). The economy (measured by growth in the real gross domestic product [GDP]) grew by 4% each year and growth from productivity nearly doubled, averaging almost 3% by the end of the decade (Weller, 2002).

Some of this macroeconomic growth trickled down to households. Workers’ hourly wages experienced moderate increases in the latter half of the 1990s despite having been relatively stagnant since the 1970s (Mishel et al., 2012); though, households’ personal saving rates were at all-time lows and near 0% (Guidolin & La Jeunesse, 2007). The homeownership rate also increased from approximately 63% to 67% and the total value of home mortgages increased from $2 to $4 billion between 1990 and 2000 (Aughinbaugh, 2013; Dynan & Kohn, 2007; Joint Center for Housing Studies, 2015). The economic growth of the 1990s gave the nation and its households a reason for optimism about their financial futures.

The nation and its households were reminded by the Great Recession that financial health can be fragile and hard to recover once it is lost or damaged.

In contrast to the macroeconomic growth of the 1990s, a substantial macroeconomic recession characterized the latter years of the 2000s and wiped away much of the optimism from the preceding decade. This period lasted from approximately 2007 to 2009 and is known as the Great Recession (Mishel et al., 2012). During this period, economic growth slowed from an average of 4% in the 1990s to an average of 2% in the 2000s, with some quarters experiencing negative growth after 2007 (Hodge, Pomerleau, & Cole, 2014). A continued low inflation rate that hovered around 3% was not enough to help the economic downturn, and the unemployment rate jumped from 4% to 10% between 2000 and 2010 (Bureau of Labor Statistics, 2015). Although workers’ wages remained unchanged during the first half of the 2000s, their wages declined and
they brought home less money in their paychecks in the second half of the 2000s (Mishel et al., 2012). Households’ debt-to-income ratio continued to rise throughout 2007 until it fell off sharply in 2008 as credit markets retracted in response to the recession (Federal Reserve Bank of St. Louis, 2015). Households’ personal saving rates rebounded slightly, climbing from near 0% at the beginning of the decade to a high of 8% in 2010 (Federal Reserve Bank of St. Louis, 2015). In all, the nation and its households were reminded that financial health can be fragile and hard to recover once it is lost or damaged.

**The Changing Nature of Labor**

Technological advances and globalization have changed the nature of labor over the last several decades (Card & DiNardo, 2002; Collins, 2013; Lynn & Salzman, 2010), meaning that households are competing for jobs in a global labor market more than they ever have before. The skills needed to compete for the jobs of today are in short supply and are often based on critical thinking, communication, collaboration, leadership, and initiative. New generations of workers growing up in the US may face tough competition given that they demonstrate fewer job skills than their peers in countries around the world. As such, even the most competitive workers in the US may fall behind (Goodman, Sands, & Coley, 2015). These trends are disconcerting given that today’s youngest generations will eventually comprise a substantial percentage of the globalized labor force in the next several decades. These generations must establish their households, and their households’ financial health, in a new and changing labor market.

It is widely believed that education beyond high school is needed to acquire skills for succeeding in the workplace (Casner-Lotto & Barrington, 2006). This raises the stakes on high school completion and over-emphasizes the importance of institutions of higher education for teaching these skills. It remains unclear whether institutions of higher education adequately prepare future generations with these necessary skills and whether the burdensome debt needed for affording this education supersedes the potential harms to their long-term financial health (Elliott & Lewis, 2013, 2014a, c). In other words, it’s a new world in which young generations are expected to borrow heavily to acquire the requisite skills for success in today’s global labor market. The labor market of today stands in stark contrast to the labor market in the past when most requisite skills could be acquired without indebtedness. Burdensome debt can be a detour on the journey to financial health, requiring households to spend decades repaying loans instead of investing in their futures.

Unfortunately, without these skills, employment options may be limited to a growing majority of jobs that are of lower quality and in industries that lack living wages, retirement savings plans, or opportunities for advancement (Findlay, Kalleberg, & Warhurst, 2013). Younger workers’ labor market attachment in particular is concentrated in an expanding low-paying service industry such as restaurants and retail stores (US Department of Labor, 2014). Opportunities for financial inclusion that can shore up households’ financial health are not always embedded in these employment options. Positions for restaurant wait staff or grocery store cashiers rarely offer benefits even as seemingly basic as paid time off—a potentially important benefit for dealing with a financial emergency. A worker in this type of employment position may miss several days’ worth of work and wages due to an unexpected car repair that disrupted their transportation. Not only must the worker pay to fix the car, they must do so with less money. It is just as unlikely that these positions offer financial products and services like health and retirement accounts.
THE VANISHING PATH OF ENTREPRENEURSHIP

Entrepreneurial endeavors have historically offered an alternative path for labor market participation and contributed to macroeconomic growth. However, it has become increasingly difficult to start a new business in today's economy. Financial institutions' lending for small business start-up has declined and households must increasingly rely on their personal savings and credit to advance their entrepreneurial endeavors (US Small Business Administration, 2013). From this perspective, entrepreneurship may be hampered given households' limited savings and burdensome debt—particularly among lower-income households.

Changes in today's entrepreneurship are rooted in the Great Recession of the late 2000s. Small business start-ups are declining and financial institutions have fewer incentives to invest in entrepreneurial and potentially risky activities (Ryan, 2014). The number of loans for new small business start-ups has dropped substantially and almost half of existing small businesses that need a loan are unable to obtain one (Institute for Local Self-Reliance, 2014; US Small Business Administration, 2013); minority- and women-owned businesses have been disproportionately affected. At the same time, more businesses are closing than starting, which is an understandable trend given a lending context necessitating substantial reliance on personal savings and credit for new business growth (Clifton, 2015; Institute for Local Self-Reliance, 2014) coupled with households' paltry amounts of personal savings and limited credit (Lusardi, Schneider, & Tufano, 2011). It is uncertain whether entrepreneurship's potential as an alternative path to labor market participation and catalyst of macroeconomic growth will be realized unless the US begins to make critical, substantial investments into small business lending—investments that can be divisive in times of fiscal austerity and political partisanship.

LENDING AND BORROWING CONDITIONS

A series of legislative changes in the 1990s allowed banks to grow in size, serve larger geographic regions, and take on additional risks. As a result, mainstream banks began to close their less profitable branches in the local and lower-income communities they once served. Slowly, these branches were replaced by high-cost alternative financial services.

Banking legislation in the 1990s changed the ways in which banking institutions were regulated and households accessed and used debt (Federal Deposit Insurance Corporation [FDIC], 1997). A banking crisis—spurred in part by regional recessions, excessive lending risks, and a high number of bank closures—coincided with the start of the 1990s (FDIC, 1997). Since it was believed that deregulation could lessen or reverse the crisis, legislation was enacted during the middle and latter parts of the 1990s that relaxed restrictions on banking institutions. In 1994, the Riegle-Neal Interstate Banking and Branching Efficiency Act permitted banks to offer services across state lines (FDIC, 1997). The Gramm-Leach-Bliley Act of 1999 was passed to replace the Glass-Steagall Act of 1932, which had been responsible for limiting banks' size by separating commercial and investment banking. The Gramm-Leach-Bliley Act allowed for the combination of commercial and investment banking and contributed in part to the rise of large and complex banking institutions (Hane, 2004). In other words, a series of legislative changes allowed banks to grow in size, serve larger geographic regions, and take on additional risks. This allowed mainstream banks to close their less profit-
able branches in the local and lower-income communities they once served. Slowly, these branches were replaced by high-cost alternative financial services (Smith, Smith, & Wackes, 2008; Tempkin & Sawyer, 2004). At this same time, households’ total debt-to-income ratio increased by 3 to 4 percentage points during the 1990s and their amount of credit card debt increased by 53% (Draut & Silva, 2003; Federal Reserve Bank of San Francisco, 2009). Mortgage lending quadrupled and delinquency and foreclosure rates remained low (respectively 5% and 1%; Aughinbaugh, 2013).

A deregulated banking industry—an artifact of 1990s legislation—that took on unadvisable risks by widely selling risky mortgages has been largely blamed for the Great Recession (Mian & Sufi, 2014). Many banking institutions gambled in making home mortgage loans and did not seek federal backing in their lending practices (Mian & Sufi, 2014). Even though mortgage debt is secured and considered potentially more productive for promoting households’ financial health, banking institutions increasingly did not require households to have downpayments or to demonstrate their credit or employment histories prior to qualifying for mortgages. Many mortgages also had variable interest rates, meaning that the initial interest on the loan was low and increased over time (Mian & Sufi, 2014). Thus, while the debt was secured, it was also risky. Unfortunately, housing prices stalled and many households discovered that their mortgages were worth more than the values of their homes (Mishel et al., 2012). Banking institutions responded by contracting and making mortgage borrowing more difficult. As a result, the homeownership rate dropped from its peak of 69% in 2004 to 66% in 2010 and delinquencies and foreclosures rose (respectively 9% and 5%; Aughinbaugh, 2013; Joint Center for Housing Studies, 2015). For all households, the Great Recession completely shifted their financial footing and undoubtedly altered the ways they used debt.

Some social scientists have suggested that the effects of the Great Recession would not have been as wide or as deep if borrowers had been more financially educated about different types of mortgages or risky debt (Klapper, Lusardi, & Panos, 2012; Lusardi, 2011; Lusardi, Schneider, & Tufano, 2011). Such suggestions have renewed conversations about the importance of teaching financial education and improving financial knowledge, particularly among young Americans. For instance, the President’s Advisory Council on Financial Capability for Young Americans (2015) asserts a basic right to financial education and recommends mandating the teaching of financial education in public schools. In other words, just like reading and math were deemed to be critical skills taught in public schools at the turn of the 20th century, the President’s Advisory Council recognizes that being able to make healthy financial decisions and manage money are critical skills for the 21st century. While financial education may help a household to create a budget or choose between credit card offers, for example, it cannot supplement their wages after losing their job in a recession. Therefore, understanding the macroeconomic conditions of the 1990s and 2000s is critical to interpreting households’ financial health during these same decades. This is not meant to imply that financial education is unimportant; instead, it is to recognize that households also need opportunities within their macroeconomic contexts that support their financial health.

**The Limits of Financial Education**

Consumer advocates, policymakers, and researchers have argued that the state of financial health can be improved through the teaching of financial education (Ambuehl, Bernheim, & Lusardo, 2014; Klapper, Lusardi, & Panos, 2012; Lusardi, Michaud, & Mitchell, 2013). Financial education that is delivered through workshops, seminars, trainings, and counseling and planning sessions has encompassed a range of efforts,
Financial education is not the first line of defense for improving the unacceptable state of households' financial health. Rather, the benefits of financial education may be observed much farther down the path toward financial health, such as once households are able to meet their shorter term financial goals, begin to diversify their financial portfolios, and have enough money saved to afford and recover from a financial emergency.

including financial education in public school curriculum and in workplace counseling (Bernheim & Garrett, 2003; Bernheim et al., 2001; Urban et al., 2015). This viewpoint in support of financial education posits that individuals lack the financial and mathematical knowledge necessary for understanding complicated financial products and making rational financial decisions (Bertrand & Morse, 2011; Lusardi & de Bassa Scheresberg, 2013). Along these lines, this research suggests that individuals and their households will be financially healthier—better able to earn income, pay their bills, deal with financial emergencies, accumulate assets, and reduce their debts—if they are more knowledgeable about the options available to them. For example, households would not borrow from alternative financial services if they knew how much the loans could cost them in interest. Twenty percent interest on a $500, two-week loan can translate into an annualized percentage rate (APR) of over 1,000%. Unquestionably, this APR is exorbitant compared to the average APR of 4% on loans from mainstream financial services like banks or credit unions (Saunders & Schumacher, 2000).

The evidence has been mixed regarding the effects of financial education on financial health (Fox et al., 2005; Xiao et al., 2014), with some studies documenting its benefits. For instance, Bernheim et al. (2001) evaluated the effects of state financial education mandates. They found that those who grew up in states with mandated financial education in high school exhibited healthier saving behaviors in adulthood than those who grew up in states without such a mandate. Similarly, Urban et al. (2015) found that young adults have reported better credit scores and lower delinquency rates when they lived in states whose mandated high school financial education followed standardized and required curriculum (Urban et al., 2015).

Other studies have not found convincing evidence regarding the beneficial effects of financial education. Surveys involving nationally representative samples of young adults have indicated that financial knowledge scores have remained relatively stable over the last 10 years despite growing state and national efforts to incorporate financial education into public school curriculum (Mandell, 2008). This suggests that little progress has been made in improving financial knowledge by increasing state mandates for embedding financial education into public schools. At the very least, these efforts have not yet been descriptively reflected in annual scores on these surveys. An analysis exploiting several nationally representative, longitudinal datasets has found no significant effect of state mandates on credit scores, credit card delinquency, bankruptcy, or foreclosure (Cole et al., 2014); instead, math proficiency was a significant determinant of these outcomes. A recent meta-analysis of 201 studies that employed and tested financial education suggests that any positive effects on financial health is negligible and disintegrates over time, explaining just 0.1% of the variance in financial health (Fernandes et al., 2014). However, the authors have contended that “just-in-time” financial education—education delivered immediately preceding or concurrently with a related and specific financial decision or behavior—proved worthy of investigation.
Like any intervention, financial education is not a panacea and it has limits, especially when it comes to improving the financial health of lower-income households who often lack financial resources for meeting their day-to-day needs. For example, Friedline and Kepple (2016) found that competency on financial knowledge questions among individuals earning less than $15,000 annually has no significant bearing on their use of alternative financial services. The ability for financial knowledge to protect individuals against using alternative financial services only emerges for those earning moderate and high incomes. Even then, these associations are small in comparison to when individuals have a bank account. West and Friedline (2015) discovered that completing a financial education class is unrelated to being able to locate $2,000 for an unexpected expense, saving for emergencies, using alternative financial services, carrying debt, or being financially satisfied among lower-income young adults earning less than $25,000 annually. Instead, being financially included by having a checking account, savings account, or credit card is positively associated with lower-income young adults’ financial health. The meta-analysis by Fernandes et al., (2014) found even weaker effects of financial education for lower-income samples—what might be considered practically null findings given that the effects are already negligible among aggregate-income samples.

