cfpb Consumer Financial Protection Bureau

Perceived Financial Preparedness, Saving Habits, and Financial Security

CFPB Office of Research

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The Consumer Financial Protection Bureau's (CFPB, the Bureau) *Start Small, Save Up* initiative aims to promote the importance of building a basic savings cushion and saving habits among U.S. consumers as a pathway to increased financial well-being and financial security.[1] Having a savings cushion or a habit of saving can help consumers feel more in control of their finances and allow them to weather financial shocks more easily. Indeed, previous research shows that many consumers experience financial shocks, and that savings can help buffer against shocks and provide financial security.[2] Further, previous research has also found a relationship between savings and financial well-being that suggests that having savings can help consumers feel more financially secure.[3]

This brief uses data from the Bureau's Making Ends Meet survey to explore consumers' savings-related behaviors, experiences, and outcomes. We examine subjective experiences primarily as they relate to financial well-being and feelings of control over finances,[4] while consumers' objective financial situations are explored using self-reported responses to questions about difficulty paying bills, saving habits, and money in checking and savings accounts. Focusing on these and other financial factors, such as income, allows us to better understand how consumers

[1] This Office of Research research brief (No. 2020-2) was written by Caroline Ratcliffe, Melissa Knoll, Leah Kazar, Maxwell Kennady, and Marie Rush.

[2] McKernan, Ratcliffe, Kalish, and Braga (2016); Mills et al. (2016); Mills et al. (2019); Ratcliffe, Burke, Gardner, and Knoll (2020).

[3] See the Bureau's report "Financial Well-Being in America" (Consumer Financial Protection Bureau 2017).

[4] The Bureau defines financial well-being as a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow them to enjoy life (Consumer Financial Protection Bureau 2015a).

feel about their financial preparedness for emergencies and whether they are prepared to deal with financial emergencies as they arise.

The Making Ends Meet Survey, developed by the CFPB's Office of Research, is a nationally representative survey of U.S. adults with a credit bureau record.[5] This rich dataset provides information on consumers' self-reported objective financial situations (e.g., income, financial shocks, difficulty paying bills) and subjective financial situations and expectations (e.g., financial well-being, how much savings they think they need for emergencies). The findings reported below use data collected in the summer of 2019.[6] Nearly all of the differences between groups (e.g., savers and non-savers) presented in the figures are statistically significantly different from one another at the five percent level ($p<0.05$); we note the few exceptions. Throughout this brief, we consider how both subjective and objective experiences differ with income.

In line with the *Start Small, Save Up* initiative's goal of improving financial well-being via increased savings, this brief explores the relationship between financial well-being, as measured using the CFPB's five-item financial well-being scale,[7] and other measures of consumers' financial circumstances. In the first section below, we highlight the relationship between how much money people think they need in savings for emergencies and how much money they report actually having in their checking and savings accounts combined. Together, these two elements provide insight into consumers' perceived financial preparedness. For many people, we observe a gap between what they think they need and what they have. In the second section, we examine how consumers' perceived financial preparedness relates to their saving habits and subjective financial situations—namely, financial well-being and feelings of financial control. In the third section, we explore the relationship between saving and more objective measures of consumers' financial situations, such as past experiences with financial shocks and difficulty paying bills—that is, making ends meet.

[5] The sample for the survey was selected from the CFPB's Consumer Credit Panel, which is a 1-in-48 random and deidentified sample of credit records maintained by one of the three nationwide credit reporting agencies.

[6] For more details about the Making Ends Meet survey see Fulford and Rush (2020).

[7] For details about the scale, see Consumer Financial Protection Bureau (2015b). To see the five questions, go to https://files.consumerfinance.gov/f/documents/bcfp_fin-well-being_short-scorecard.pdf (accessed August 7, 2020).

How much savings people think they need for emergencies versus how much they have

People are aware they should have emergency savings, but many fall short of the amount they think they need. The amount of money people report they and their family "need in savings for emergencies and other unexpected things that may come up" is considerable: the median is $10,000, meaning that half of U.S. consumers think they need an emergency savings fund of $10,000 or more.[8] At the same time, however, more than half of people report that their household has $3,000 or less in their savings and checking accounts (combined).[9] That is, many people have less money in the bank than they think they need to deal with emergencies, which can lead them to feel unprepared to weather financial shocks. These feelings of unpreparedness could manifest in lower levels of financial well-being and a greater likelihood of consumers feeling that they are not in control of their finances.

