Savings Account Ownership During the Great Recession

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Introduction

This study analyzes how a household's economic circumstances, demographic characteristics, and certain attitudes or financial behaviors influence basic savings account ownership during the Great Recession.

Financial Vulnerability
Not Solely a Lower-Income Household Issue

By the end of the Great Recession, financial vulnerability was particularly profound among:

- households with less education
- families with children
- households that experienced a loss of employment

63% of households **lost wealth**

44% of all U.S. households **do not have enough liquid savings to cover at least 3 months worth of expenses**

25% of all middle-income households **do not have at least 3 months worth of poverty-level income in liquid savings**

Data

- 2007-2009 Survey of Consumer Finances Panel
- Sample size 3,857; 5 implicates (19,285)
- Nearly 90% re-interview response rate

Economic Model and Econometric Framework

From a consumer choice theoretical viewpoint, we define the net utility for consumer i of holding a basic savings deposit account in period t as

$$y^*_{it} = \beta' \mathbf{x}_{it} + \varepsilon_{it} + u_i \qquad (1)$$

where ε_{it} is assumed to be the unobserved effects that may vary from period to period and u_i is assumed to be the unobserved effects that are invariant from period to period, both assumed to be normally distributed and uncorrelated with the observed effects, $\mathbf{x}_{it}$.

Bivariate Probit Model Dynamic Specification

- Considering the dynamic aspects of the model,

$$y^*_{i0} = \beta' \mathbf{x}_{i0} + \varepsilon_{i0} + u_i \quad (2a) \qquad y^*_{i1} = \beta' \mathbf{x}_{i1} + \alpha'(\Delta \mathbf{x}_i) + \varepsilon_{i1} + u_i \quad (2b)$$

- where $\mathbf{x}_{i0, i1}$ are vectors of covariates in period 0 and 1, respectively, and $\Delta \mathbf{x}_i$ are changes in covariates.

- With two periods of observation, this random-effects specificiation defines a bivariate probit model in which the correlation across the two periods is

$$\rho = \sigma^2_u /(1 + \sigma^2_u)$$

Empirical Model

Previous literature helps inform the model specification.

- Economic factors of influence include: family income, educational level, homeownership, employment, health insurance coverage
- Socio-demographic factors of influence include: age group, marital status, number of children, racial and ethnic group
- Change factors include a loss of job, drop in liquidity, becoming uncovered by health insurance, becoming unmarried, becoming a longer-term planner, and becoming an extensive credit shopper
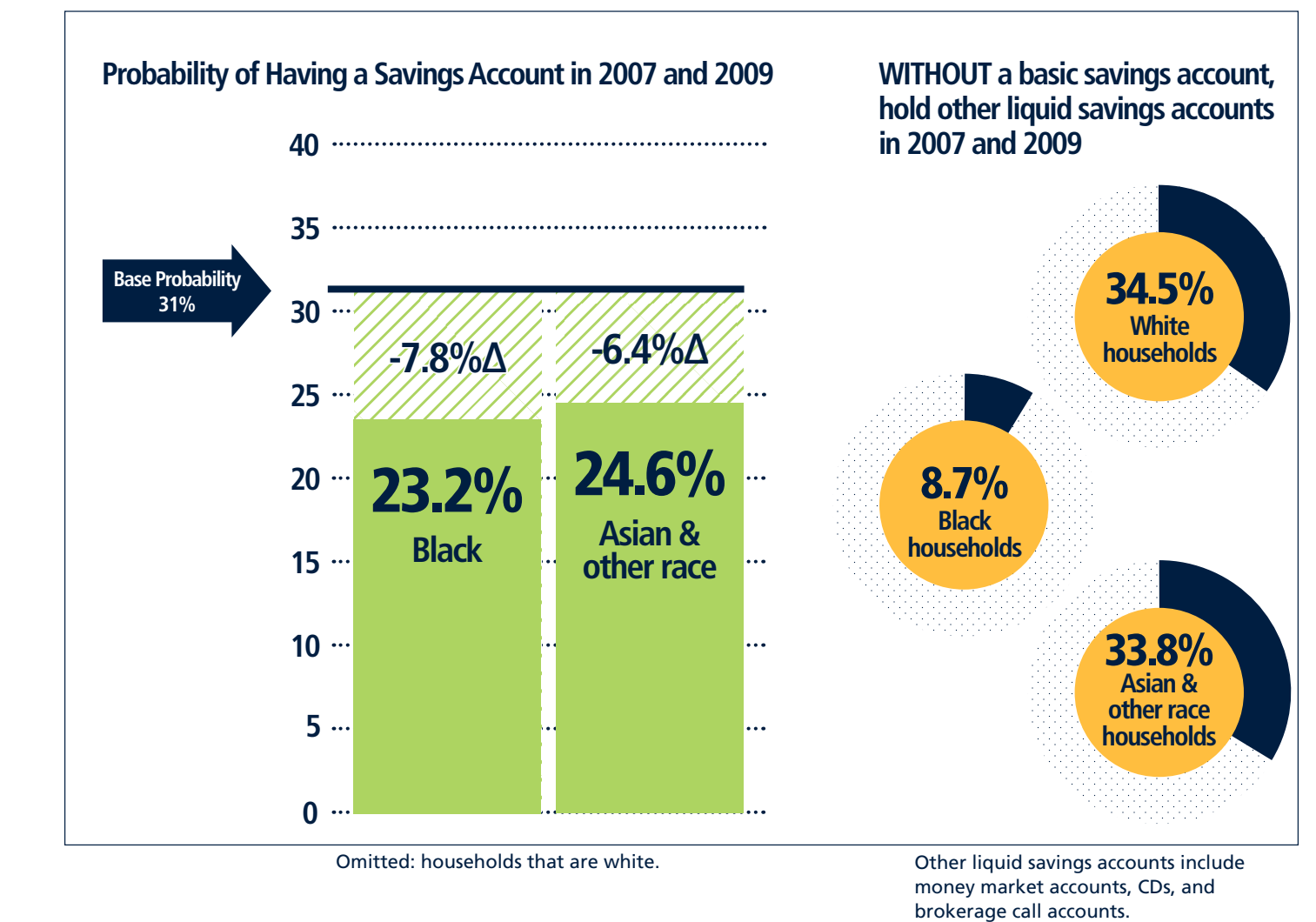
Selected Findings