The weak associations between financial education and financial health should not necessarily be surprising. For example, not even the world’s most well-respected economists foresaw the Great Recession even though they are experts on topics such as financial education and financial health (Krugman, 2009; Smith, 2015). At the same time, improved financial knowledge could not have compensated for the lost wages of the individual who became unemployed during the recession. From this perspective, financial education is not the first line of defense for improving the unacceptable state of households’ financial health, particularly in the midst of financial struggle. Rather, the utility of financial education may come much farther down the path toward financial health, such as when households are able to meet their shorter term financial goals, begin to diversify their financial portfolios, and have enough money saved to afford and recover from a financial emergency. This does not suggest that financial education is wholly unimportant. Indeed, financial knowledge may be empowering and may help households to achieve some level of control over their financial lives. Therefore, financial education should be promoted insofar as it can improve financial health and increase access to the financial services industry—particularly during times of macroeconomic stability and when households have adequate financial resources for meeting their day-to-day needs.
Chapter 2

Financial Inclusion: A Bridge to Financial Health

It is hard to imagine how households could achieve financial health such as managing their day-to-day finances, cashing their paychecks, and paying bills on time without also having some type of bank account product. Managing day-to-day expenses is more difficult (and often more costly) for households that must pay a fee to cash their paychecks at a payday lender or use cash to pay their rent (Caskey, 1994). In many ways, financial inclusion is important in the US given the ways financial and economic systems have structured day-to-day life. Employers that require direct and automatic payroll deposits and lenders that require proof of bank or savings accounts as a prerequisite to applying for mortgages are two examples of this. A household with a bank or savings account is able to have their paychecks direct deposited or apply for a home mortgage with reasonable lending terms. Along these lines, financial inclusion may be a bridge to households’ financial health, offering them safer passage over rough terrain caused by financial emergencies or debt and connecting them to new opportunities to diversify and accumulate assets and invest in entrepreneurial pursuits.

What is Financial Inclusion?

A basic bank or savings account offered through a mainstream bank or credit union is often a starting place for financial inclusion (Friedline & Rauktis, 2014), which is consistent with the products commonly used to expand financial inclusion in efforts in the United States and around the globe (FDIC, 2014b; Friedline & Rauktis, 2014; Gardeva & Rhyne, 2011). Though, as others have acknowledged (Gardeva & Rhyne, 2011), a basic bank or savings account is a starting place for inclusion and not an end in and of itself. An array of financial products is needed to best constitute financial inclusion. Perhaps an even more comprehensive definition includes the ability to accumulate money within these financial products. However, as a starting point, financial inclusion is more narrowly defined as access to a basic bank or savings account and emphasis is placed particularly on having a savings account.

Financial inclusion may be a bridge to households’ financial health, offering them safer passage over rough terrain caused by financial emergencies or debt and connecting them to new opportunities to diversify and accumulate assets and invest in entrepreneurial pursuits.

The features of the accounts used in the delivery of financial inclusion often vary depending on the financial institution from which the account originates and the social, political, and economic environments in which it is offered (Ardic, Heimann, & Mylenko, 2011). For example, accounts may bear interest, rely on transactions through brick-and-mortar branches or ATM locations, provide means for online and or mobile banking, incorporate progressive incentives, wave maintenance fees, or be linked to a debit card. However, despite these varying features, affordability and convenience are often some of the most important features for basic bank or savings accounts.
Despite the facts that the majority of households are struggling financially and that recent macroeconomic conditions may have exacerbated households' financial struggles, there is some reason for optimism regarding the state of financial inclusion. In the US, most of the population is financially included (92%), as defined by ownership of a basic bank or savings account (Federal Deposit Insurance Corporation [FDIC], 2014a), meaning that 8% of the US population does not have any type of bank or savings account. This suggests that financial inclusion is fairly widespread; unfortunately, optimism fades as the state of financial inclusion is explored more deeply. The percentage drops to 72% if financially included adults are combined with those who are on the financial margins, meaning that their use of alternative financial services and predatory lenders in addition to their bank or savings account calls into question the extent of their financial inclusion (FDIC, 2014a). In other words, despite the fact that the majority of adults have accounts, almost one third (28%) of these adults have relied on high-cost alternative financial services in times of need and 25% have used alternative financial services at least once in the last year. Their use of alternative financial services suggests that they have not accumulated sufficient savings within their accounts to meet basic expenses. Almost one third (31%) do not have a savings account.

The poorest and youngest households are the most likely to linger on the financial margins. Households headed by singles (18%), younger age groups (between ages 15 to 24; 16%), racial/ethnic minorities (Blacks [21%], Latinos/as [18%], American Indian/Alaskan [17%]), foreign-born non-citizens (23%), the less-educated (no high school degree; 25%), and lower income households (< $15,000; 28%) report not owning a bank or savings account more often than their counterparts. The most common explanations that these households give when asked why they do not own these accounts include lack of funds, poor credit history, high fees, and lack of trust in mainstream financial services (FDIC, 2014a; Lyons & Scherpf, 2004). For comparison, less than 1% of households earning annual incomes above $75,000 lack this same basic account (FDIC, 2014a)—a percentage that could just as easily be attributed to survey error as it could to reality.

The current state of financial inclusion can be interpreted as having problems of width and depth. That is, despite nearly universal financial inclusion by widespread access to basic financial products, many households do not have access to a basic bank or savings account and/or they use high-cost alternative financial services. Households headed by those with lower incomes and educational backgrounds, those from racial or ethnic minority groups, women, and young adults are significantly less likely to own even the most basic type of financial product when compared to their more advantaged counterparts. These same households are also significantly more likely to rely on piecemeal financial products and services, using alternative financial services like cash advances and payday lenders that charge exorbitant interest rates in addition to holding transaction accounts at mainstream financial institutions. For widespread inclusion to be achieved, bank and savings account take-up within these lower-income groups must increase and reliance on costly alternative financial services must decrease.

Even though financial inclusion often begins with a basic bank or savings account, deeper inclusion via ownership and use of a range of mainstream financial products and services may be needed. This is because households need more than a savings account to manage their financial lives. Examples of other types of
financial products and services include low-interest credit, stocks, and retirement accounts. Compared to bank or savings accounts, these products and services may better suit households when they need to afford a car repair or save for their retirement, for example. The idea that a bank or savings account can be a bridge to deeper financial inclusion and improved financial health is supported by research evidence that demonstrates increased saving and borrowing after households open an account (Friedline & Rauktis, 2014). For instance, Friedline et al. (2014) find that take-up of a savings account almost always coincides with or precedes the acquisition of diverse financial products such as stock and retirement accounts. Research from Kenya, Ghana, India, the United Kingdom, Columbia, and many other countries finds that the opening of bank or savings accounts relates to persistent relationships with mainstream financial institutions, more money saved, or access to other products and services (Chakravarty & Pal, 2013; Fitzpatrick, 2015; Johnson, Lee, Ansong, et al., 2015). Thus, financial inclusion may precipitate diversifying asset portfolios, accumulating assets, and using healthier credit markets—a bridge to deeper financial inclusion and better financial health.

FROM WIDE TO DEEP: A FINANCIAL HIERARCHY

Maslow’s (1948, 1954) human needs theory provides a theoretical rationale for why financial inclusion may begin with access to a bank or savings account and later lead to deepened financial inclusion. Xiao and Anderson (1997) draw on Maslow’s (1948, 1954) human needs theory to show how the acquisition of financial products may ascend a hierarchy based on the needs the products are designed to meet. Human needs are assumed to be hierarchical, with the achievement of higher level needs conditional on the achievement of lower level ones (Maslow, 1948, 1954). These assumptions have been applied to the acquisition and use of financial products (Xiao & Anderson, 1997; Xiao & Noring, 1994; Xiao & Olson, 1993). Here, lower level needs like affording day-to-day expenses are referred to as “survival” and higher level needs like making longer term investments are referred to as “growth” (Xiao & Anderson, 1997),8 labels that also provide some indication of the achievement of financial health.

From this perspective, a savings account is one of the first financial products acquired because it is lower
Lower-income households are a key constituency for increasing financial inclusion given that these households are at the forefront of limited opportunities.

Households may ascend a financial hierarchy by acquiring a savings account that facilitates their achievement of daily, lower level needs such as buying groceries or paying utility bills. Perhaps they are able to use their savings accounts for day-to-day expenses instead of taking on high-cost, unsecured debt from payday lenders. They may then acquire stock and retirement accounts, home mortgages, or small business loans as they transition to achieving long term, higher level needs like affording the down payment on a new home, saving for retirement, or starting a business. A diverse portfolio, then, potentially indicates that individuals and households have ascended the financial hierarchy (Canova, Rattazzi, & Webley, 2005; Xiao & Anderson, 1997), deepening their financial inclusion. The financial hierarchy is not meant to explain why some households come to have savings accounts and others do not; however, it does help to explain how a savings account, once acquired, may relate to deepened financial inclusion.
grassroots movement included reclaiming the indebted futures of “the 99 percent,” recalculating the value of labor, and redesigning financial institutions capable of delivering equality of financial opportunity (Occupy Wall Street, 2011). Since lower-income households by nature have limited financial resources, they stand to benefit most from financial inclusion; moreover, they are actively seeking it. It is likely that lower-income households will continue to demand better access to safe and affordable bank and savings account products in order to realize improved financial health.

Young people are another key constituency for widening financial inclusion. The best times in a person’s life for initiating financial inclusion and building a bridge to financial health is when they are young. There are a few reasons for this. First, similar to the benefits of learning a foreign language when young, starting financial inclusion early may leverage times in young people’s lives when they are naturally predisposed to saving and using a savings account. Young people are developmentally capable of saving and learning financial knowledge on average by age five or six (Friedline, 2015). They achieve additional developmental milestones at age eight or nine and 11 or 12 that can advance their saving and financial learning. Young people can also benefit from having a savings account when they start a job at age 15 or 16 to deposit their paychecks and at age 18 or beyond when they graduate from high school, attend college, and or start living on their own (Friedline, 2015). Second, opening a bank or savings account early in life may improve inclusion by exploiting inertia and the natural increase in savings account take-up rates. Savings account ownership rates increase fairly rapidly through the mid 20’s and then plateau, leveling off at rates that remain consistent through the early 40s (Friedline, Johnson, & Hughes, 2014; Friedline & Nam, 2014). Once opened, it is highly unlikely that an individual will close their savings account and much more likely that they continue to be financially included for much of their adult life (Friedline, Johnson, & Hughes, 2014). However, a young person who hasn’t opened a savings account by their mid 20’s is less likely to do so as they get older and is at risk for remaining financially excluded. Third, starting financial inclusion early allows more time for the benefits of inclusion to compound as young people grow up. Many of these benefits are related to financial health, like gaining entrée into the financial mainstream and accumulating more savings; however, there are also attitudinal and educational benefits to owning a savings account (Friedline, 2014a). For example, young people with a savings account are more likely to develop positive expectations for the future, achieve academically, and enroll in and graduate from college (Assets & Education Initiative, 2013). Fourth, initiating financial inclusion early in life takes a preventative approach by reducing the likelihood of being financially excluded later in life (Friedline, Despard, & Chowa, 2015). Generally speaking, concern about the extent of financial inclusion in the US is somewhat reactionary in that the focus tends to be on adults and households, not young people. However, the health profession has consistently confirmed that prevention is usually the best medicine and perhaps the least costly strategy for reducing or eliminating health-related problems over time. Prevention suggests that the strategies to reduce or eliminate the problem should precede their potential for occurrence. If we want to increase the financial inclusion and health of adults and households—particularly for the poor and racial and ethnic minority groups—we should take lessons learned from prevention and introduce financial inclusion early in life (Friedline & Rauktis, 2014).

**Supportive Evidence for the Potential of Financial Inclusion**

Financial inclusion has great potential for contributing to financial health. Research on financial inclusion tests associations between savings accounts and indicators of financial health, like accumulated assets, diversified portfolio arrangements, and secured debt. Many researchers working to examine indicators of financial
health—often with emphasis on identifying implications for young people from lower-income households—have observed that “assets beget assets” (Elliott & Lewis, 2014a, p. 9; Schreiner & Sherraden, 2007, p. 20; Schreiner, Sherraden, Clancy, Johnson, Curley, Zhan, et al., 2005, p. 189). That is, the ownership of financial products and the savings accumulated within are predictive of current and future use of products at mainstream financial institutions, accumulated savings, the continued growth in accumulated savings from capital, and access to healthy debt (Chowa, Masa, & Ansong, 2012; Elliott & Lewis, 2014a; Friedline, Elliott, & Nam, 2011; Friedline & Freeman, 2016). These assets may serve as a bridge to financial health and economic mobility (Pew Charitable Trusts, 2013), providing a buffer against unexpected expenses and shocks to their income like losing a job or having a medical emergency that could otherwise chip away at their financial health (Acs, Loprest, & Nichols, 2009; Mills & Amick, 2010) and helping them to invest in entrepreneurship like starting a business (Buera, 2009; Williams, 2004).

The following sections describe the evidence that financial inclusion via a savings account is associated with improved financial health, indicating how ascending the financial hierarchy may help to afford day-to-day expenses and make long-term investments. It is worth noting that the relationships between a savings account and improved financial health are observed across many macroeconomic conditions—periods of economic growth and decline. In other words, the positive associations of financial inclusion via a savings account exist even in spite of unfavorable macroeconomic conditions. Imagine how these associations could be even more pronounced if macroeconomic conditions were designed to help households save money in their accounts and make them affordable and easy to use.

**Maintained Relationships with Mainstream Financial Institutions**

The benefits of owning a savings account naturally include maintaining a relationship with a mainstream financial institution over time. These benefits are important because, for instance, relationships with financial institutions can eventually be leveraged when one needs to acquire other financial products or secure loans. Here, the continued ownership of a savings account serves as a proxy for these maintained relationships. Studies consistently find that owning a savings account at an earlier point in time is predictive of owning a savings account at another later point in time, essentially representing maintained relationships with financial institutions. For example, among those from lower income (< $50,000) and low to moderate income (< $79,111) households, adolescents who own a savings account at ages 13 to 17 are more likely to

![Figure 3: Financial Inclusion as a Bridge to Financial Health](image-url)
report owning a savings account in young adulthood five years later between ages 18 to 22 (Friedline, Elliott, & Chowa, 2013). Independent of household income, young adults are two times more likely to have maintained their ownership of a savings account by their early to mid 20's if they owned one between the ages of 13 to 17 (Friedline, 2014b; Friedline, Elliott, & Nam, 2011; Friedline & Nam, 2014; Friedline, Nam, & Loke, 2014). Financial capability may also support continued savings account ownership and maintained relationships with financial institutions (M.S. Sherraden, 2013). Financial capability means that an individual owns a savings account and is financially educated. This combination of financial inclusion and financial education is especially important because it provides them with hands-on experiences and opportunities to operationalize their financial knowledge (M.S. Sherraden, 2013). Among young adults ages 18 to 34, those who are financially capable are 224 percent more likely to save for emergencies (Friedline & West, 2015). This suggests that those with a savings account may be more connected to and have more resources saved in mainstream financial institutions and that they anticipate and save in advance for any fluctuations in their income such as unexpectedly losing their job (West & Friedline, 2015).

**Diversified Asset Portfolios**

Having access to a savings account provides a bridge to deepened inclusion via asset diversification. The most common trajectory of asset diversification is to begin by acquiring savings and checking accounts and progress to acquiring longer term assets like homes, retirement accounts, and stocks (Keister, 2003). In one of the first studies to examine the relationships between young adults’ savings account acquisition or take-up (separate from savings account ownership), diverse asset portfolios, and asset accumulation (Friedline, Johnson, & Hughes, 2014), researchers find that acquiring a savings account between ages 18 to 40 almost always coincides with or precedes the acquisition of diverse savings products, like stocks and retirement accounts. In fact, recent research suggests that adolescents with savings accounts between ages 15 and 19 are two times more likely to own savings accounts, two times more likely to own credit cards, and four times more likely to own stocks in young adulthood between ages 22 to 25 than their age-matched peers who do not have savings accounts (Friedline & Elliott, 2013). Similarly, Friedline, Despard, and Chowa (2015) found that adolescents ages 19 and under with savings accounts are two times more likely to own checking accounts, three-and-a-half times more likely to own savings accounts, three times more likely to own certificates of deposit, two-and-a-half times more likely to own stocks, and own significantly more financial products four years later as young adults.

