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

$$ y^*_it = \beta x^*_it + \epsilon^*_it + \mu_i $$

where $\epsilon^*_it$ is assumed to be the unobserved effects that may vary from period to period and $\mu_i$ 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, $x^*_it$.

Bivariate Probit Model Dynamic Specification

- Considering the dynamic aspects of the model,

$$ y^*_it = \beta x^*_it + \epsilon^*_it + \mu_i $$

$$ y^*_it = \beta (x^*_it - \Delta x^*_it) + \epsilon^*_it + \mu_i $$

- where $x^*_it$ are vectors of covariates in period 0 and 1, respectively, and $\Delta x^*_it$ are changes in covariates.

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

$$ \rho = \sigma^2_{\epsilon^*_it}/(1 + \sigma^2_{\mu_i}) $$

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

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

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

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

- 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

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