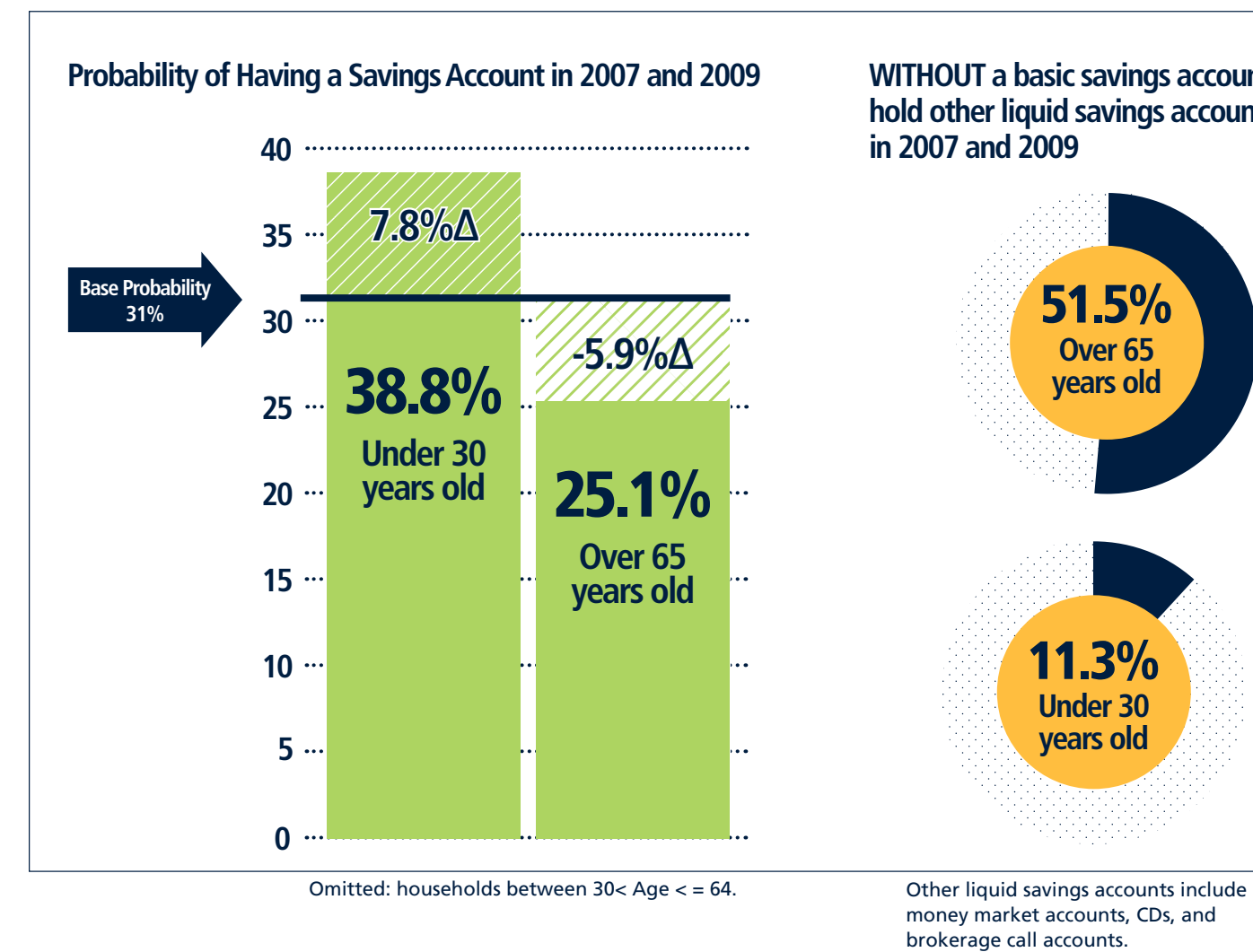PARTIAL EFFECTS—Dynamic Factors: Liquidity and Credit Shopping Habit
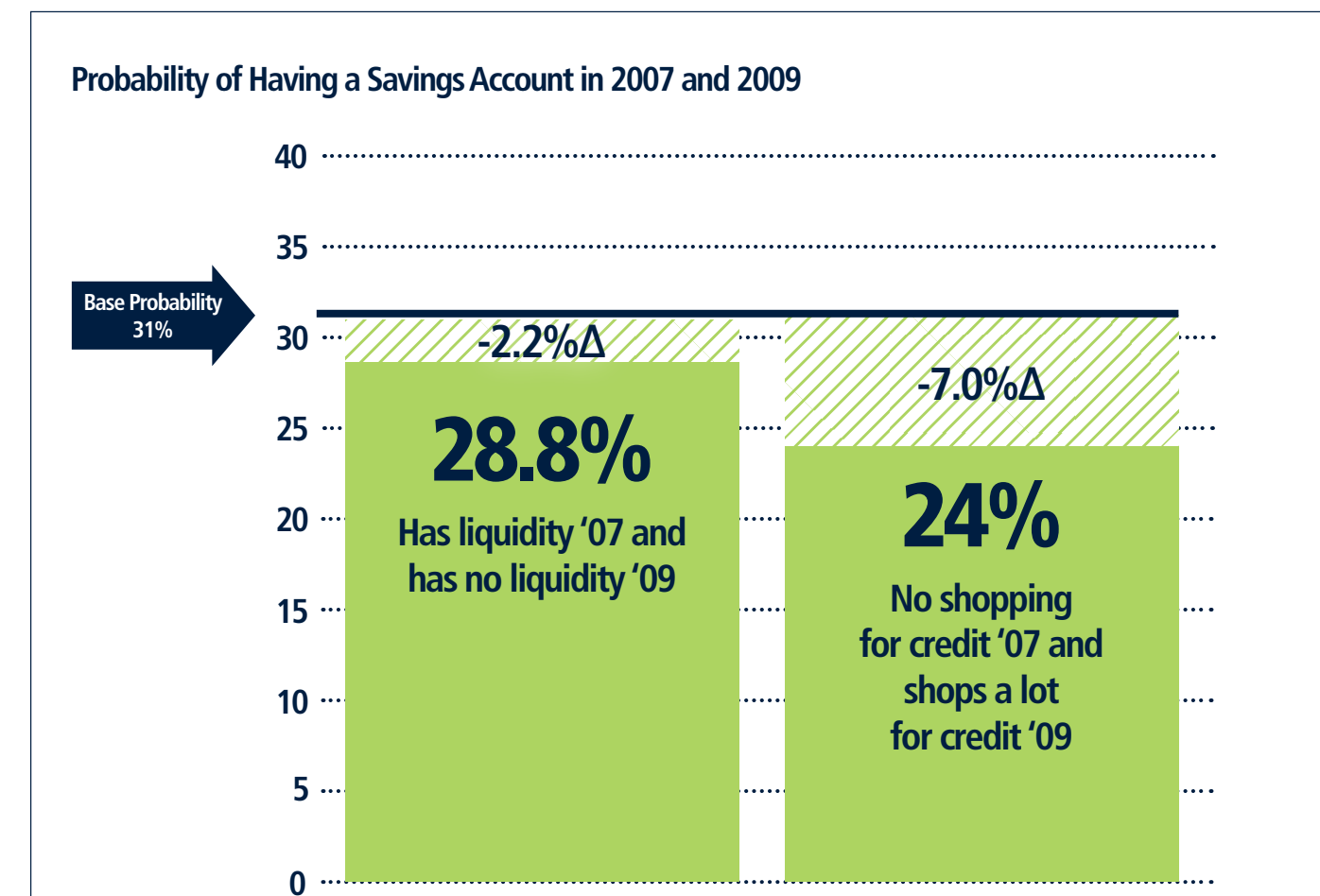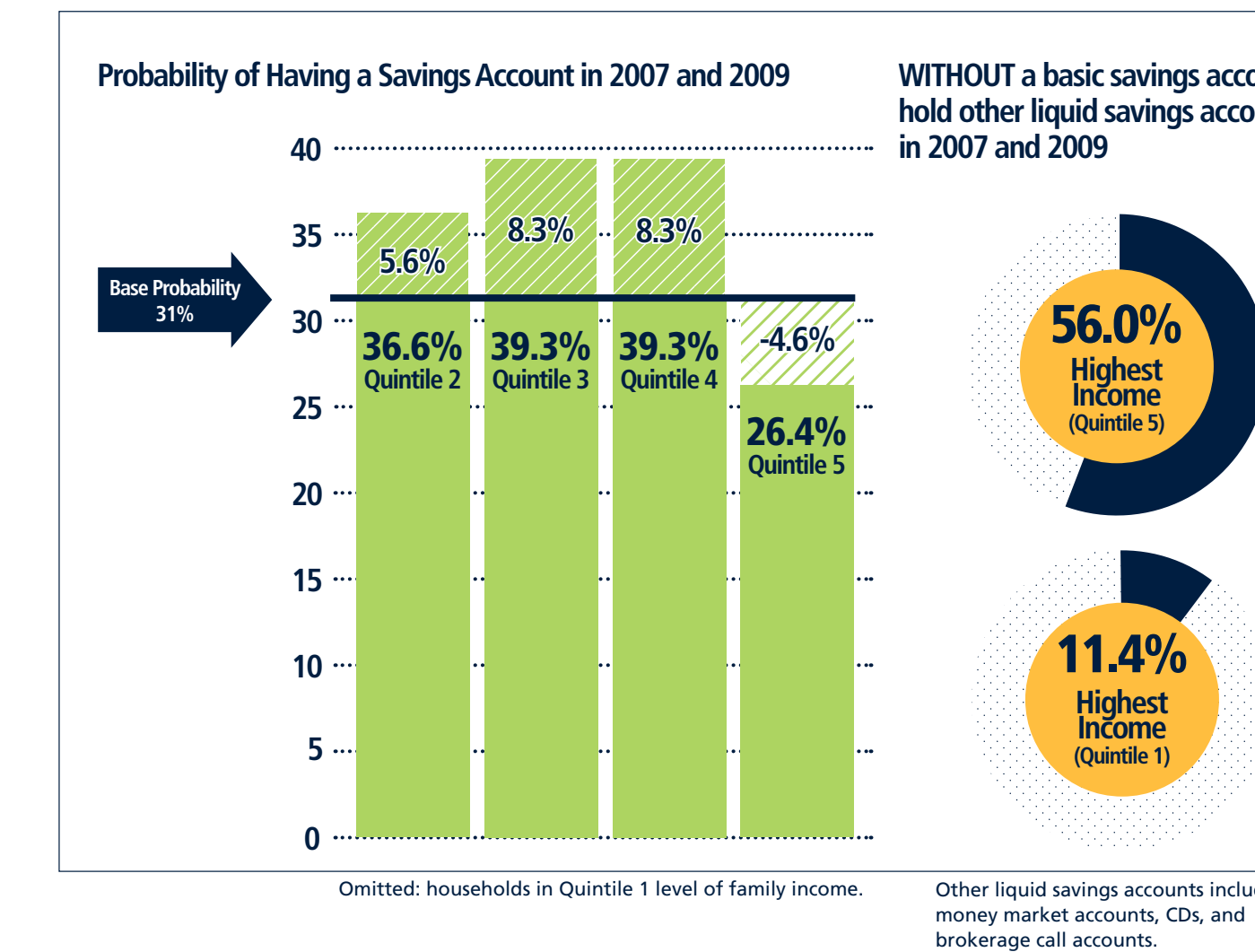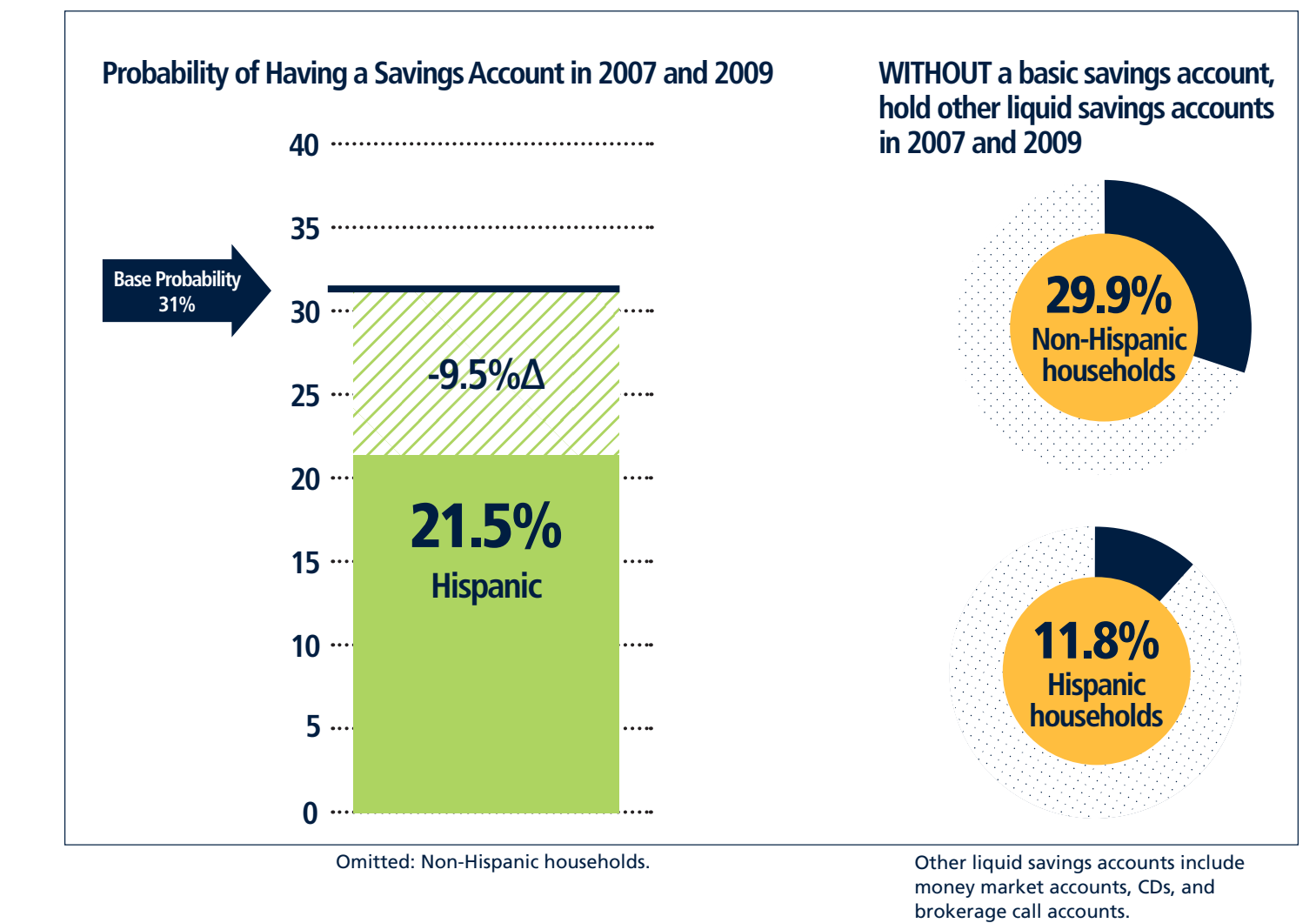
PARTIAL EFFECTS—Education
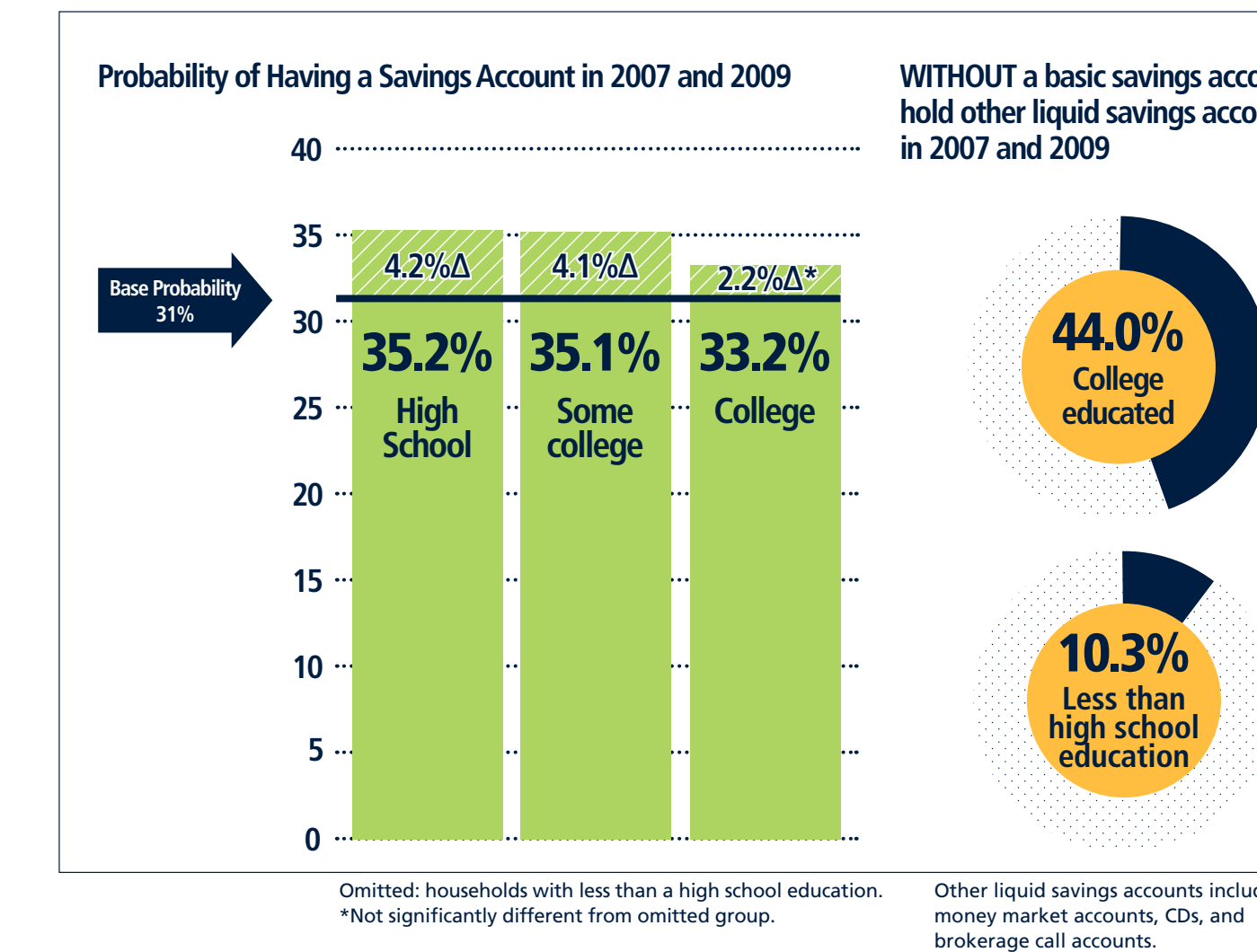
PARTIAL EFFECTS—Race

PARTIAL EFFECTS—Age Groups

PARTIAL EFFECTS—Income Quintiles

PARTIAL EFFECTS—Ethnicity

Conclusions

» **Basic savings account ownership increased:**
- 46% of households had an account in 2007
- 50% of households had an account by 2009
- Half of all households do not have a basic savings account

» **Characteristics important to basic account ownership are:**
- Position in life-cycle
- Educational attainment
- Race/ethnicity

» **Circumstances that influence basic savings account ownership are:**
- Changes in family income
- Loss of liquidity
- Credit shopping behavior

» **Households most likely to possess a basic savings account:**
- Are younger
- Have less education
- Are low- to middle-income families

Future Research

» **Replicate Findings** – Compare to studies that analyze account ownership over financially stable timeframes or different recessions.

» **Savings Accumulation** – Conduct analyses that identify in what ways and how much households accumulate and use liquid savings over time

» **Minority Gap** – Determine what factors are contributing to differences in savings account ownership by race/ethnicity. Are cultural, behavioral, and other unobserved factors important?

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