**Accumulated Assets**

A savings account also relates to accumulating more assets, both in terms of savings and liquid assets. For instance, adolescents with savings accounts at ages 15 to 19 accumulate medians of $1,000 in savings ac-
counts and $4,600 in total assets five years later, amounts that are more than triple the savings and assets accumulated by their counterparts without early savings accounts (Friedline & Song, 2013). Adolescents with accounts of their own accumulate significantly more savings over time, even when their parents’ savings is taken into consideration (Friedline, 2014b). In a study evaluating the effects of a policy within United Kingdom that changed electronic transfer payments from optional to required, savings account ownership increased by 9 to 12 percentage points and the effect of account ownership translated to a 13 percentage point increase in having at least $109 saved (Fitzpatrick, 2015). The amount of financial assets held across bank, bond, stock, and investment accounts also increased by 137% as a result of this policy change.

A savings account may help households to “invest in their debt” by entering better, healthier credit markets in good and bad economic times.

Households can leverage the assets accumulated in diverse portfolios to generate additional wealth throughout life (Friedline, Despard, & Chowa, 2015; Friedline & Song, 2013; King & Leape, 1998). A diverse portfolio may be an indicator of the ascension of the financial hierarchy to achieve higher level needs, and the distribution of accumulated assets may further indicate young people’s economic security (Beutler & Dickson, 2008; Canova, Rattazzi, & Webley, 2005; Xiao & Anderson, 1997). For example, the amount of money held in savings accounts decreases as portfolios are diversified (Xiao & Anderson, 1997); this suggests that as people acquire an array of financial products from savings accounts to stocks and retirement accounts, the bulk of their accumulated assets shifts from savings accounts to financial products designed for higher level, longer term needs. These financial products like stock and retirement accounts are often income-generating. From this perspective, savings accounts may serve as a bridge for reaching the financial hierarchy as demonstrated by the portfolio’s distribution of accumulated assets. The amount held in a savings account contributes the most to accumulated liquid assets for households at the bottom 10 percent of the asset distribution compared with the amounts held in stock and retirement accounts for households at the top 10 percent of the distribution (Xiao & Anderson, 1997). These findings are also confirmed by research on young adults’ diverse portfolios. The combination of stock and retirement accounts, themselves products of savings account ownership, are associated with the greatest liquid asset accumulation—$5,283.05 (Friedline, Johnson, & Hughes, 2014).

**Accessed Productive, Secured Debt**

A savings account may also provide opportunities to “invest in debt.” For example, a savings account may be a gateway to using productive and secured debt, such as a home mortgage, and protection from relying too heavily on unproductive and unsecured debt, such as revolving credit. Secured debt is often considered productive since it is collateralized, considered lower risk than unsecured debt, and may be used for activities that might promote financial health like obtaining a home (Boot, Thakor, & Udell, 1991). For example, mortgage debt is considered secured or collateralized because it is connected to a tangible asset, a home. If a borrower falls behind on their mortgage payments, a lender can repossess the home in order to settle the debt. However, a borrower who makes regular mortgage payments has the benefits of improving their credit score and investing in a type of debt that may eventually increase wealth via home equity. Thus, secured debt can help borrowers build credit and improve their financial standing (Dwyer, McCloud, & Hodson, 2011). While secured debt may not always assist in promoting financial health—as was the case during the
Great Recession when unemployment rose, equity on some home mortgages was negative, and many households found themselves overleveraged (Ferreira, Gyourko, & Tracy, 2010)—its collateralized nature allows borrowers to leverage existing assets and bend credit markets to their advantage (Campbell & Hercowitz, 2005).

Researchers are now finding evidence of relationships between savings account and debt (Brown, Grigsby, van der Klaauw, Wen, & Zafar, 2014; Brown, Haughwout, Lee, Scally, & van der Klaauw, 2014; Friedline & West, 2014; West & Friedline, 2014). Most of this evidence comes from research on student loans, where savings accounts relate to reduced student loan burdens (Elliott & Lewis, 2014a, b; Elliott, Lewis, Nam, & Grinstein-Weiss, 2014; Elliott & Nam, 2013). This research builds on the awareness that student loans may compromise young people’s future financial health by delaying their investments in homes and retirement (Brown, Haughwout, Lee, Scally, & van der Klaauw, 2014; Hiltonsmith, 2013). Friedline and Freeman (2016) examine whether ownership and acquisition of a savings account during periods of macroeconomic stability and decline relate to take-up and accumulation of secured unsecured debt. They found that owning a savings account during the macroeconomic growth of the 1990s is associated with a 15% increase ($10,275) in young adult households’ accumulated secured debt and a 17% increase ($17,000) in this type of debt during the Great Recession of the late 2000s (Friedline & Freeman, 2016). Thus, a savings account may help young adults “invest in their debt” by entering better, healthier credit markets in good and bad economic times.

Protected from Unproductive, Unsecured Debt

In contrast to secured debt, borrowers of unsecured, uncollateralized debt have not leveraged existing assets and their use of credit markets is riskier (Chatterjee, Corbae, Nakajima, & Rios-Rull, 2007). Therefore, unsecured debt is often referred to as unproductive. Credit card and payday loan debt are both considered unsecured because existing assets have not been leveraged as collateral for payment of the debt (Chatterjee, Corbae, Nakajima, & Rios-Rull, 2007). A borrower who falls behind on their credit card payments, for example, pays high interest on the outstanding debt. If the debt remains unpaid, the credit card company could file a lawsuit against the borrower or report the borrower to a credit reporting agency in order to settle the debt. Regular payments may still improve the borrower’s credit score, but these payments are not an investment in an income-generating asset in the same way as payments toward secured debt. While there may be times when unsecured debt from credit cards, overdraft fees, or payday lenders helps households meet short-term financial goals on their path to financial health (Morse, 2011), unsecured debt generally costs its borrowers more and places them at greater financial risk than does secured debt.

There is some evidence that owning a savings account may protect households from overreliance on unsecured debt. For example, young adults between ages 18 and 34 with a savings account are significantly less
likely to become indebted by using alternative financial services like payday lenders and check cashers compared to their counterparts without a savings account (Friedline & West, 2015). However, there is no difference for young adults from lower-income households, suggesting that these young adults may be especially vulnerable and more than a savings account is needed to prevent them from using this type of unsecured debt. In fact, evidence suggests that lower-income households in the second and third deciles of the asset distribution rely on unsecured debt during shortfalls in income from unemployment, increasing their unsecured debt by 12 to 13 cents for every dollar lost in income, whereas households in higher asset deciles do not rely on unsecured debt (Sullivan, 2008). Friedline and Freeman (2016) provide one of the first direct tests of the relationship between a savings account and unsecured debt during periods of macroeconomic stability and decline. They found that owning a savings account during the macroeconomic growth of the 1990s is associated with a 14% decrease ($844) in young adult households’ accumulated unsecured debt, while closing an account during the Great Recession of the late 2000s was associated with a 12% increase ($1,320) in this type of debt (Friedline & Freeman, 2016). In other words, closing a savings account and losing one’s connection to the financial mainstream may have pushed some young adult households toward using unsecured debt from alternative credit markets during the Great Recession. Taken together, these findings imply that households with more assets—potentially those with a savings account and access to a diversity of financial tools—are less likely to rely on unsecured debt during income shortfalls or bad economic times. Thus, assets may protect against acquiring and accumulating unproductive, unsecured debt in times of financial need.

**Buffered from Financial Emergencies, Unexpected Income Shocks**

Unexpected financial emergencies can strain households' already-limited financial resources (Pew Charitable Trusts, 2015a, b). An individual who unexpectedly loses their job (and their regular paycheck) is still obligated to pay their bills and keep up with other expenses. A medical emergency could similarly constrain a household's finances (Conley & Thompson, 2011, 2013). Indeed, between 1996 and 2004, about 14% of all households experienced a shock in which they lost half their income and among those households, only one third made a full recovery (Acs, Loprest, & Nichols, 2009). These effects are stronger for lower-income households who may be more vulnerable to shocks in the first place and have a lesser ability to recover in the same amount of time as their higher-income counterparts (Acs et al., 2009; Dynarski & Gruber, 1997). Savings and assets can provide a buffer against unexpected income shocks and prevent financial ruin (Sherraden, 1991). In other words, accumulated savings and assets may help smooth consumption during these unexpected shocks and maintain a modicum of stability. For instance, in the event of an unexpected job loss, having three months’ worth of income in accumulated assets can cut in half the percentage of households who are unable to pay bills, purchase food, or seek regular medical care (McKernan, Ratcliffe, & Vinopal, 2009). In other words, households with sufficient assets are able to pay their bills and afford daily expenses, whereas those without sufficient assets may fail to pay their bills or must make trade-offs. Similarly, compared to having $0 assets, lower-income households who accumulate their assets up to $1,999 are less likely to miss paying their telephone, utility, and mortgage or rent bills (Mills & Amick, 2010). Public welfare in the forms of increased transfers and reduced taxes can assist lower-income households with smoothing out these income shocks; however, households may still need savings and assets in an amount equal to 25% of their lost income in order to completely smooth consumption (Dynarski & Gruber, 1997).
INVESTED IN ENTREPRENEURSHIP

An intriguing possibility of a “financial inclusion bridge” is its potential path to entrepreneurship (Evans & Jovanavic, 1989; Hurst & Lusardi, 2004; Fairlie, 2005). A bridge offers safe passage over rough terrain and a connection to new opportunities. In the context of entrepreneurship, financial inclusion bridges have the potential to create opportunities for individuals to become self-employed as small business owners. For example, higher amounts of assets (themselves products of savings account ownership) increase the probability of self-employment, a relationship that strengthens as households acquire more assets (Fairlie & Krashinsky, 2012). Housing equity in particular, including when home owners enjoy unexpected appreciation, has positive effects on the probability of self-employment (Fairlie, 2011; Fairlie & Krashinsky, 2012).

Sometimes the financial inclusion bridge comes with metaphorical toll booths that limit access only to those who can afford to pay the toll. Limited access to mainstream credit markets can hamper the entrée into self-employment (Burea, 2009). Households that are headed by those who are younger, who are from racial and ethnic minority groups, and/or who have lower incomes in particular experience these credit constraints (Dwyer, McCland, & Hodson, 2011; Fairlie & Krashinsky, 2012). Those from racial and ethnic minority groups are more likely to be credit constrained due to discriminatory lending practices (Blanchflower et al. 2003), meaning that their accumulated wealth could be their only path to entrepreneurship. Indeed, households' accumulated liquid assets, debt, and net worth play an outsized role in the entrepreneurial endeavors of Blacks and Latinos/as compared to Whites (Friedline & West, 2015). From this perspective, white households may be able to leverage multiple financial resources like liquidating their assets or opening lines of credit at the bank for engaging in self-employment. Comparatively, Blacks and Latinos/as may have to disproportionately rely on liquidating their own assets if banks are unwilling to lend to them. However, expanding financial inclusion to lower-income households and households headed by racial and ethnic minorities may help loosen these constraints and could also relate to increased accumulated assets, diverse portfolios, and access to secured debt.

The path to entrepreneurship should be considered in light of a few caveats. First, the percentage of self-employment is generally small and comprises only about 11% of all US workers (Hipple, 2010), meaning that most individuals likely will not become entrepreneurs. Among those who do become entrepreneurs, nearly two thirds of those who are self-employed do not incorporate their businesses, meaning that most of the self-employed do not enjoy the business stability or growth that can come with incorporation (Hipple, 2010). The lack of incorporation may be a sign of difficulty sustaining or expanding their businesses. Second, entrepreneurial endeavors are highly concentrated in the top five percent of the wealth distribution (Evans & Jovanavic, 1989; Hurst & Lusardi, 2004), suggesting that the privileges of employing, inventing, and innovating are reserved for the most wealthy. However, in both of these caveats, the counterfactual is undetermined. That is, in a world without constraints and unequal wealth distributions, how many individuals would have otherwise taken employment risks and become entrepreneurs? The “financial inclusion bridge” could provide entrepreneurial opportunities that might not have existed otherwise by reducing barriers to initiating self-employment and strengthening business ownership through incorporation. Future research will need to scrutinize these hypotheses.
CHAPTER 3

THE PIECEMEALING OF US FINANCIAL INCLUSION EFFORTS

Efforts to widen and deepen financial inclusion in the US have been somewhat hindered by a piecemeal approach. That is, there are many important and commendable efforts that aim to improve the state of financial inclusion; however, for too long, these efforts have not been intentionally designed to complement one another or to work together. Some efforts have also not been realized, such as policy proposals that have not passed successfully through state or federal legislatures. Other policies that have passed successfully through state or federal legislatures to become public law can create barriers to financial inclusion, discouraging households from opening bank or savings accounts despite policies’ intentions to support households’ financial health. Localized efforts to improve financial inclusion in certain cities, regions, or states are succeeding in absence of (or support from) national policy. The piecemealing of financial inclusion can be evidenced in at least three ways: the multitude of efforts that are being undertaken at local, state, and national levels, the existence of a two-tiered or bifurcated financial system that does not serve all households equally, and the mixed messages from policy that serve to impede financial inclusion rather than facilitate it.

FINANCIAL INCLUSION EFFORTS AT NATIONAL, STATE, AND LOCAL LEVELS

There are several national policy efforts to expand financial inclusion in the US. For example, in 2003, a national demonstration—Saving, Education, Entrepreneurship, and Downpayment (SEED)—opened specially-designed savings accounts called Child Development Accounts (CDAs) for young people ages birth to 23 around the US to determine whether they were capable of using savings accounts and saving (Sherraden & Stevens, 2010). This demonstration was part of a national policy proposal to open CSAs for every newborn in the US, which, if accomplished, would be a huge leap in the efforts to raise up future, financially included generations. The America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act is a commonly-cited CSA policy proposal that, if passed, would open CSAs with an account that is similar to the government’s Thrift Savings Plan. Under this proposal, every individual would begin life with a savings account. In an individual’s early years of life, they could use this account to save for future, pre-approved expenses like education or home ownership. The individual could make tax-free withdrawals after age 18 for these pre-approved expenses. The Federal Deposit Insurance Corporation (FDIC; 2010) began piloting a small-dollar loan program in 2008 in order to test the feasibility and profitability for banks to offer short-term loans that could take the place of high-cost loans from alternative financial services. Thirty-one banks participated in the small-dollar loan program, offering loans of $2,500 or less with 36% APR (FDIC, 2010). The idea of the pilot program was to examine whether banks could afford to extend credit to households that might otherwise borrow from high-cost lenders, perhaps evidencing their lack of financial inclusion and potentially jeopardizing their financial health. If the pilot program was successful, then the small-dollar loans could be expanded and offered by banks around the country whose numbers total more than 27,000. However, despite the results of the pilot program, banks have not drastically expanded their offering of small-dollar loans (FDIC, 2012). In 2014, President Obama proposed myRA, or “my Retirement Account,” which
is a Roth-IRA based savings account for employees who do not have work-based retirement savings plans (Cramer, King, Schreur, & Sprague, 2014). Since only 27% of employees have the option of retirement savings through their employers (US Bureau of Labor Statistics, 2014), myRA has the potential to expand access to this financial product. While the account's name suggests that its use is for retirement purposes, the savings in the accounts can be withdrawn when households experience unexpected expenses (Cramer, King, Schreur, & Sprague, 2014). Moreover, myRAs have no fees or minimum balance requirements, which makes them very affordable when compared to some basic bank or savings accounts that charge high fees and minimum balances (Friedline, 2013). This means that myRAs have the potential to simultaneously help households manage their day-to-day expenses in addition to saving for their futures.