This difference between what people think they need and what they have in their checking and savings accounts is likely a lower bound. In particular, we capture the *combined* amount of money households have in their checking and savings accounts, and, while some money in a checking account could be earmarked for saving, at least some of those funds are likely earmarked for regular bills and other necessities (e.g., rent, utilities, food).

The amount people report they and their family "need in savings for emergencies and other unexpected things that may come up" rises with household income, but the increases are relatively modest.[10] The median amount people report they need in savings rises from $5,000 for those in the two lowest income groups (household income of $40,000 or less) to $15,000 for those in the highest income group (household income above $100,000; Table 1).

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[8] This median of $10,000 is higher than the median of $6,000 reported in the 2016 Survey of Consumer Finances (SCF). One difference between the two surveys is that the Making Ends Meet survey is nationally representative of U.S. consumers with a credit bureau record and the SCF is nationally representative of U.S. families.

[9] Respondents are asked to "estimate the total amount of money your household has right now in your checking and savings accounts." Respondents are asked to pick one of eight options ranging from "$0" to "more than $10,000."

[10] Household income is captured with a question that asks respondents their "household's annual income in 2018 from all sources," and respondents are asked to pick one of six income groups. The shares of people in each income group examined in this brief are as follows: $20,000 or less (17.9 percent); $20,001 to $40,000 (19.2 percent); $40,001 to $70,000 (24.5 percent); $70,001 to $100,000 (17.3 percent); more than $100,000 (21.1 percent). Note that our data do not allow us to make more granular distinctions above $100,000. As a point of comparison, U.S. median household income was $63,179 is 2018, which is in the upper end of this $40,001 to $70,000 range (https://www.census.gov/library/stories/2019/09/us-median-household-income-not-significantly-different-from-2017.html, accessed August 5, 2020).

TABLE 1: COMPARISON OF THE MEDIAN AMOUNT PEOPLE HAVE IN THEIR CHECKING/SAVINGS ACCOUNTS AND MEDIAN AMOUNT THEY REPORT NEEDING FOR EMERGENCIES, BY INCOME

Income	Median amount consumers think they need for emergencies	Median amount in checking/savings accounts	Share who have less than they think they need for emergencies
Overall	$10,000	$1,001-$3,000	51.6%
$20,000 or less	$5,000	$1-$99	73.9%
$20,001 to $40,000	$5,000	$501-$1,000	70.8%
$40,001 to $70,000	$7,000	$1,001-$3,000	55.6%
$70,001 to $100,000	$10,000	$5,001-$10,000	43.2%
More than $100,000	$15,000	$10,000+	21.8%

