

Examining the Concept, Measurement and Determinants of Emergency Savings

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In 2022, less than two-thirds of U.S. adults reported they could cover a \$400 unexpected expense and only 54% had set aside funds to cover three months of expenses in the event of a financial emergency (Board of Governors of the Federal Reserve System 2023). Without adequate funds to cover unexpected financial shocks, often referred to as emergency or precautionary savings, many households are unprepared for even minor financial setbacks.

Emergency savings is a special type of savings. It can be distinguished from other savings in three ways: it may need to be periodically spent down and replenished, it must be highly liquid, and its purpose should be unspecified. Possessing even modest emergency saving can stabilize household finances and contribute to long-term financial security (Collins 2015; Gallagher and Sabat 2019). Growing policy interest in improving emergency savings requires common measures of emergency savings to track progress in reaching policy goals and identify households to focus policy efforts. Yet, there is a lack of consensus on its measurement. This creates challenges in comparing emergency savings levels across the population, over different time periods and among subpopulations.

In this research, we examine the measurement of emergency savings across five publicly available, nationally representative surveys: the Federal Reserve's Survey of Household Economics and Decisionmaking (SHED), the FDIC-sponsored Unbanked and Underbanked Supplement to the Current Population Survey (FDIC-CPS), the National Financial Capability Survey (NFCS), the U.S. Financial Health Pulse component of the Understanding America Study (FHP), and the National Financial Well-Being (NFWB) Survey. Each survey contains at least one question relating to emergency savings. In total, these surveys contain a variety of questions to assess emergency savings. Several surveys field identical questions. Table 1 includes the emergency savings questions that we examine. To provide a common time period for comparison, as well as avoid years affected by pandemic-related hardships and direct transfers to households, we chose data collected in the 2018 to 2019 period, where possible, in each survey.

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Table 1: Emergency Savings Questions by Survey

Survey	Questions Related to Emergency Savings
Unbanked and Underbanked Supplement (FDIC-CPS)	Even if you later spent it, did you or anyone in your household set aside any money in the past 12 months that could be used for unexpected expenses or emergencies? I'm only asking about funds that could be easily spent if necessary and am not asking about retirement or other long-term savings.
Financial Health Pulse (FHP)	<ol style="list-style-type: none"> 1. Are you currently setting aside money for an emergency? <ol style="list-style-type: none"> a. Yes b. No c. Don't Know 2. Suppose now that you have an emergency expense that costs \$400. Based on your current financial situation, how would you pay for this expense? If you would use more than one method, please select all that apply. <ol style="list-style-type: none"> a. Put it on my credit card and pay it off in full at the next statement. b. Put it on my credit card and pay it off over time. c. With the money currently in my checking/savings account or with cash d. Using money from a bank loan or line of credit e. By borrowing from a friend or family member f. Using a payday loan, deposit advance, or overdraft g. By selling something h. I wouldn't be able to pay for the expense right now. i. Other (please specify)
National Financial Well-Being Survey (NFWB)	<p>How confident are you in your ability to raise \$2,000 in 30 days?</p> <ol style="list-style-type: none"> a. Certain I could not b. Probably could not, c. Probably could d. Certain could
National Financial Capability Study (NFCS)	<ol style="list-style-type: none"> 1. Have you set aside emergency or rainy-day funds that would cover your expenses for 3 months, in case of sickness, job loss, economic downturn, or other emergencies? 2. How confident are you that you could come up with \$2,000 if an unexpected need arose within the next month?
Survey of Household Economics and Decision making (SHED)	<ol style="list-style-type: none"> 1. Have you set aside emergency or rainy-day funds that would cover your expenses for 3 months in case of sickness, job loss, economic downturn, or other emergencies? 2. If you were to lose your main source of income (e.g., job, government benefits), could you cover your expenses for 3 months by borrowing money, using savings, selling assets, or borrowing from friends/family? 3. Suppose that you have an emergency expense that costs \$400. Based on your current financial situation, how would you pay for this expense? If you would use more than one method to cover this expense, please select all that apply. <ol style="list-style-type: none"> a. Put it on my credit card and pay it off in full at the next statement. b. Put it on my credit card and pay it off over time. c. With the money currently in my checking/savings account or with cash d. Using money from a bank loan or line of credit e. By borrowing from a friend or family member f. Using a payday loan, deposit advance, or overdraft g. By selling something h. I wouldn't be able to pay for the expense right now. i. Other (please specify):