There are also national efforts by committees and advocacy groups to raise awareness to households' financial inclusion and health. The Federal Deposit Insurance Reform Act of 2005 (Pub. L. No. 109-171) and its companion statutes requires the FDIC to produce regular reports on financial inclusion as well as mainstream financial institutions' efforts to reach traditionally underserved groups like younger age groups and lower-income households. In 2006, the Advisory Committee on Economic Inclusion (ComE-IN) and the Alliance for Economic Inclusion (AEI) were established by the FDIC to expand basic financial products like savings accounts to underserved groups. In 2010, President Obama created the Advisory Council on Financial Capability under the U.S. Department of Treasury, which calls for expanding basic financial products and spreading knowledge about how to use those products. In 2013, the President established the Advisory Council on Financial Capability for Young Americans to focus specifically on financial inclusion for younger age groups. The Financial Literacy and Education Commission (FLEC) operates with the aim to devise a national response for promoting financial literacy. In 2015, the FLEC, in partnership with other federal regulators such as the Board of Governors of the Federal Reserve System, FDIC, and National Credit Union Association (NCUA), released guidelines to encourage financial institutions' development and implementation of savings programs for younger age groups. Implicit in these efforts is the recognition that financial inclusion can have positive effects on households' financial health and the nation's economic growth. However, in and of themselves, these efforts do not directly provide households with access to basic financial products and services.

At local and state levels, efforts like the Cities for Financial Empowerment (CFE) Fund and Bank On coalitions are working with banks to improve the safety and affordability of their basic bank and savings accounts. Bank On began in San Francisco in 2005 as a joint effort between the mayor’s and treasurer’s offices to help bring financial inclusion to the 20% of the population that was without a bank or savings account (Phillips & Stuhldreher, 2011). Bank On San Francisco aimed to bring together the resources and influences of city government, the Federal Reserve Bank of San Francisco, mainstream banks and credit unions, and non-profit community organizations to shift the financial inclusion landscape and to provide San Francisco residents with better bank accounts (Phillips & Stuhldreher, 2011). In doing so, Bank On San Francisco hoped that residents would not need to rely so heavily on high-cost alternative financial services to manage their day-to-day expenses. After five years, Bank On San Francisco was credited with opening nearly 70,000 bank or savings accounts and currently serves as a model for 84 Bank On coalitions nationwide (Phillips & Stuhldreher, 2011). In 2015, the CFE Fund and Bank On coalitions released national bank account standards to guide mainstream financial services for offering the type of basic bank account that is safer and more affordable—especially for lower-income households. These standards call for accounts that are low cost with a minimum opening deposit of $25 or less, no monthly maintenance fee or a low fee at $5 or less,
and no overdraft fee. Several major banks, including Bank of America, Chase, Citi, and Wells Fargo, have committed to adopting these standards.

While local, state, and national efforts are underway to widen and deepen financial inclusion in the US (in fact, many more are underway than are described above), these efforts have not had a cohesive or comprehensive “inclusion” agenda. In other words, these are necessary efforts that are being implemented at varying levels of scale; though, they have not been designed to intentionally complement or inform one another for addressing the state of financial inclusion. Some of these efforts take the form of specific policy proposals to widen and deepen financial inclusion and others take the form of committees or advocacy groups that are convened to raise awareness to the issues of households’ financial inclusion and health. For example, CSA policy like the ASPIRE Act hasn’t passed through US Congress, making it an effort to expand financial inclusion that has not yet been realized. The FDIC’s small-dollar loan pilot was implemented in 31 out of over 27,000 banks. This means that many households will be unable to take advantage of small-dollar loans without banks’ regulatory oversight or their wide scale willingness and cooperation to offer these products. CFE Fund and Bank On coalitions are making great strides in partnering with banks to offer safer and more affordable financial products; however, some of these efforts are in progress and others are localized, such as the example of Bank On San Francisco. This means that households can benefit from these efforts once the banks in their communities have agreed to offer more affordable products and services. As these efforts continue, some households may continue to use substandard financial products and services. Taken together, these efforts are important—yet piecemealed—steps toward financial inclusion.

**A TWO-TIERED FINANCIAL SYSTEM: MAINSTREAM BANKS FOR THE RICH, FRINGE SERVICES FOR THE POOR**

Mainstream banks, credit unions, and alternative financial services provide the financial products and services that households use to manage their day-to-day financial lives, including basic bank and savings accounts. However, together, these services increasingly funnel higher-income households toward the safer and more affordable financial products and services offered by mainstream banks and credit unions and lower-income households toward high-cost, alternative financial services like payday lenders (Baradaran, 2015; Friedline & Freeman, 2016; Friedline & Kepple, 2016). For example, lower-income households (annual household income < $20,000) are 40% more likely to use payday lenders—a specific type of alternative financial service whose products charge high interest for providing cash advances on paychecks—when compared to higher-income households (annual household income > $100,000), doing so because these lenders are reportedly more convenient and easier for them to use than banks (Gross, Hogarth, Manohar, & Gallegos, 2012). Though, it is not entirely accurate to say that the financial mainstream serves the rich while the financial fringe serves the poor. The line between the two is increasingly blurred as more households of all income levels experience financial struggles and come to rely on alternative financial services.

**THE BRICK-AND-MORTAR DIVIDE**

The claim of a two-tiered system would be supported if different types of financial services were located in different types of communities, and particularly if those communities differed by their levels of income. In other words, the locations of physical, brick-and-mortar financial services can provide evidence regarding the existence of a two-tiered system. The accessibility of alternative financial services is increasing within
communities across the US, due in part to policy interventions that have shifted the financial services landscape over the last few decades. Federal deregulation of the financial services industry in the 1990s had the dual effects of allowing mainstream banks to pivot from primarily serving the communities in which they were located to serving larger geographic regions and providing alternative financial services with opportunities to expand into the communities once served by mainstream banks (Apgar & Herbert, 2006; FDIC, 1997, 2009). As a result of these trends, the number of alternative financial services increased nearly five-fold between 1986 and 1994 alone (Caskey, 1994) and has grown at a steady annual rate of 15% since the mid 1990s (Apgar & Herbert, 2006). Currently, the alternative financial services industry is estimated to earn around $300 billion annually by charging high interest rates on products and services from customers who are more likely to earn lower and modest incomes and to have limited credit histories (FDIC, 2009).

While alternative financial services fill a void for those who need money and may not be able to access or have been turned away by mainstream banks and credit unions, households risk their financial health when they use these services (Baradaran, 2013, 2015; Caskey, 1994). Some evidence suggests that using alternative financial services is associated with carrying more debt, having lower credit scores, and struggling to pay bills (Bhutta, 2014; Bhutta, Skiba, & Tobacman, 2015; Melzer, 2011). Taken together, of concern is that more alternative financial services are opening in communities across the US and households may increase their use of these services as they become more accessible. These trends have the potential to do more harm than good if households find themselves financially worse off after using these services.

Evidence on the landscape of brick-and-mortar financial services is beginning to emerge. Most of this research aims to determine whether financial services target different residential communities, with banks and credit unions locating in higher-income communities and alternative financial services locating in lower-income communities.

Alternative financial services have been found to target lower-income communities by locating their services in communities with higher percentages of poor and or minority populations (Burkey & Simkins, 2004; Dunham & Foster, 2015; Gallmeyer & Roberts, 2009; Graves, 2003; Graves & Peterson, 2005; Smith, Smith, & Wackes, 2008; Temkin & Sawyer, 2004). These same communities have been vacated by mainstream banks and credit unions (Burkey & Simkins, 2004; Smith et al., 2008). For example, measuring the density of payday lenders within 2000 Census block groups in Colorado, Gallmeyer and Roberts (2009) found that higher concentrations of these lenders were associated with communities that had higher percentages of residents who were living in poverty and were minority and foreign born. Across four counties in Pennsylvania, Smith, Smith, and Wackes (2008) similarly found that higher concentrations of payday lenders were associated with 2000 Census block groups whose residents had lower incomes. Moreover, these alternative financial services tended to locate in communities that had been avoided by mainstream financial services like banks and credit unions (Burkey & Simkins, 2004; Smith et al., 2008). Taken together, this research assumes that households use these services more often and experience poorer financial health when alternative financial services are more densely located within their communities; though, this research has been unable to test this assumption directly.

A few studies have linked the concentration of alternative financial services within communities to households’ financial health (Bhutta, 2014; Bhutta et al., 2015; Melzer, 2011; Morgan, Strain, & Seblani, 2012; Morse, 2011). In other words, households tend to have poorer financial health when there are more alterna-
tive financial services located within their communities. Bhutta (2014) analyzed 10 years of data from the Federal Reserve Bank of New York’s Consumer Credit Panel and found that residents living in counties situated closer to states that authorized payday lending use these lenders at higher rates. While payday lending use has a small, negative effect on individuals’ credit scores, there is no effect on new credit delinquencies or overdrawn credit (Bhutta, 2014). A follow-up study found little effect of payday lending use on borrowers’ credit scores (Bhutta et al., 2015). In other words, using and continuing to use payday lenders has rather small consequences for the credit ratings of individuals who already have very low credit ratings. One of the more comprehensive studies to test the effects of alternative financial services on financial health used data from the National Survey of American Families. This study found that greater access to payday lenders is associated with households’ increased financial problems like delaying medical treatment and having difficulty paying bills (Melzer, 2011). These relationships become more pronounced as the concentration of payday lenders in communities increases over time, such as by having more lenders open businesses. Moreover, alternative financial services use varies by income (Elliehausen, 2006; Melzer, 2011). The effects of payday lending on households’ financial health are strongest for those whose annual incomes fall between $15,000 and $50,000. Households with incomes below $15,000 or above $50,000 are less likely to use payday lenders. In other words, households with moderate incomes are most likely to use payday lenders and do so with greater risk to their financial health. Even though none of these studies directly measures households’ use of alternative financial services, they test an important link between the brick-and-mortar accessibility of these services and financial health.

Some researchers have suggested that a financial system that funnels higher-income households to mainstream banks and lower-income households to alternative, fringe services isn’t the problem in and of itself (Baradaran, 2015; Servon & Castro-Cosío, 2015). Instead, this tiered and bifurcated system is the symptom of a much larger problem, one that was exacerbated during the legislative changes of the 1990s that deregulated the financial system (FDIC, 1997; Hanc, 2004). From this perspective, policy plays a role in shaping the financial services landscape, including the brick-and-mortar locations of different types of financial services.

**Mixed Messages from Policy: Financial Inclusion, Health at Your Own Risk**

Policies can send mixed messages about financial inclusion, particularly when it comes to owning and accumulating money in bank or savings accounts. Even when trying to be supportive, local, state, and national policies can sometimes discourage or work against households’ financial inclusion, especially for lower-income households. These mixed messages can come from the same or different policies. However, no matter their origin, households must interpret messages that are supportive of their financial inclusion, such as “Saving is important and households should prioritize saving,” “The government supports households’ saving for retirement by making retirement accounts available,” or “Households are rewarded for deepened financial inclusion by receiving tax breaks on some types of assets and debts through the tax system.” They must also interpret simultaneous messages that are neutral, unsupportive, or have qualifiers and stipulations, such as “Households’ saving should be rewarded, but interest rates are very low,” “Saving is important, but if you save too much money your child will be penalized when being considered for college financial aid,” or “Households must go into debt in order to build credit and improve their credit scores.”
Policies can send mixed messages about financial inclusion, particularly for lower-income households and when it comes to owning and accumulating money in bank and savings accounts. Even when trying to be supportive, local, state, and national policies can sometimes discourage or work against households' financial inclusion.

These mixed messages can be confusing and their interpretations do not necessarily need to be accurate in order to have effects on lower-income households. It may be that interpretations of policies and their messages are just as important. That is, even the misperception or misunderstanding that a policy penalizes lower-income households for being financially included or saving could have negative effects. The policies from which these messages originate may shape households' financial inclusion and, ultimately, their financial health.

The point here is not to blame or to recommend the dismantling of policies that, in many cases, have tried to innovate for improving lower-income households' financial inclusion. In fact, lower-income households are likely better off financially because of these policies and in spite of their mixed messages (Hotz & Scholz, 2001; Nam, 2008; Schreiner & Sherraden, 2007). These policies' very existence is evidence of good faith efforts to improve financial inclusion. Rather, the point is to demonstrate that an honest accounting of policies' inconsistencies is needed if they are to be redesigned and or leveraged to the fullest extent possible for improving financial inclusion and health. Any barriers that exist in part due to these inconsistencies can then be reduced or removed.

“SAVE FOR YOUR CHILDREN’S FUTURE…AT YOUR OWN RISK”

For an example of this phenomenon, consider the messages conveyed by different policies that have emerged within the state of Maine over the last few years. One policy that has received national attention has been Maine's progressive college savings plan, which automatically opens 529 accounts for every child born within the state. A partnership with a private donor, called the Harold Alfond College Challenge, allows for these accounts to be opened with a $500 grant so that every child has a head start on saving for their futures. Maine’s 529 is often touted as one of the most progressive in the country and a model for other states (Clancy & Sherraden, 2014). The groundwork for Maine’s progressive 529 accounts was established in 2008, which is when the College Challenge first began providing $500 grants. At that time, the 529 accounts were not automatically opened and the grants were not automatically deposited. Parents had to request accounts and grants for their children. This meant that those from lower-income households were less likely to participate in the college savings plan and to receive the $500 grant (Huang, Beverly, Clancy, Lassar, & Sherraden, 2013). While 529 accounts were having some effect, they were not necessarily reaching the parents and children who could benefit from them the most. Based on research demonstrating the importance of automatic account opening (Sherraden, Clancy, Nam, et al., 2015), Maine began to automatically open 529 accounts in 2013 for all children born in the state with $500 grants provided through the College Challenge partnership to ensure that the benefits reached children from lower-income households. Maine’s 529 accounts and College Challenge partnership clearly convey the message that saving for the future is important and that the state should play a role in facilitating households' saving for this purpose.
The Supplemental Nutrition Assistance Program (SNAP; Ferdman, 2015) is another policy that has unfolded in tandem with Maine's 529 accounts and College Challenge partnership. This policy, which has also received national attention, conveys the opposite message about saving. In November 2015, Maine began to limit the amount of assets that households can accumulate and remain eligible to receive benefits from SNAP (Ferdman, 2015). The program in Maine stands in stark contrast to programs in other states since most states have eliminated these asset limits in public assistance programs. Currently, 36 states and the District of Columbia have eliminated asset limits in SNAP (Vallas & Valenti, 2014). Maine, however, has decided to impose new limits rather than to reduce or eliminate them. In Maine, this limit is set at $5,000 and counts financial and nonfinancial assets such as those accumulated in bank and savings accounts and other financial products, secondary vehicles, and secondary homes.