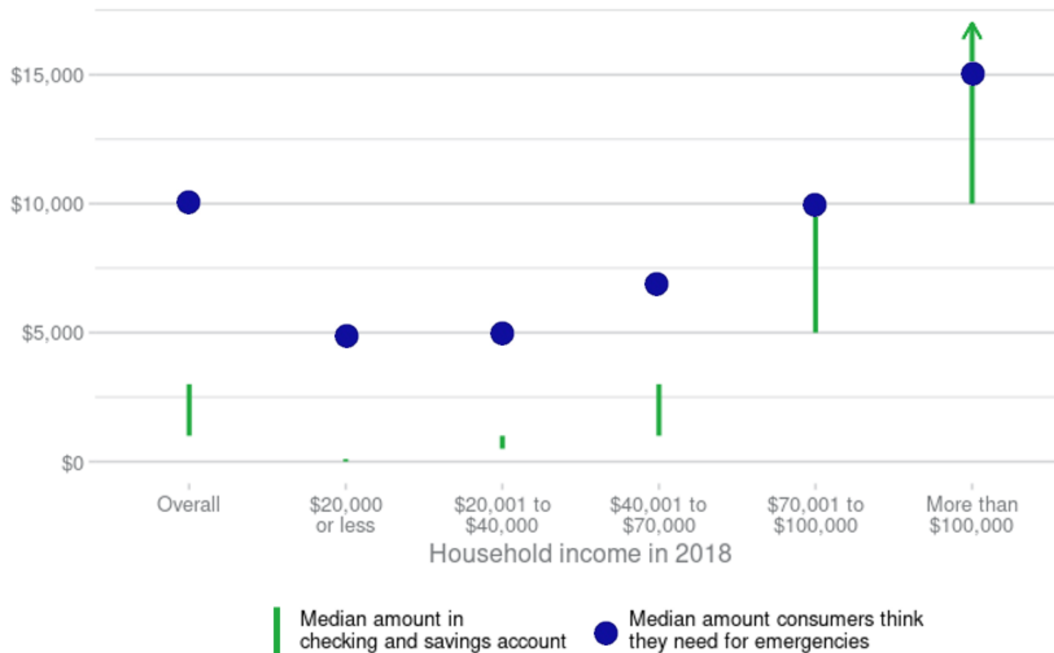
Table 1 shows that, for many people, the amount they report needing in savings does not align with the amount in their checking and savings accounts, and this misalignment is greatest for people with lower incomes. This gap—or shortfall—is also displayed as the distance between the green line and the blue dot in Figure 1. For those in the lowest income group, for example, the median amount people report they need in savings for emergencies is $5,000, while the median amount in their households' checking and savings accounts is only between $1 and $99. To close this gap, the median household earning less than $20,000 a year would have to save at least 25 percent of their income in one year to reach their emergency savings target. By contrast, the personal savings rate for low-income earners has been consistently negative over time.[11] The amounts better align for people in the two highest income groups. Still, 21.8 percent of people in the highest income group have less in their checking and savings accounts than they think they need in savings for emergencies; the share of people is considerably higher—73.9 percent—for those in the lowest income group.[12]

[11] https://www2.deloitte.com/us/en/insights/economy/spotlight/economics-insights-analysis-08-2019.html (accessed August 26, 2020).

[12] Based on the survey design, the maximum amount respondents can report having in their checking and savings accounts is "$10,000 or more." Consumers who report having $10,000 or more in their checking and savings accounts and report that they need $10,000 or more in savings for emergencies are categorized as having as much as or more than they think they need in savings for emergencies. The shares of people this applies to, by income, are as follows: $20,000 or less (2.6 percent); $20,001 to $40,000 (5.7 percent); $40,001 to $70,000 (18.6 percent); $70,001 to $100,000 (33.5 percent); more than $100,000 (58.8 percent); overall (25.0 percent).

FIGURE 1: MOST PEOPLE HAVE LESS IN THEIR CHECKING/SAVINGS ACCOUNTS THAN THEY REPORT NEEDING IN SAVINGS FOR EMERGENCIES

Comparison of median amount in checking and savings accounts (range) and median self-reported amount needed for emergencies, by income



How perceived financial preparedness relates to saving habits and financial well-being