From these questions, we create emergency savings measures. We find that the choice of emergency measure does matter for the estimates. Commonly used emergency savings measures range from 40.8% to 70.8% of households having emergency savings, a difference of 30 percentage points. However, across the identical questions in the surveys, we find relatively broad agreement. This suggests that these differences are the result of the measure rather than the survey.

To understand the source of the estimated differences in emergency savings, we organize these measures around three key tradeoffs: the reference time period (currently versus over the last 12 months); the use of an absolute (\$400 or \$2,000) versus a relative threshold (three months of expenses); and, the types of resources considered as emergency savings (cash/bank accounts, a credit card without incurring debt, borrowing, and/or selling assets). For the reference time period, we compare an FHP-UAS question that asks about currently saving for an emergency to an FDIC-CPS question that asks about saving in the past 12 months. A measure that references current emergency savings concludes that 49.1 percent of households are saving for emergencies while a measure that references saving over the previous 12 months leads to a 14.6 percentage point higher portion of households with emergency savings, consistent with the non-accumulative nature of emergency savings.

To compare differences in the threshold used to assess emergency savings adequacy, we compare two questions that refer to an absolute threshold to one question that asks about a relative threshold. These include absolute threshold questions referring to paying a \$400 expense paid via cash or checking/savings account in the FHP-UAS and the SHED and confidence in coming up with \$2,000 within a month available in the NFCS and NFWB. The relative savings threshold, available in the NFCS and the SHED, reference the ability to pay three months of expenses. Emergency savings estimates based on \$400 threshold find that 45.1 percent of households have emergency savings while 69.2 percent of households have confidence in meeting a higher absolute threshold of \$2,000. In contrast, 51.2 percent of households report saving for the relative threshold of three months of expenses. It is surprising that the \$2,000 emergency savings question has a 17.0 percentage point lower rate of emergency savings than the three-month question, despite three months of expenses being much greater than \$2,000. One reason for this might be the opportunities for borrowing.

Finally, we compare the resources considered for emergency savings, including liquid assets, borrowing without creating debt, all types of borrowing, or even selling assets. The FHP-UAS and the SHED ask about paying for an unexpected \$400 expense with only cash savings, as well as paying for the expense with cash savings and/or a credit card paid off at the next statement. The \$400 emergency savings measure that allows for the expense to be put on credit card and paid off at the next statement estimates that 69.9 percent of households possess emergency savings, a 24.8 percentage point increase compared to the measure that only paying for the \$400 unexpected expense with cash or bank account amounts. To fully examine how resources matter, we expand the opportunities to pay the \$400 expense through borrowing and/or selling assets. Once any borrowing is included in the measure, 88.9 percent of households have emergency savings while also allowing households to sell an asset to meet the unexpected expense allows the portion to rise to 90.3 percent.

We also examine how resources matter with a relative threshold of three months of expenses. Comparing the SHED question that asks about having three months of expenses saved to the SHED question that asks about covering three months of expenses with liquid assets, short-term borrowing, and/or selling assets, we find a similar pattern. The measure that allows for three months of emergency savings from liquid assets, debt, and/or selling assets finds that the portion of households with emergency savings increases 19.6 percentage points compared to the measure that relies only on liquid assets.

Our findings highlight the importance of reaching consensus on how to measure emergency savings. Commonly used emergency savings measures differ greatly. The choice of measure should consider the conceptual behavior that policymakers wish to encourage, as well as those that are available in survey data. Without common emergency savings measures, it is difficult to understand the current state of emergency savings, track progress in achieving policy goals, and understand its causes and correlates.

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