Asset limits like the ones implemented within Maine's SNAP program can discourage households' saving and simultaneously block their path to financial health (Greer & Levin, 2014; O'Brien, 2008). In some cases, households receiving public assistance have avoided bank and savings accounts altogether out of fear that they could lose their benefits by owning these accounts (O'Brien, 2012). In Maine, however, the amount of money saved in Maine's 529 accounts with the College Challenge partnership cannot be counted against their eligibility for SNAP as a result of the 2008 Food, Conservation, and Energy (Farm Bill) Act that allowed for this exemption. Currently, parents' 529 savings for their children are not counted against their eligibility to receive benefits through other public assistance programs such as Temporary Assistance for Needy Families (TANF). Nonetheless, lower-income households may not necessarily be aware that savings held in 529 accounts is exempt from considerations of public assistance eligibility. Lower-income households might not make the extra efforts to understand the policy nuances between Maine's 529 college savings plan and SNAP asset limits since they already have fears that their savings could hinder their ability to receive public assistance (Government Accountability Office [GAO], 2012; O'Brien, 2008, 2012). Thus, instead of policies that complement or reinforce one another, Maine’s asset limits in SNAP could undermine their efforts on 529 accounts.

These examples from Maine serve to demonstrate how policies can send mixed messages to households regarding financial inclusion. On the one hand, Maine's college savings plan and College Challenge automatically open 529 accounts and incentivize households' saving with $500 from a private donor. From a household's perspective, Maine may be sending the message that saving for a child's future education is so important that the state is willing to help kick-start their household's financial inclusion and saving for this purpose. On the other hand, Maine is imposing asset limits on households receiving SNAP. From the household's perspective, Maine's message here may be one of financial self-sufficiency, suggesting that a household should first rely on and spend down any assets they have accumulated themselves before the state is willing to intervene and help. In other words, households should work toward financial inclusion at their own risk: their efforts are being penalized when assets as little as having a small amount of savings set aside for emergencies in a basic account and owning a second vehicle to travel to work can undermine their eligibility to receive assistance for buying food. A lower-income household whose primary income-earner unexpectedly lost their job would need to deplete their savings and maybe sell off their second vehicle—placing their financial health in a more precarious state—before being able to receive food assistance.

There are certainly important differences between Maine's college savings plan and their SNAP asset limits, most notably that the former leverages private donations and the latter uses public dollars. Typically, when
public dollars are being used, there is much more government oversight to ensure that those dollars are spent wisely. Moreover, even though these policies are in existence at the same time, they were not necessarily meant or designed to operate in tandem with one another and were not necessarily designed by the same people or levels of government. However, nuances such as these may go unnoticed by lower-income households that are struggling to afford day-to-day expenses and fighting for financial survival. Ultimately, and regardless of the reasons for these mixed messages, lower-income households must still navigate the daily realities that are being constructed by these competing policies.

“SAVE MONEY, BUT NOT TOO MUCH”

The asset limits imposed by states on public assistance programs and described in relation to Maine’s policies are an example of the mixed message that lower-income households should save, but that they should not save too much money. As aforementioned, lower-income households’ financial (e.g., savings accounts) and nonfinancial assets (e.g., secondary homes and vehicles) can affect their eligibility for receiving SNAP, TANF, and the Low Income Home Energy Assistance Program (LIHEAP) (Vallas & Valenti, 2014). For the most part, states have latitude for deciding which assets they include or exclude when determining eligibility for assistance. Currently, 14 states impose asset limits for SNAP and 42 states impose asset limits for TANF. Twelve states have opted to require asset limits for LIHEAP (Vallas & Valenti, 2014).

One of the most detrimental aspects of asset limits on lower-income households' financial health is the inclusion of vehicles (Sullivan, 2006), especially since vehicle ownership is linked with better employment opportunities and outcomes (Raphael & Rice, 2002). In fact, vehicle ownership may represent deepened financial inclusion. In many parts of the country, public transportation can be unreliable or nonexistent. Lower-income households need vehicles to travel to and from work, pick their children up from daycare and school, pick their medications up from the pharmacy, and shop at the grocery store. If lower-income households move to neighborhoods with better schools or find gainful employment outside of their neighborhoods, they may need vehicles to travel farther distances. Selling a second vehicle or downgrading to a less reliable one are hardly rational decisions for households that are already struggling financially, especially given that a major car repair is households' most common financial emergency (Pew Charitable Trusts, 2015a).

Indeed, while asset limits generally relate to limited financial inclusion and lower savings among lower-income households receiving public assistance (Cramer, King, & Schreur, 2015; Huang, Nam, & Wikoff, 2012; Nam, 2008; O'Brien, 2008, 2012; Powers, 1998), the inclusion of vehicles in those limits can be damaging. For instance, lower-income, single mothers receiving TANF are less likely to own vehicles in states with stricter limits on this asset (Bansak, Mattson, & Rice, 2010; Sullivan, 2006). Vehicle ownership and its market value and equity can increase the probability that an individual receiving TANF is employed after three to six months, essentially helping them to meet the TANF employment requirement more quickly (Baum, 2009). From this perspective, vehicles may actually help lower-income households meet the requirements of the programs from which they are receiving public assistance. Thus, placing asset limits on vehicles can hinder the goals of public assistance programs while simultaneously hindering the financial inclusion and health of lower-income households. For these reasons, policies like asset limits and, particularly their penalties for vehicle ownership, are counterintuitive.

An alternative to asset limits is benchmarks, a feature of some policies and programs that is similar to the
idea of capping savings, but serves a different function. Unlike asset limits, benchmarks are meant to encourage saving in a specific type of an account. For example, Individual Development Account (IDA) programs, which were popularized across the US in the 1990s to help lower-income households save, designated an amount of money that an account holder should save every month to be eligible for program benefits like dollar-for-dollar matches on the money they saved (Loibl, Grinstein-Weiss, Zhan, Red Bird, 2010; Schreiner & Sherraden, 2007). The idea was that if account holders who had previously struggled to save money were told that they needed to save at least $25 per month, for example, account holders would save at least that amount in order to receive matching funds. In other words, the program would provide dollar-for-dollar matches up to $25 dollars per month, and account holders who saved that amount could essentially double their money. Predictably, account holders’ most commonly reported monthly savings amounts are consistent with IDA programs’ benchmarks (Fry, Mihajilo, Russell, & Brooks, 2008; Schreiner & Sherraden, 2007; Loibl, Kraybill, & DeMay, 2011).

Benchmarks can be used to encourage saving and potentially improve financial inclusion and health. As evidence of this possibility, lower-income households receiving public assistance tend to open bank and savings accounts more often and accumulate more assets when states set higher benchmarks by loosening or raising their asset limits (Nam, 2008). Increased financial inclusion and accumulated assets do not make these lower-income households wealthy by any means; instead, these households are able to achieve a modicum of financial health when asset limits are raised.

“USE ELECTRONIC BENEFIT TRANSFER (EBT) CARDS INSTEAD OF BANK OR SAVINGS ACCOUNTS”

Another way that policies send mixed messages, especially to lower-income households, is by providing public assistance benefits like SNAP and TANF on Electronic Benefit Transfer (EBT) cards that can be used at ATMs for a fee instead of through electronic transfers to bank or savings accounts. Thirty-seven states provide public assistance benefits on EBT cards (National Conference of State Legislatures, 2015), which operate like reloadable pre-paid cards (US Department of Agriculture, 2016). Benefits are loaded and reloaded onto the cards for use by households receiving benefits, often on a monthly basis. The benefits loaded onto the cards can be accessed at ATMs or points-of-sale (POS) devices (cash registers, electronic scanners, etc.) and do not require recipients to own bank or savings accounts.

Providing public assistance benefits via EBT cards may send mixed or discouraging messages about saving in bank or savings accounts in at least two different ways. First, the simple act of distributing benefits on EBT cards as the administrative default method of benefits transfer may reinforce the message that lower-income households do not need bank or savings accounts to manage their finances (Sprague, 2015). Coupled with state asset limits, this message may be received more forcefully by lower-income households: they should not use bank or savings accounts to

With EBT cards, lower-income households are paying to use a sub-standard product for managing finances when compared with bank or savings accounts. In some states, lower-income households receiving public assistance benefits pay out over $19 million per year through ATM and other fees to access their bene-
manage their finances. For lower-income households that already own bank or savings accounts, the administrative default for distributing these benefits could be instead to electronically transfer benefits into these accounts rather than through EBT cards. Lower-income households without bank or savings accounts could be provided no- or low-cost accounts for the purpose of distributing benefits.

A second way that using EBT cards may send mixed messages is by penalizing lower-income households’ access to the benefits on these cards. Lower-income households incur fees against the benefits on their EBT cards when they make withdrawals or transactions. While states often subsidize the fees associated with a certain number of EBT card withdrawals per month, the fees per withdrawal can range from forty cents to $1.75 (Luquetta, 2015; Sprague, 2015). If lower-income households make withdrawals from their EBT cards at out-of-network ATMs, they can be charged an additional $4 per transaction. California estimates that lower-income households receiving public assistance benefits pay out over $19 million per year through ATM and other fees to access their benefits (Luquetta, 2015). In Kansas, for example, lower-income households receiving TANF cannot withdraw more than $25 in cash from their EBT cards at one time per day, which is a law that will undoubtedly pass more fees on to households that are trying to access their benefits (Luquetta, 2015; National Conference of State Legislatures, 2015). These fees mean that lower-income households are giving up a percentage of their benefits each time they make a transaction. Moreover, by paying to use EBT cards, lower-income households are paying to use a potentially substandard product for managing finances when compared with bank or savings accounts.

“FORGO SAVING FOR SHORTER TERM, FINANCIAL EMERGENCIES IN FAVOR OF LONGER TERM INVESTMENTS”

Given that most lower-income households experience emergencies that have the potential for causing debilitating financial setbacks (Desmond, 2015; Gould-Werth & Seefeldt, 2012; Pew Charitable Trusts, 2015a), it is somewhat puzzling that policies and programs would have them forgo saving for shorter term emergencies in favor of longer term investments. Yet this is precisely how Individual Development Accounts (IDAs) were authorized by the 1998 Assets for Independence (AFI) Act and subsequently put into practice in hundreds of nonprofit organizations across the US.  

The original architect of the theory behind IDAs, Michael Sherraden (1990), argued that income-based public assistance programs do not provide lower-income households with opportunities to make longer term investments or to deepen their financial inclusion. Instead, public assistance programs keep these households focused on consumption and day-to-day expenses: in other words, these programs keep them focused on survival rather than growth or upward economic mobility. IDAs were born from the idea that income- and asset-based policies and programs could complement one another in order to provide maximum benefits to lower-income households and improve their financial inclusion and health (Sherraden, 1990). Through public assistance programs, lower-income households could receive the income-based support they needed to meet their consumption and day-to-day needs. Through IDAs, these households could invest in their futures by accumulating assets and wealth. This seemingly simple idea was in fact quite profound and has changed the approach to welfare and public assistance programs in countries around the world. While the ways that IDAs have been implemented are not entirely consistent with how they were originally conceptualized (Schreiner & Sherraden, 2007; Sherraden, 1991), IDAs maintain their commitment to helping lower-income households make longer term investments into assets like home ownership, postsecondary
education, entrepreneurship, and retirement.

Individual Development Accounts were enacted by the 1998 AFI Act at the same time as they were being evaluated for effectiveness. The AFI Act established a federal grant program to provide nonprofit organizations and government agencies with funds to offer IDAs to lower-income households, and there are over two hundred AFI-supported IDA programs nationwide (US Department of Health and Human Services, 2012). The American Dream Demonstration (ADD) began in 1998 to test whether lower-income households could save for longer term investments in subsidized savings accounts. For example, an income-eligible household could open an IDA, identify a savings goal like making a downpayment on a new home or opening a small business, commit to making regular monthly deposits toward this goal, attend financial education classes, and earn dollar-for-dollar (or more) matches on any money deposited up to a certain amount or benchmark. The lower-income household could withdraw their money after reaching their savings goal, including any money received through IDAs' dollar-for-dollar matches. The ADD demonstration concluded with promising results and the long-term effectiveness of IDAs is still being tested (Grinstein-Weiss, Sherraden, Gale, et al., 2012).

As IDAs are currently implemented, lower-income households can be penalized for making withdrawals for financial emergencies (Collins & Gjertson, 2011). Lower-income households can make withdrawals from their IDAs at any time that are unrelated to their savings goals, such as when they experience financial emergencies like an unexpected car repair or medical bill. However, in doing so, they must forfeit any of the dollar-for-dollar matches earned through making regular deposits. It is important to note here that making unmatched withdrawals does not represent the failure of IDAs or the failure of lower-income households, as some have suggested (Richards & Thyer, 2011). Instead, unmatched withdrawals—essentially giving up half of their savings—likely represent the real financial emergencies that lower-income households experience. At the time of one study evaluating the effectiveness of IDAs, nearly 60% of lower-income account holders made unmatched withdrawals (Grinstein-Weiss, Sherraden, Gale, et al., 2012). This percentage is consistent with the 60% of households that deal with at least one financial emergency like an unexpected car repair or medical bill and the 32% that deal with two or more of these unexpected emergencies (Pew Charitable Trusts, 2015a). The fact that lower-income households make unmatched withdrawals from their IDAs is not surprising. Rather, it is surprising that a policy designed to improve lower-income households' financial inclusion and health through saving and building assets can penalize these households for making withdrawals for financial emergencies.