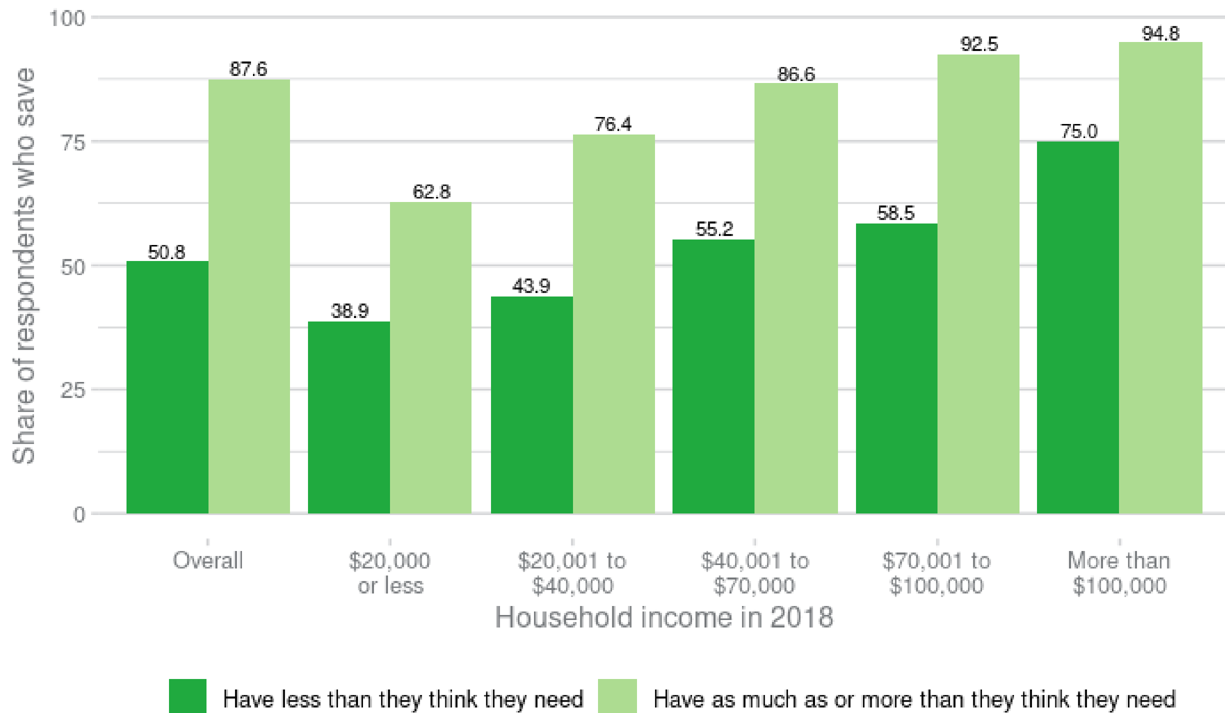
We begin this section by exploring the relationship between consumers' perceived financial preparedness (i.e., whether they have less than they think they need or as much as or more than they think they need in savings for emergencies) and a "household's monthly saving habits," where respondents can report they "save" or "don't save." We combine the survey's two "save" responses ("save regularly" and "save whatever is left over at the end of the month–no regular plan") and the survey's two "don't save" responses ("don't save–usually spend more than income" and "don't save–usually spend as much as income") because these pairings allow us to spotlight differences between two key groups of interest—savers and non-savers. Across our survey respondents, 67.9 percent report that they "save" and 31.1 percent report that they "don't

save."[13] While our saving habit analyses focus on the distinction between those who save and don't save, we note some differences between the four more detailed saving habit groups below.[14]

We find that consumers who have less than they think they need in savings are less likely to report a habit of saving (Figure 2). Overall, roughly half of consumers (50.8 percent) who have less than they think they need report that they save, while the vast majority of consumers (87.6 percent) who have as much as or more than they think they need report that they save. This difference in saving habits exists at every income level. For example, looking at consumers with household incomes between $40,001 and $70,000, 55.2 percent of those who have less than

FIGURE 2: PEOPLE WHO HAVE LESS IN THEIR CHECKING/SAVINGS ACCOUNTS THAN THEY REPORT NEEDING FOR EMERGENCIES ARE LESS LIKELY TO REPORT THEY SAVE

Share of people who report they save, by perceived financial preparedness and income



[13] For information on respondents' monthly saving habits (i.e., the four saving habit responses), see Appendix Table 1. This table presents the share of consumers in each of the four saving habit groups overall and by income level.

[14] We do not note differences in the four saving habit responses within income levels because of small sample sizes in some of the analyses.

they think they need report that they save, while 86.6 percent of those who have as much as or more than they think they need report that they save—a difference of 31.4 percentage points.

In addition to understanding the relationship between perceived financial preparedness and saving habits, the Making Ends Meet survey provides the opportunity to explore the relationship between each of these variables and subjective measures of a consumer's financial situation: financial well-being and feelings of control over one's finances. To capture consumers' financial well-being, we use respondents' scores from the CFPB's five-item financial well-being scale.[15]

When consumers have less than they think they need for emergencies, it may lead them to experience lower levels of financial well-being and a greater likelihood of feeling like they are not in control of their finances. Indeed, when we examine respondents' financial well-being scores by perceived financial preparedness, we find that, on average, financial well-being is lower for those who have less than they think they need, compared with those who have as much as or more than they think they need. For context, the average financial well-being score for respondents in our sample is 51 on a scale that falls between zero and 100.[16] Figure 3 shows that the average financial well-being score is 44.1 for those who have less than they think they need, while it is 58.0—nearly 14 points higher—for those who have as much as or more than they think they need. To put this 14-point difference in perspective, there is a 13.5-point difference in the financial well-being scores of consumers in households with incomes between $20,001 and $40,000 (average score of 46.0) and those in households with incomes above $100,000 (average score of 59.5, Appendix Table 2).[17] The difference in financial well-being between the two groups (i.e., those who do and do not have what they think they need in savings) is not explained by differences in income. At each income level there is a gap in the average financial well-being score of between nine and 13 points.