Empirical evidence from IDAs demonstrates that lower-income households can and should save for longer term investments (Schreiner & Sherraden, 2007), evidence that was necessary for proving lower-income households' saving abilities. Now, policies are tuning into the importance of saving for shorter term, financial emergencies (Cramer, King, & Schreur, 2015). For example, some have suggested that AFI Act legislation should allow IDA account holders to save for financial emergencies like a major car repair (McKernan & Ratcliffe, 2010). Others have suggested that there are opportunities to leverage tax season and tax filings for saving for financial emergencies, such as through the Earned Income Tax Credit (EITC) and Refund to Savings initiative (Edin, Halpern-Meekin, Greene, & Levin, 2015; Grinstein-Weiss, Perantie, Russell, et al., 2015). About 35% of lower-income households receiving the EITC report spending their refund on financial emergencies (Despard, Perantie, Oliphant, & Grinstein-Weiss, 2015).
COUNTRIES AROUND THE WORLD ARE MODELS FOR FINANCIAL INCLUSION

The US can look to countries from around the world that are modeling more cohesive or effective financial inclusion efforts. In many cases, these countries are implementing national policies that serve as a foundation for financial inclusion infrastructure. National policies can set the stage for widening financial inclusion, making it easier for local and state efforts to help deepen financial inclusion. For instance, a national policy that establishes a right to financial inclusion by requiring mainstream financial services to open accounts for all individuals or households who apply means that households around the country can open accounts at banks and credit unions, regardless of their credit history, employment status, or whether they have the money to make a minimum opening deposit. This policy lowers the barriers for lower-income households to open basic bank and savings accounts. Moreover, the existence of a national policy provides an opportunity for local and state efforts to divert their resources instead toward helping households, and especially lower-income households, deepen their financial inclusion by accessing other types of financial products and services like interest-bearing savings and credit. Examples like these from around the world may serve as models for US financial inclusion efforts.

There is momentum for advancing financial inclusion in countries around the world. This momentum is spurred in part by opportunities to substantially widen financial inclusion and to catalyze households' financial health. Globally, half of the adult population does not have a basic bank or savings account (Demirguc-Kunt & Klapper, 2012), 17% live at or below earning $1.25 per day (World Bank, 2014), and macroeconomic growth is largely spurred by entrepreneurial activity (van Stel, Carree, & Thurik, 2005). In these global contexts, financial inclusion efforts are sometimes taking place at the demand of lower-income households and with innovations from financial and non-financial institutions (Demirguc-Kunt & Klapper, 2012; Gardeva & Rhyne, 2011; M.S. Sherraden & Ansong, 2013). These countries and their efforts can be models for widening and deepening financial inclusion in the US.

Financial inclusion efforts are underway in developing countries where ownership of a basic bank or savings account is oftentimes only available to the privileged few. In these countries, financial inclusion efforts are aiming to substantially widen access to basic financial products and services (Demirguc-Kunt & Klapper, 2012). These efforts are led by financial services industries and non-governmental organizations that are hoping to capitalize on new and emerging markets, particularly the entrepreneurial endeavors of lower-income households such as small business start-ups or expanded business models that leverage technology to serve an increasingly international customer base. For example, financial services in Kenya are using technological innovations through cell phones to help lower-income households that do not own basic bank or savings accounts to transfer money electronically (Hughes & Lonie, 2007). This financial technology “mobile money” innovation has accelerated and modernized financial inclusion efforts and it includes over 250 “mobile money” services—delivered by financial and non-financial institutions—across 89 countries.

In Canada, everyone has a right to open a bank account—even when the applicant does not have a job or regular income, any money to deposit into the account, or has a history of bankruptcy. Banks cannot turn away an individual who wants to open a bank account and has a valid, government issued identification.
now reach 300 million customers (Groupe Speciale Mobile Association [GSMA], 2015).

India is another global leader in financial inclusion efforts, which has the world’s lowest percentage of financially included people with only 35% having a bank account, 8% having debit cards, and 2% having credit cards (The World Bank, 2015). The current leader of India, Mr. Modi, has made financial inclusion a national priority and is aspiring to include all adults in the mainstream banking system by 2016 (Rai, 2015). At the announcement of India's national financial inclusion priority in August 2014, 15 million bank accounts were opened in a single day and an additional 100 million accounts have been opened since that time (Parussini, 2015; University of Pennsylvania, 2014). A hallmark of India’s financial inclusion efforts is their biometric identification, which gives each individual a unique ID at birth using fingerprints, iris scans, name, date of birth, and address and was implemented precisely for expanding financial inclusion. A government-issued ID like a driver’s license or social security card is typically required to open bank and savings accounts, yet many individuals in India do not have these types of government-issued IDs or their equivalents. Through biometric IDs, India is hoping to remove a major barrier to financial inclusion. At the same time, financial services industries and non-governmental organizations are working to open more accounts and to expand their services into India’s lower-income communities (Chhabra, 2014). These combined efforts are projected to drastically increase financial inclusion in India.

The United Kingdom is also undertaking efforts to expand financial inclusion. In the United Kingdom, about 96% of the population has at least a basic bank or savings account (Financial Inclusion Commission, 2015; Lewis & Lindley, 2015), which is similar to the state of financial inclusion in the US. In 1999, the United Kingdom’s government announced that government-to-person (G2P) payments for benefits from public assistance programs would be made electronically to basic bank and savings accounts (Trade and Industry Committee, 2003). These G2P electronic payments for public assistance benefits were phased in between 2003 and 2005 and other forms of payment were suspended, such as via checks that were received in the mail. This seemingly small administrative change in the delivery of public assistance benefits has had a significant impact on the percentage of households with bank accounts (Fitzpatrick, 2015). A study of the mandate that changed G2P electronic payments from optional to required within the United Kingdom’s Child Benefit found that financial inclusion widened, with savings account ownership increasing by 9 to 12 percentage points (Fitzpatrick, 2015). The amount of financial assets accumulated in diverse financial portfolios also increased by 137% as a result of this policy change, deepening financial inclusion. It is easy to see how a seemingly small administrative change like mandating G2P electronic payments—including payments of public assistance benefits or tax refunds—could widen and deepen financial inclusion in the US.

Canada has enacted important legislation in the last few decades to widen financial inclusion in its population. Canada’s 2001 Bill C-8 requires banks to offer basic accounts to consumers that meet certain standards for safety and affordability (Daniel, 2003), with accounts costing less than $4 per month (Law Commission of Ontario, 2008). The Financial Consumer Agency of Canada oversees banks’ provision of these accounts. Under Bill C-8, everyone has a right to open a bank account—even when an applicant does not have a job or regular income, any money to deposit into the account, or has a history of bankruptcy. Banks cannot turn away an individual who wants to open a bank account and has a valid, government issued identification. In 1991, Canada passed the Bank Act allowing households to cash federal government checks at banks free of charge even without owning a bank account, suggesting that Canadian households do not have to pay fees to receive federal public assistance benefits. This means that lower-income households can
keep more of the benefits that they receive. Together, Canada’s legislation likely contributes to the extent of financial inclusion in its population, in which 99% of all households and 98% of lower-income households own a basic bank account (The World Bank, 2014).

These global efforts can be important models for helping the US to develop a more comprehensive approach to financial inclusion. For example, India has identified financial inclusion as a national priority and is implementing wide sweeping, national policies like biometric identification that reflect this priority. India’s financial services industries and non-governmental organizations that are working to widen and deepen financial inclusion in rural, lower-income communities may have greater success since basic financial inclusion infrastructure is in place at the national level. The United Kingdom and Canada have implemented administrative changes at their respective national levels that, while seemingly small adjustments to benefits transfers and bank account eligibility, put basic financial inclusion infrastructure into place. With national efforts in place, local and state efforts may be more effective because they can divert their attention from helping households gain access to basic bank accounts to helping households establish better financial health. These countries’ national efforts can serve as foundations to or infrastructure for other, more localized efforts—potentially improving the success of financial inclusion efforts that are undertaken at all levels.
CHAPTER 4

POLICIES FOR BUILDING THE
FINANCIAL INCLUSION INFRASTRUCTURE

To create a US society in which households can manage day-to-day finances and plan for long term financial goals, policies are needed that remove barriers and build bridges to financial health. These policies need to be built to last. In other words, it is insufficient to only focus on mending policies whose benefits are temporary or fade 10 years into the future. After all, a household cannot expect to rely on a bridge that has an expiration date. Households need policies that help them achieve financial inclusion and health, delivering improvements throughout their lives and their children’s lives. This means that policies need to take a long view if they are to expand financial inclusion and build a strong bridge to financial health for households today and in the future.

Financial inclusion needs to become part of society’s infrastructure so that households can rely on this bridge, building on solid terrain that won’t give way under undue pressure. In other words, the financial inclusion bridge must be built well if it is to become a systemic and infrastructural solution to households’ financial health. Policies can help to put the financial inclusion infrastructure into place, such as through regulating where and how different types of financial services can operate, determining the fees that banks and credit unions can charge for their financial products and services, and identifying the information that is used to calculate credit scores. Policies are discussed below, some of which are general and others that are more specific. However, taken together, these policies can help to provide a sturdier, longer-lasting bridge to achieving financial inclusion and health.

COMPLEMENTARY POLICIES DESIGNED AND IMPLEMENTED AT VARYING LEVELS OF SCALE

There are many policy levels that affect households’ financial inclusion and health and, ideally, policies should be designed to operate at varying levels of scale—local, state, and national—and to coordinate with one another in order to achieve effectiveness. This level of coordination could offer a more integrated approach to financial inclusion by aligning policies that are working toward mutually beneficial goals, rather than perpetuating a piecemeal approach with uncoordinated policies. Moreover, designing and aligning policies at varying levels of scale can make use of the multiple levels at which households interact with policy without necessarily duplicating services or resources.

National policies are ideal for achieving the widest level of scale and national policy is an appropriate level of scale given that households’ financial inclusion and health are nation-wide concerns that stretch across local and state boundaries (Pew Charitable Trusts, 2015a). Moreover, national policies may be necessary for supporting localized efforts. National policy’s often “one-size-fits-all” approach provides an ideal opportunity to leverage local and state efforts for addressing households’ unique issues and needs or regional differences related to financial inclusion. This does not mean that we need to choose between scalability or efficiency and effectiveness or between one policy and another; instead, variability must be taken into consideration at
the forefront of policy design so that scalability and effectiveness can be achieved through local, state, and national efforts.

Take, for example, the Earned Income Tax Credit (EITC) that has been touted as one of the most important interventions delivered via the tax code for keeping lower-income, working families out of poverty. Despite its seemingly widespread success, many eligible families—including those who could benefit the most—do not know that the EITC exists or apply for the tax credit (Blank, 2002; Smeeding, Phillips, & O'Connor, 2000). This “one-size-fits-all” national policy intervention that is easily scalable from an administrative perspective also fails to reach all who are eligible in part because the intervention was not designed to consider things like families’ varying knowledge about or experience with filing taxes. Regional, labor-intensive, and volunteer-driven tax preparation sites offered by the Volunteer Income Tax Assistance (VITA) program have intervened and assist EITC-eligible families with filing their taxes (O'Connor, 2001). The VITA program prepared over 1.4 million tax returns in 2014 (Taxpayer Advocate Service, 2014), even though this number still represents a small percentage of all EITC-eligible families (Lipman, 2003). Together, a scalable, efficient national policy and a localized, flexible program can work to improve the effectiveness of the EITC’s approach to poverty.

The lessons learned from EITC are relevant for creating policy efforts that are designed to improve financial inclusion and health. National policies for regulating the financial services industry like those being considered by the Consumer Financial Protection Bureau (CFPB) can provide infrastructure for and be coordinated with local policies like the community economic development interventions undertaken by the Community Development Financial Institution (CDFI) Fund, the Cities for Financial Empowerment (CFE) Fund and Bank On coalitions, and the California Reinvestment Coalition (CRC) in order to achieve the mutually beneficial goal of improving households’ financial inclusion and health. Undoubtedly, coordinating policies at varying levels of scale can require planning and patience by numerous experts; however, this type of effort is needed in order to provide households with maximum opportunities for financial inclusion and health.

**Regulation and Oversight that Protects Consumers**

Policies should provide stronger regulation and oversight of the financial services industry to protect consumers and use incentives to encourage mainstream banks to improve services within their local communities for lower-income households.

Legislative changes in the 1990s—deregulation—allowed mainstream financial institutions to grow in size, serve larger geographic regions, and take on additional risks (Federal Deposit Insurance Corporation [FDIC], 1997). These changes shifted the financial services landscape by giving mainstream banks permission to serve the national community and providing an opportunity for alternative financial services to fill the voids in local, residential communities that were created when mainstream banks moved out. Based on these trends, lower-income households’ limited financial inclusion and health are indicators of a much deeper problem (Baradaran, 2015; Servon & Castro-Cosío, 2015). Policy interventions should address the sources of the problems by providing stronger regulation and oversight of the financial services industry to protect consumers and by using incentives to encourage mainstream banks to improve services within their local communities for lower-income households.
communities for lower-income households. Three ways that regulation and oversight may be able to assist with improving services is to strengthen the Community Reinvestment Act (CRA) ratings, to eliminate the use of screening tools for determining eligibility for basic financial products and services, and to identify new and different information for calculating credit scores.

COMMUNITY REINVESTMENT ACT (CRA) RATINGS

One way to improve services within local, lower-income communities via regulation and oversight is to recalculate the points used to assign banks’ Community Reinvestment Act (CRA) ratings or credits (Barr, 2005; Getter, 2015). The CRA was passed in 1977 to assess FDIC-insured financial institutions’ provision of financial products and services within lower-income and often minority communities and to compensate for banks’ failures to provide products and services (Litan, Retsinas, Belsky & Haag, 2000). Through the CRA, FDIC-insured banks receive ratings that range from “substantial non-compliance” to “outstanding,” which affect their abilities to make business decisions, such as merging with or acquiring other banks. The largest FDIC-insured banks with assets of $1 billion or more receive the most scrutiny when it comes to CRA ratings. These banks need to earn 20 or more points for a rating of “outstanding” and 11 to 19 points for a rating of “satisfactory.” Ninety-seven percent of banks earn the top ratings (Getter, 2015). CRA ratings can be strengthened by allocating more points toward banks’ lending for public welfare investments, allocating more points toward banks’ service, and scrutinizing CRA activities for banks from all geographic locales.

Banks’ CRA ratings of “satisfactory” or “outstanding” are incompatible with the current state of financial inclusion.

Banks earn points toward their CRA ratings in the categories of lending, investment, and service; however, they can earn the most points under the category of lending (Getter, 2015). The lending category is weighted more heavily (up to 12 points) and counts the number, amount, and percentage of loans made in lower-income communities, including home mortgages and community development lending. To earn points for lending, banks can either lend directly to borrowers or purchase loans that have already been originated (Getter, 2015). In other words, to earn points under the lending category, banks do not necessarily need to directly approve a home mortgage loan for a lower-income household. Instead, they can facilitate access to financial services indirectly by pooling many, already originated home mortgage loans or by supporting a CDFI that does lend directly to a lower-income household. This serves dual purposes of providing access to financial services to lower-income households or in lower-income communities and minimizing banks’ investment risks. This also means that banks can earn a CRA rating of “satisfactory” entirely through lending.

Banks can also earn a lower amount of points (up to six points) by investing in public welfare and community development that directly benefit lower-income households or communities. Qualified investments include providing housing, jobs, or small business financing (Getter, 2015). Banks can make these types of investments up to 15% of their total assets, a percentage that was raised from 10% by the 2006 Financial Services Regulatory Relief Act (Federal Reserve Bank of St. Louis, 2006). This means that banks can earn points toward their CRA ratings for investing in CDFIs that are designed to provide safe and affordable financial services to households in lower-income communities (FDIC, 2014b). Public welfare investments can be used to encourage banks’ service to lower-income households and communities by allocating more
points to these lending practices and, related, increasing banks’ potential CRA ratings through the points earned for these investments.