[15] The five questions are available at https://files.consumerfinance.gov/f/documents/bcfp_fin-well-being_short-scorecard.pdf (accessed August 7, 2020).

[16] This is slightly lower than the average financial well-being score of 54 for U.S. adults from the CFPB's National Financial Well-Being Survey (NFWBS; CFPB 2017, p. 5). One difference is that the NFWBS is nationally representative of U.S. adults and the Making Ends Meet Survey is a nationally representative survey of U.S. adults with a credit bureau record.

[17] Other summary statistics are also provided in Appendix Table 2.

FIGURE 3: FINANCIAL WELL-BEING IS LOWER AMONG PEOPLE WHO HAVE LESS IN THEIR CHECKING/SAVINGS ACCOUNTS THAN THEY REPORT NEEDING FOR EMERGENCIES

Average financial well-being score, by perceived financial preparedness and income

Consistent with trends in financial well-being, we find that consumers who have less than they think they need in savings are more likely to say that "finances control my life" "always" or "often," as compared with consumers who have as much as or more than they think they need in savings.[18] Figure 4 shows that the difference between these groups is large. While 58.1 percent of consumers who have less than they think they need in savings say that finances control their lives, only 22.4 percent of consumers who have as much as or more than they think they need in savings say so.[19]

[18] This question is one of the five component questions of the five-item financial well-being scale.

[19] One might be concerned that this pattern is driven by people who experienced a financial shock, such that people who experience a shock deplete their savings, and as a result, have less than they think they need in savings and do not feel in control of their financial lives. Analyses that separately examine people who did and did not experience a financial shock in the past year find the same pattern as those presented in Figures 3 and 4. That is, when looking (1) only at consumers who *did* experience a financial shock in the past year and (2) only at consumers who *did not* experience a financial shock in the past year, we find that consumers who have less than they think they need in savings have lower levels of financial well-being and are more likely to say that "finances control my life" "always" or "often," as compared with consumers who have as much as or more than they think they need in savings.

FIGURE 4: PEOPLE ARE MORE LIKELY TO SAY FINANCES CONTROL THEIR LIVES IF THEY HAVE LESS IN THEIR CHECKING/SAVINGS ACCOUNTS THAN THEY REPORT NEEDING FOR EMERGENCIES

Share of people who report "finances control my life" "always" or "often," by perceived financial preparedness and income

Note: The differences between the two groups (i.e., have less than they think they need and have as much as or more than they think they need) overall and within each income group are statistically significant at the five percent level ($p<0.05$) except for the "$20,000 or less" income group.

Again, this difference between the two groups exists at each income level. Among consumers in the middle-income group ($40,001 to $70,000), the share who say that finances control their lives is 53.3 percent among those who have less than they think they need in savings, but is about half as large—23.6 percent—among those who have as much as or more than they think they need in savings. Figure 4 also shows that the share of people who report that finances control their lives is similar for lower income consumers ($20,001 to $40,000) who have as much as or more than they think they need in savings and high-income consumers (more than $100,000) who do not have the savings they think they need. In both cases, roughly a third of these consumers report that finances control their lives, highlighting the importance of savings across different levels of income.

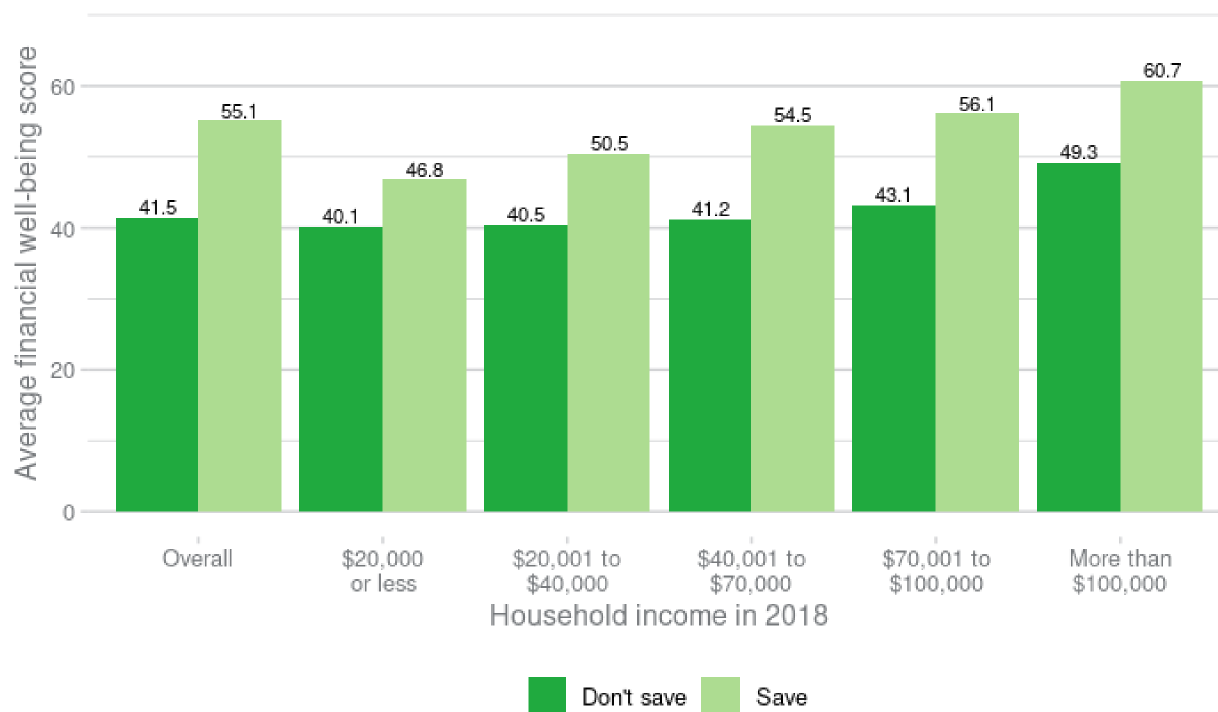
We have shown that consumers who have less than they think they need have lower levels of financial well-being and are less likely to feel in control of their finances. Although the data

cannot identify whether perceived financial preparedness affects financial well-being, these findings may suggest that if consumers had more savings available to cover potential shocks, consumers might have a better sense of control over their finances. Next, we explore the relationship between saving habits and financial well-being and control.

Previous research suggests that having a savings cushion and regularly saving are related to higher levels of financial well-being and reduced economic hardship.[20] For example, the CFPB's National Financial Well-Being Survey found that higher levels of liquid savings and having a self-reported habit of saving were both associated with higher levels of financial well-being.[21] Consistent with this earlier research, we find that consumers who report that they "save" (versus "don't save") have higher levels of financial well-being (Figure 5) and are less likely to say finances control their lives (Figure 6). Across all respondents, the average financial well-being score is 41.5 for people who do not have a habit of saving but is 13.6 points higher—55.1—for