Service also earns banks a lower amount of points toward CRA ratings (up to six points), referring to the availability of bank branches in lower-income communities and the provision of safe and affordable financial products and services (Getter, 2015). Given that points for service carry less weight, banks are not necessarily incentivized by CRA ratings to provide services directly to lower-income households or communities. A high percentage of banks (97%) receive ratings of “satisfactory” or “outstanding,” yet lower-income households are less likely to own financial products and services from banks and banks simultaneously avoid opening branches in lower-income communities (FDIC, 2014a; Smith, Smith, & Wackes, 2008; Temkin & Sawyer, 2004). This suggests that their ratings of “satisfactory” or “outstanding” are incompatible with the current state of financial inclusion. If indeed banks are needed to directly provide financial products and services for widening and deepening financial inclusion, then they likely need stronger incentives that require them to open branches in lower-income communities and serve lower-income households.

At the same time, regulators should consistently evaluate the CRA activities for banks from all geographies. Some research suggests that banks in rural areas are not subject to the same rigorous CRA evaluations as those from metropolitan areas, arguing that banks in rural areas receive a quicker review of their CRA-related activities (CRC, 2013). Together, CRA ratings may not incentivize banks for serving rural communities in the same way as they do for banks in metropolitan areas. For example, the largest banks in eight rural California counties provide fewer and less affordable financial products and services to their residents when compared to banks in major metropolitan areas and statewide lending (CRC, 2013). Given that 20% of the US population lives in rural communities (US Census Bureau, 2010), full evaluations of these banks’ CRA activities may help to ensure that better services are provided to rural communities.

SCREENING TOOLS USED BY BANKS AND CREDIT UNIONS

Another way that regulation and oversight can increase services to lower-income households is to eliminate mainstream banks’ and credit unions’ use of screening tools like ChexSystems and Early Warning. These screening tools collect information on bank account activity such as whether account holders have bounced checks or been charged overdraft fees. This information remains on account holders’ records for years and may result in having their accounts closed involuntarily by their banks and preventing them from opening any other accounts in the future (Campbell, Jerez, & Tufano, 2008). Thirty percent of account holders are charged overdraft fees (CFPB, 2014b), and these fees are concentrated in accounts held by lower-income households. This means that lower-income households are overrepresented on screening tools whose records can disqualify them from opening accounts. It is hard to determine exactly how many households are prevented from opening bank and savings accounts as a result of their screening tool records; however, some estimate that this number is in the millions (Silver-Greenberg, 2013). This means that one or two small
banking errors could add up to substantial costs for lower-income households by ejecting them from the financial mainstream.

**Recalculating the Credit Score**

A credit score functions as a gatekeeper for accessing basic financial products and services (Pathak, 2016). Many households find that their poor credit score can prevent them from opening a bank account or taking out a small loan, while millions of households—about 20%—don't have any credit score at all (CFPB, 2015a). Credit scores are calculated based on households’ payment histories like bankruptcy and late payments, debt burden, length of credit history, and recent credit inquiries. However, many of the payments that households make on a daily basis for bills like rent and utilities are not used to calculate their credit scores. This means that the current credit score calculation is imperfect for making decisions about extending credit because it is based on limited information. Households may make regular payments on rent and all their utility bills, yet they may be denied access to financial products and services if they do not have a credit score that demonstrates their credit worthiness.

Regulation and oversight can expand access to credit by supporting the use of a new credit score that is calculated using more and different information. In order to expand credit to thousands of households, FI- CO—along with Equifax national credit bureau and LexisNexis—is piloting a new credit score that is calculated based on information like households' rent and utility payments (Andriotis, 2015). There is potential to expand credit by using this information to improve households' low credit scores and to take into consideration the payment histories of households that currently do not have credit scores. This means that a household can be rewarded for making regular rent payments, even though they do not have a credit history or their credit history is poor. This household may now be able to qualify for a bank account, credit card, or a small loan because their credit score has been adjusted to reflect their regular rent payments. At the same time, caution is warranted because some households could find themselves worse off if they aren't making regular payments on expenses like rent and utilities and this information is suddenly used to calculate their credit scores. Thus, regulation and oversight is needed to evaluate how using this different information affects households' credit scores before the information becomes widely used.

**Community Economic Development to Shift the Financial Services Landscape**

If mainstream financial services such as banks and credit unions are to be part of efforts to expand financial inclusion, these services need to be responsible for becoming more inclusive. That is, the onus cannot solely be on households to seek out financial inclusion from entities like banks and credit unions; rather, financial services themselves need a wider reach and, especially, need to better serve lower-income households. According to the FDIC's survey of financial institutions' efforts to serve those on the financial margins, only about 40% of mainstream banks report developing products and services for lower-income households (FDIC, 2012b). Only 20% of mainstream banks offer “second chance” accounts to consumers whose credit histories might otherwise exclude them from the financial mainstream; often, those who would be excluded are from lower-income households. While not all lower-income households find themselves on the financial margins and in need of “second chance” products, these examples suggest that mainstream financial services
may not be in the business of inclusion.

An uneven landscape also contributes to mainstream financial services’ abilities to expand financial inclusion, with alternative financial services maintaining a dominant brick-and-mortar presence in lower-income communities compared to mainstream banks and credit unions (Graves & Peterson, 2005; Smith, Smith, & Wackes, 2008). Given that the concentration of or exposure to different types of financial services within the community may impact financial inclusion and health (Friedline & Kepple, 2016; Melzer, 2011), interventions may be needed to shift the financial services landscape and better capacitate communities for providing their residents with access to safe and affordable financial products and services. This implication suggests that there are opportunities for increasing local policy interventions related to community economic development.

Policies are needed to shift the financial services landscape and better capacitate communities for providing their residents with access to safe and affordable financial products and services.

Community economic development can leverage local resources and undertakes local initiatives to improve the financial inclusion and health of its residents. One example of a community economic development initiative is the CDFI Fund through the US Department of Treasury that supports community-based financial services operating in lower-income communities. Other examples of these initiatives include the CFE Fund and the CRC. The CFE Fund and their Bank On coalitions make use of local partnerships to advocate for safer and more affordable financial products and services within communities. The CRC advocates for local policies that protect consumers from high-cost alternative financial services, such as using zoning ordinances to limit the accessibility of alternative financial services.

Opportunities, Innovations for Financial Inclusion

New opportunities and innovations are needed if financial inclusion is to have a wider and deeper reach. That is, bank accounts need to become more affordable, technology needs to be leveraged, and new opportunities for financial inclusion need to be introduced. These opportunities and innovations, along with a few others, are described in greater detail below.

Better Bank Accounts

Bank accounts can be expensive, as articulated by the households that do not own them (FDIC, 2012a; Lyons & Scherpf, 2004). For example, the initial deposit required at account opening can cost as much as $500 or $1,500, meaning that many households need an amount of money that is equivalent to the cost of a major financial emergency just to open a savings account. Daily and monthly minimum balances can reach up to $1,500 and, should account balances fall below the minimum, account holders are charged an average maintenance fee of $5 for each day or month that the account balance remains below this minimum (Friedline, 2013). Fees can also come into play when accountholders need to withdrawal money from their bank or savings account when using an Automated Teller Machines (ATMs). Checking accounts can be
somewhat less costly; though, initial and minimum deposits and maintenance and ATM fees still apply.

Overdraft fees are particularly problematic because they are costly for account holders and are hard to regulate because these fees and their policies change from bank to bank. Banks assess overdraft fees to account holders when they do not have enough money to make an ATM withdrawal or debit card purchase, typically at a rate of $35 per transaction. In practice, overdraft fees operate much like the high-cost, short-term loans offered through alternative financial services like payday lenders (CRC, 2014; Urban & Plunkett, 2014). Young people and lower-income households are more likely to pay these fees (Urban & Plunkett, 2014), which can trap them into a cycle of debt when these fees accumulate (Borné & Smith, 2013; CRC, 2014). Despite their potential financial harm to account holders, these fees are a profitable source of revenue for banks. In 2011, banks generated nearly $17 billion from overdraft fees (Borné & Smith, 2013). The Electronic Fund Transfer Act that was passed in 2009 and revised in 2010 to require banks to be transparent about their overdraft fees and to obtain account holders' permission (opt in) for being charged these fees. However, many bank representatives have been unable to accurately explain their banks' opt in policy regarding overdraft and account holders remain confused about overdraft. For example, bank representatives have been unable to explain to potential account holders that declining to opt in to overdraft is a way to avoid fees (CRC, 2014), which is exactly the intent of the Electronic Fund Transfer Act, Regulation E. Among account holders, over half (52%) do not remember whether or not they opted in to overdraft and most (68%) would rather have the transaction declined than be charged a $35 overdraft fee (Urban & Plunkett, 2014).

Taken together, households need better bank accounts—accounts that are more affordable to open and safer to use. The CFE Fund and their Bank On initiative recently released national bank account standards to guide mainstream financial services for offering the type of account that is more affordable and safer for lower-income households. These standards call for accounts that are low cost with a minimum opening deposit of $25 or less, no monthly maintenance fee or a low fee at $5 or less, and no overdraft fee. Several major banks, including Bank of America, Chase, Citi, and Wells Fargo, have committed to adopting these standards. However, wider adoption of these standards is critical given that there are over 27,000 mainstream banks representing over 97,000 branches across the US.

FINTECH INNOVATIONS

Innovative financial products, which are often developed by non-bank companies whose order of business is referred to in shorthand as FinTech, use computer- and internet-based software to offer new banking services (or, to offer old banking services in new ways). Sometimes these services are free and other times they impose fees like those similar to the costs of making out-of-network ATM withdrawals. FinTech is expanding rapidly and the companies and their innovative products are too numerous to count; however, their products have the potential to revolutionize the ways households manage their finances and the ways banks and credit unions deliver their services. For a fee of $3 per week, a smartphone application called Even22 helps users with inconsistent incomes to manage their finances by automatically adjusting paycheck amounts and paying bills. Even intends to take away stress caused by inconsistent incomes by making them to appear smooth and consistent, such as for the restaurant waiter whose earnings can vary depending on the volume
or generosity of diners or the lawn care worker whose earnings can vary depending on the season or weather. BillGuard’s free basic smartphone application tracks users’ spending and sends alerts when their account balances are low or bills are due. Users can also get updated information about their credit scores. Elika’s smartphone application leverages a savings circle model where users deposit small amounts of money that create a larger pool when combined, giving users access to more money that they can borrow for emergencies like when they need to pay an unexpected bill. A newer FinTech company called Epiphyte is developing software and consulting services to help banks accept person-to-person (P2P) crypto-currencies like Bitcoin, which were originally invented to circumvent mainstream financial services; however, these currencies are increasingly regarded as a new type of asset in which to invest. There has been skepticism about whether crypto-currencies like Bitcoin are a smart investment (Popper, 2015); however, at the writing of this report, one Bitcoin was worth $430.71—almost half the value of an ounce of gold and 31 times the value of an ounce of silver. Banking Up hopes to make it easier for businesses and mainstream financial services to pay individuals through reloadable, pre-paid cards, which can be accessed and managed through web-based applications. As FinTech innovations advance and mature, they have the potential to help lower-income households manage their finances and to help financial services upgrade their own products for use in the 21st century.

**A household should not lose their connections to financial products and services—or to their money—if their telephone service is disconnected.**

FinTech innovations’ potential for impact on the state of financial inclusion should also be understood in light of how households use smartphones for internet connectivity. About two thirds of US adults own smartphones, though only 7% of all adults and 13% of lower-income adults rely heavily on their smartphones for internet connections (Smith, 2015). The adults who rely most heavily on their smartphones for internet connections also experience the most intermittent service and have their service disconnected due to not paying their bills (Smith, 2015). These trends are important to keep in mind if households are relying on their smartphones and FinTech applications for accessing financial products and services. A household should not lose their connections to financial products and services—or to their money—if their telephone service is disconnected. Since 27% of households are behind on their bills and utilities and 7% have their utilities including telephone service disconnected in a given month (Gould-Werth & Seefeldt, 2012; Heflin, 2014), FinTech will need to overcome households’ intermittent telephone service to realize its potential for expanding financial inclusion.

**Electronic Transfers of Public Assistance Benefits, G2P Payments**

One policy-related role that FinTech could play is to facilitate the electronic transfer of funds from the government to people, or government-to-person (G2P) payments (Center for Financial Inclusion, 2015; Pickens, Porteous, & Parker, 2009; Voorhies, Lamb, & Oxman, 2013). Or, otherwise stated, the government could leverage FinTech innovations for this purpose. The US federal government makes annual payments for public benefits including public assistance programs like SNAP and TANF that amount to almost $8 billion annually (US Bureau of Economic Analysis, 2015), delivering these payments to households by such methods as EBT cards and tax refunds. Neither of these payment methods necessarily encourages or auto-
mates financial inclusion for households and households can incur fees for using some of these methods to access their benefits. However, FinTech innovations might be able to help the government deliver these payments more efficiently and at a reduced cost by requiring those payments to be deposited into a safe and affordable bank account and facilitating the direct electronic transfer of those payments. These reduced costs could be transferred to households in the forms of increased benefit amounts and or reduced or eliminated ATM and related fees for accessing public benefits. For example, a recent study in the United Kingdom found that requiring tax code-related transfers to be electronically direct deposited increased households' savings account ownership and their amount of money saved (Fitzpatrick, 2015). Similar FinTech and G2P innovations could be easily applied to other opportunities for financial inclusion, like Children’s Savings Accounts (CSAs) and Individual Development Accounts (IDAs).

US Postal Savings, Community Development Financial Institutions (CDFIs)

Other opportunities for financial inclusion include a return to offering safe and affordable financial products and services through the US Postal Service (Baradaran, 2015; Garon, 2012) and an expansion of CDFIs. In contrast to FinTech innovations delivered via computer- and internet-based software, these opportunities call for brick-and-mortar solutions to financial inclusion. Nearly 80% of financially included households still report that the primary way they make deposits and withdrawals is through in-person transactions at brick-and-mortar bank branch offices, such as by interacting with a bank teller (FDIC, 2014). Therefore, a viable solution for widening financial inclusion is to expand brick-and-mortar access to safe and affordable financial products and services through the US Postal Service and CDFIs.

In recent years, researchers, policymakers, and consumer advocates have recommended that the US Postal Service return to offering safe and affordable financial products and services (Baradaran, 2015; Cramer, King, & Schreur, 2015; Garon, 2012). For example, in December 2015, members from the American Postal Workers Union delivered a petition with 150,000 signatures to the Deputy Postmaster General, requesting that the US Postal Service consider providing basic financial services. US postal savings was implemented with congressional support following an economic recession at the turn of century (Garon, 2012), a recession that also resulted in the creation of the Federal Reserve System (Board of Governors of the Federal Reserve System, 2013). Between 1911 and 1967, the US Postal Service received savings deposits that were held in safe and affordable accounts at 7,000 to 8,000 offices across the country (Garon, 2012), and, by 1929, households had saved $153 million in postal savings accounts (Oxford Economics, 2014; USPS, 2008). There were some limitations to this early version of postal savings. For example, many rural offices did not accept savings deposits and households had to designate just one office location for deposits and withdrawals (Garon, 2012). In other words, transactions could only be made at the office where savings was originally deposited and the US Postal Service’s wider network of offices could not be used for transactions. However, despite these limitations, postal savings was credited with providing safe and affordable financial products and services to lower-income households.