FIGURE 5: PEOPLE WHO "DON'T SAVE" HAVE LOWER LEVELS OF FINANCIAL WELL-BEING

Average financial well-being score, by monthly saving habit and income



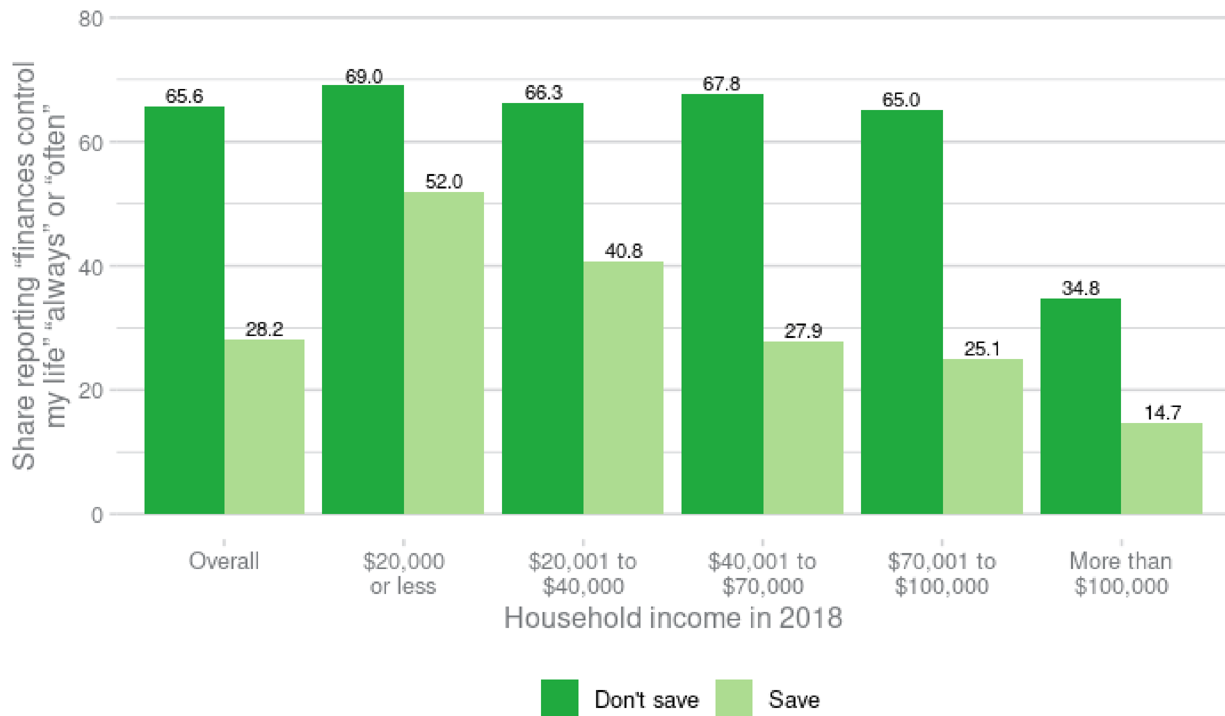
[20] Burke and Perez-Arce (2019); Consumer Financial Protection Bureau (2017); McKernan et al. (2016).

[21] See the Bureau's report "Financial Well-Being in America" (Consumer Financial Protection Bureau 2017).

people who do (Figure 5). Further, 65.6 percent of consumers who do not have a saving habit say that finances control their lives, while only 28.2 percent of consumers who do have a saving habit say that finances control their lives (Figure 6). These findings reinforce the previous work that has found a similar relationship between savings and higher levels of financial well-being and a greater sense of financial control. The relationships between a saving habit and financial control and well-being are evident at every income level. For example, for each income group, the size of the gap in financial well-being between those who save and don't save ranges between about seven and 13 points.

FIGURE 6: PEOPLE WHO "DON'T SAVE" ARE MORE LIKELY TO SAY FINANCES CONTROL THEIR LIVES

Share of people who report that "finances control my life" "always" or "often," by monthly saving habit and income



We also look separately at savers who report they "save regularly" and those who report they save opportunistically (i.e., "save whatever is left over at the end of the month–no regular plan") and find higher levels of financial well-being and financial control among those who save regularly. For example, the average financial well-being score is 58.8 for people who save regularly and 52.0 for people who save whatever is left over at the end of the month (Appendix Table 3). Similarly, when we examine feelings of financial control, we find that 20.3 percent of consumers who report saving regularly say that finances control their lives, while 35.2 percent of consumers who save whatever is left over at the end of the month say that finances control their lives. We also find lower levels of financial well-being and a higher likelihood of saying finances control my life for those who report they "don't save–usually spend more than income" than for those who report they "don't save–usually spend as much as income."

Finally, we explore how perceived financial preparedness and saving habits together relate to consumers' subjective financial situations. We find that consumers who have less than they think they need for emergencies *and* report not having a habit of saving have the lowest levels of financial well-being and are the most likely to report that finances control their lives. That is, consumers are worse off when negative circumstances are compounded. Specifically, Table 2 shows that among people who have less than they think they need for emergencies *and* do not save, the average financial well-being score is 39.3, but it is almost 10 points higher—48.6—for those who do save.[22] We see the same pattern when looking at consumers' feelings of financial control. Among consumers who have less than they think they need for emergencies *and* do not save, 72.0 percent say that finances control their lives, while the share is considerably lower—44.8 percent—for those who save.

Interestingly, Table 2 shows the same average financial well-being score (48.6) among people who have less than they think they need but are saving and people who have more than or as much as they think they need but are not saving. Consistent with the pattern observed for financial well-being, Table 2 also shows a very similar share of consumers reporting that finances control their lives among people who have less than they think they need but are saving (44.8 percent) and people who have more than or as much as they think they need but are not saving (45.7 percent).