Recent recommendations argue that the US Postal Service can serve lower-income households with much-needed financial products and services much better than mainstream banks or credit unions. This is because the US Postal Service would not have the same pressures as mainstream financial services for making a profit: The US Postal Service could accept small deposits and manage accounts with small balances. Given that
the US Postal Service already operates in most communities, lower-income households may have more convenient access to safe and affordable financial services near to where they live, which may prevent them from using high-cost, alternative financial services. Moreover, expanding financial inclusion through an already-established system like the US Postal Service with a wide network of brick-and-mortar offices also has other benefits such as being able to use an existing system rather than inventing a new one and using an existing system that can allow for in-person transactions. The desire for making financial transactions in-person and at brick-and-mortar locations like bank branch or post offices will not go away any time soon, even with the rise in FinTech innovations. Taken together, postal savings is a viable approach to widening financial inclusion, particularly among lower-income households and other underserved groups.

Another opportunity for expanding financial inclusion is by increasing the number of CDFIs supported by the CDFI Fund. Over 5,000 CDFIs offer safe and affordable financial services to households in lower-income communities throughout the country and are supported by the US Department of the Treasury's CDFI Fund. CDFIs emerged as part of the CRA in the 1970s and the CDFI Fund was established to support these services through the passage of the Riegle Community Development and Regulatory Improvement Act in 1994 (CDFI Fund, 2015). Community Development Financial Institutions' services include creating jobs, providing access to capital, and offering financial education. For example, CDFIs are credited with providing capital to 6,300 businesses in lower-income communities in 2011.

**CHILDREN'S SAVINGS ACCOUNTS**

Children's Savings Accounts (CSAs; also known as Child Development Accounts [CDAs]) align with efforts to expand financial inclusion and are a promising tool to help young people and lower-income households realize financial health. CSAs are specially-designed, universally available, progressively incentivized savings accounts opened for young people at birth or shortly thereafter with a $500 initial deposit (Cramer, 2010). Young people from lower-income households are eligible to receive progressive subsidies to incentivize their saving such as dollar-for-dollar matches on monies deposited into accounts. CSAs are proposed to be used across the life course with withdrawals permitted after age 18 toward expenses like education, entrepreneurship, home ownership, and retirement. A number of national CSA policy proposals have emerged in the US and the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act is perhaps the most well-known (Cramer, 2010). While the US has not adopted a national policy, CSA policies have been implemented in countries including Singapore, Canada, and South Korea (Loke & M. Sherraden, 2009).

One way to ensure equal access, in part, is by making CSAs universally accessible and progressively subsidized. For instance, CSAs via the ASPIRE Act are intended to be opened universally at birth. Under this proposal, every young person is able to benefit from and automatically receive a CSA. Progressive subsidies may help to ensure that money accumulates in the accounts so that young people do not need to use a combination of mainstream and alternative financial products as they grow older and form households of their own, as is currently the case in the US for those in the financial margins.

There is broad support for universality in other programs that aim to improve households' financial health, such as the minimum wage, Social Security, and Medicare. All working Americans benefit from these programs. Despite disagreements regarding where the minimum wage should be set or the age at which Social
Security or Medicare benefits should be accessed, few questions are raised with any real credibility about whether these programs should even exist in the first place. For example, despite disagreements about the minimum wage, 76% of adults agree that it should be raised to $9 per hour (Dugan, 2013). In another example, despite recognizing Social Security’s potential for a future funding crisis given an aging population and declining labor market participation, almost two thirds believe that raising the age of eligibility to receive full benefits and reducing benefits for current retirees are bad ideas. Moreover, two thirds believe increasing Social Security taxes are a good idea for addressing the funding crisis (Gallup, 2015). The Gallup surveys do not even ask respondents whether or not the minimum wage or Social Security benefits should exist in the first place. Their existence—and Americans’ beliefs about their deservingness of these benefits—have become stalwarts and their existence is perhaps even more relevant in an era where policies for delivering on financial inclusion need shoring up. Something similar is needed for financial inclusion via CSAs: that the existence of financial inclusion and the public’s beliefs regarding its necessity for daily life go unquestioned.

**INDIVIDUAL DEVELOPMENT ACCOUNTS**

After nearly two decades of operation, IDAs authorized through the 1998 AFI Act may need a tune-up to explicitly allow lower-income households to save for emergencies. It is well-documented that households regularly struggle to cope with financial emergencies and that their lack of savings to cope with these emergencies can have detrimental effects on their financial health (Conley & Thompson, 2011, 2013; Desmond, 2014; Gould-Werth & Seefeldt, 2012; Karpman & Long, 2015; Pew Charitable Trusts, 2015a). Thus, expanding IDAs through the AFI Act to allow for emergency savings seems like a logical next step—in addition to continuing to encourage saving for longer-term assets like home ownership, postsecondary education, entrepreneurship, and retirement. For example, the Opportunity Fund in California created a new program called Start2Save after realizing that IDAs did not help households save for emergencies and that their households were making early and unmatched withdrawals from their IDAs (Brown, 2011). Other programs have emerged like saving at tax time and prize-linked savings that are successfully helping households to save for financial emergencies (D2D Fund, 2015; Grinstein-Weiss, Perantie, Russell, et al., 2015). Individual Development Accounts should evolve in the coming years so that they, too, can help lower-income households save for financial emergencies.

**FINANCIAL EDUCATION DELIVERED IN TANDEM WITH FINANCIAL INCLUSION**

Financial education alone is likely insufficient for helping lower-income households achieve financial health (Friedline & Kepple, 2016; Friedline & West, 2015). Along these lines, any delivery of financial education should be coordinated with the delivery of financial inclusion, given the potential ineffectiveness of financial education by itself (Fernandes, Lynch, & Netemeyer, 2014). For example, mandating financial education in public school systems might be more effective if there were a national, universal policy such as CSAs through the ASPIRE Act that automatically opened and progressively incentivized savings accounts at birth for all children in the US. In this example, the public school system delivers financial education while, separately, political and financial services deliver financial inclusion. Much like the considering how different policies at varying levels of scale can be designed to work together, these separate efforts can be developed intentionally so that they parallel and complement one another to increase each other’s effectiveness.
CONCLUSION

New strategies are needed to shore up and improve households’ financial health, particularly in light of households’ struggles to earn sufficient income, pay bills, manage debt, and accumulate savings and wealth. A majority of US households are barely able to keep up with their day-to-day expenses, let alone plan for and invest in their futures. Moreover, since these financial struggles are fairly universal and experienced by most households, any new strategy to secure and advance their financial health must be equally universal.

Growing evidence suggests that financial inclusion—owning basic bank or savings accounts—is related to securing and advancing financial health. That is, owning basic bank or savings accounts is associated with households’ higher amounts of accumulated savings (Friedline, Johnson, & Hughes, 2014), protection from unexpected expenses and income shocks (Acs, Loprest, & Nichols, 2009; Mills & Amick, 2010), and investments in entrepreneurship like starting a business (Buera, 2009; Williams, 2004). Moreover, these relationships can be more pronounced for lower-income households, meaning that lower-income households can benefit from financial inclusion. This makes financial inclusion a potentially powerful strategy for addressing the unacceptable state of households’ financial health.

Policies that widen and deepen financial inclusion can better ensure that financial inclusion becomes a systemic and infrastructural solution to households' financial health: part of society’s infrastructure by building on solid terrain that won't give way under undue pressure.

As it stands, however, financial inclusion in the US is not as wide or as deep as necessary for providing a consistent, reliable bridge to financial health. Lower-income households and households on the financial margins end up paying too much money to use the basic bank or savings accounts that are supposed to make their lives easier. Many of these households are blocked from using these accounts altogether because the minimum opening deposits are too high or their credit scores are too low.

Policies are needed to widen and deepen financial inclusion by helping more households to gain access to basic bank or savings accounts and to expand their access to diverse financial products and services. These policies should address barriers to households’ financial inclusion, such as removing or reducing minimum account balances and costly overdraft fees, eliminating banks’ and credit unions’ use of screening tools, increasing access to safe and affordable account products by incentivizing banks to open branches in lower-income communities, and identifying new and alternative information for calculating credit scores. Policies such as these can better ensure that financial inclusion becomes a systemic and infrastructural solution to households' financial health: part of society's infrastructure by building on solid terrain that won't give way under undue pressure.

It should be noted that financial inclusion is one bridge with the potential to improve households’ financial health. As stated at the outset of this report, households likely need more than basic bank or savings accounts to realize better financial health that comes from being able to manage their day-to-day expenses and plan for their futures. Once households own bank or savings accounts, they are not automatically guaran-
teed to earn sufficient incomes to pay their bills and expenses, save for emergencies, or qualify more afford-
able credit. Thus, households’ financial health cannot and should not be interpreted outside the context of
macroeconomic and labor market conditions, including opportunities for earning living wages and basic
benefits. Until macroeconomic and labor market conditions improve, however, continued and expanded
efforts are needed to ensure households can make the most of financial inclusion—wide and deep financial
inclusion—for securing and advancing their financial health.
1. It should be noted that while financial struggle is fairly universal, some households bear the brunt of this struggle more so than others. Lower-income households and households headed by racial and ethnic minorities must deal with disproportionate shares of financial struggles when compared to their counterparts. For instance, among the households that struggle financially, half have annual incomes of less than $30,000 compared to 10% of households that have annual incomes of $100,000 or more (CFSI, 2015). Forty percent of households headed by racial and ethnic minorities lack the financial products and services they need to manage their day-to-day financial lives and plan for their financial futures compared to just 18% of households headed by whites (CFED, 2016). This report does not provide an in-depth accounting of the financial struggles of lower-income households or, especially, households headed by racial and ethnic minorities. The report instead focuses on how financial inclusion may be a strategy, broadly, for improving all households' financial health.

2. See for example, http://www.fdic.gov/consumers/community/AEI/

3. Notably, according to the Fair Credit Reporting Act, credit reporting agencies must have written approval before providing employers or potential employers with an individual’s credit score. For more information regarding the Fair Credit Reporting Act, please visit the following website: https://www.consumer.ftc.gov/articles/pdf-0096-fair-credit-reporting-act.pdf

4. While the US as a whole experienced macroeconomic growth in the 1990s as evidenced in part by expanded productivity (Jorgenson, Ho, & Stiroh, 2008), this growth did not necessarily translate into healthy balance sheets for all Americans. For instance, in the late 1990s, younger households headed by someone age 42 or less had about 29% of the median net worth held by older households, female-headed households had about 9% of the median net worth of male-headed households, black households had about 14% of the median net worth held by white households, and high school-educated households had about 19% of the median net worth held by college-educated households (Friedline, Nam, & Loke, 2014). Likewise, beginning in 2007, the US experienced one of the most widespread and deepest economic recessions since the Great Depression.

5. It is certainly fair to argue that educational loans can be a type of investment. And it is also fair to consider that students who earn a college degree with debt may still likely be better off overall than those without the same degree and without the same debt. The student who funded their college degree with debt may still have more employment options in the labor market and better opportunities for climbing the ladder of economic mobility. The author does not negate any of these arguments. Instead, this is meant to suggest that debt from educational loans can be costly and that households with this type of debt may need to make financial tradeoffs, repaying their debt instead of investing in retirement, for example. Despite being better off, making these financial tradeoffs still has implications for households’ financial health.

6. Progressive incentives refer to features like initial deposits, dollar-for-dollar matches on money saved, or rewards for accomplishing benchmarks that help account holders to accumulate savings, especially for those from lower income backgrounds.
7. The importance of affordability and convenience for expanded and scaled financial inclusion take two perspectives. First, affordability and convenience of the savings account for the end user or consumer is of critical importance particularly for the lower income children and families who stand to benefit the most from inclusion. Costly and inconvenient financial products like high minimum balances and maintenance fees, inaccessible bank branches, or limited deposit options undermine the very premise of financial inclusion. Second, for financial inclusion to be a realistic national goal in the US and sustainable over time, the delivery and scale up of inclusion—from the financial product used to the day-to-day administration—must also be affordable and convenient. If financial inclusion is to be desired and realized nationally, then the micro- and macro-economic benefits of expanding inclusion must outweigh the costs of administering it especially over time.

8. Xiao and Anderson (1997) also identify a third category of needs—“security”—or middle-level needs such as saving for a home or investing in human capital. Certificates of deposit, bonds, and money market accounts are financial products theorized to be consistent with meeting these middle-level needs.

9. The movement was concentrated in financial districts with much of the critiques levied at investment institutions that lend to banks and cater to the very wealthy, not necessarily the deposit institutions that provide basic bank and savings accounts to the average individual householder. However, from the perspective of the public and their declining trust of financial institutions, this distinction may not be important.

10. See for example, http://www.fdic.gov/consumers/community/AEI/


13. For more information regarding these guidelines, see here: http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20150224a1.pdf


15. For more information about the 2008 Food, Conservation, and Energy (Farm Bill) Act Food, Conservation, and Energy Act of 2008, Pub. L. No. 110-246, § 4104, 122 Stat. 1651, please visit the following website: https://www.govtrack.us/congress/bills/110/hr2419/text

16. For more information on the Harold Alfond College Challenge grants and TANF eligibility, please visit the following website: https://www.500forbaby.org/Files/Pages/faqs.aspx#TANF
17. It is worth noting that in this author's conversations with several IDA programs, nonprofit organizations receiving AFI Act grant funds have broad discretion for how their IDA programs are designed. For example, these nonprofit organizations may choose to raise the match rates, adjust the frequency at which account holders make deposits, or interpret account holders' savings goals. In other words, it is conceivable that in some programs, IDA account holders are already able to save for shorter term, financial emergencies.

18. The role of non-governmental organizations (NGOs) like microfinance institutions and their effectiveness in these endeavors is not without criticism (Bogan, 2012).

19. To review the legislation for Bill C-8, please visit the following website: http://www.lop.parl.gc.ca/About/Parliament/LegislativeSummaries/bills_ls.asp?lang=F&ls=C8&Parl=37&Ses=1&source=Bills_House_Government#3. Proposed Changes (txt)

20. There are some exceptions for banks to open these basic accounts, such as if the accounts are being used for illegal activity. For more information about Canada’s bank account policy, please visit the following website: http://www.fcac-acfc.gc.ca/eng/resources/publications/yourRights/Pages/OPENINGA-Ouvertur.aspx


22. For more information about Even, please visit the following website: https://even.com/

23. For more information about BillGuard, please visit the following website: https://www.billguard.com/

24. For more information about Elikya, please visit the following website: http://elikya.co/

25. For more information about Epiphyte, please visit the following website: http://www.epiphyte.com/

26. For more information about Banking Up, please visit the following website: http://www.bankingup.com/
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