[22] This same pattern holds for people who did and did not experience a financial shock in the past year. Among people who *did* experience a financial shock in the past year and have less than they think they need for emergencies, the average financial well-being score is 38.6 for those who don't save and 47.2 for those who do save. The comparable numbers for those who *did not* experience a financial shock in the past year are 43.0 and 52.2, respectively.

TABLE 2: FINANCIAL SECURITY IS LOWEST AMONG PEOPLE WHO DON'T SAVE AND HAVE LESS IN THEIR CHECKING/SAVINGS ACCOUNTS THAN THEY REPORT NEEDING FOR EMERGENCIES

	Have less than they think they need		Have as much as or more than they think they need	
Variable	**Don't save**	**Save**	**Don't save**	**Save**
Average financial well-being score	39.3	48.6	48.6	59.3
Share reporting "finances control my life" "always" or "often"	72.0%	44.8%	45.7%	18.8%

This section highlighted the relationships between whether people have the savings they think they need for emergencies, their monthly saving habits, and subjective measures of their financial well-being and control. The rest of this brief focuses on more objective measures of consumers' financial experiences, particularly difficulty paying bills.

How saving relates to trouble paying bills and weathering financial shocks

With the wide gap between what people think they need in savings for emergencies and what they have in their checking and savings accounts (i.e., perceived financial preparedness), to what extent are people actually prepared to handle financial emergencies and other expenses, such as paying bills? Further, how do saving habits relate to consumers' financial experiences, such as difficulty paying bills in the face of financial shocks?

Four out of every 10 (40.4 percent) people report that they had "difficulty paying for a bill or expense in the past year" (Figure 7). This potential source of financial stress is not only a low-income issue. For example, while 62.4 percent of low-income people (household income of $20,000 or less) had difficulty paying for a bill or expense in the past year, so too did 17.7 percent of higher-income people (household income of more than $100,000).

FIGURE 7: SHARE OF PEOPLE WHO HAD DIFFICULTY PAYING BILLS IN THE PAST 12 MONTHS, BY INCOME

Note: Estimated shares for all income groups are statistically significantly different from one another at the five percent level ($p<0.05$) except the comparison of the "$20,000 or less" and "$20,001 to $40,000" income groups.

We explore the relationship between difficulty paying bills and having a habit of saving, for which the survey captures people's difficulty paying bills "in the past 12 months" and their "monthly saving habit" near the time of the survey.[23] Ideally, the survey would capture consumers' saving habits prior to when they experienced difficulty paying bills, but to the extent that consumers' saving habits do not change much over time, the timing of the questions does not affect the interpretation of our findings. If consumers do change their savings behavior over time—for example, they realize the importance of a savings buffer and begin saving after an expense shock, or they stop saving after an income shock—interpretations of these relationships may not be as straightforward.

With these caveats in mind, we find that consumers who report their households' monthly saving habit as "don't save" (versus "save") are more likely to report having difficulty paying bills in the past year. Figure 8 shows that 70.6 percent of consumers who characterize their

[23] The monthly saving habit question—which asks people "which of the following statements comes closest to describing your household's monthly savings habits?"—does not specify a time frame. Given the nature of the question, we expect it to capture behavior near the time respondents answered the survey.

household's monthly saving habit as not saving had difficulty paying for a bill or expense in the past year, while the number is 25.7 percent for consumers who do save. That is, people who report not having a habit of saving are nearly three times more likely to experience difficulty paying bills than their counterparts who do have a saving habit.

This pattern is not simply driven by low-income people who have difficulty both meeting their expenses and saving. Within each of the five income groups, there is a substantial gap between those who save and do not save in the share of people who had difficulty paying for a bill or expense in the past year. Even higher income non-savers can struggle to pay their bills or expenses, with over half of non-savers in the two highest income groups reporting difficulty paying for a bill or expense in the past year (Figure 8).

FIGURE 8: PEOPLE WHO REPORT NOT SAVING ARE MORE LIKELY TO HAVE DIFFICULTY PAYING BILLS

Share of people who experienced difficulty paying bills in the past year, by monthly saving habit and income

We also look separately at savers who report they "save regularly" and those who report they save opportunistically (i.e., "save whatever is left over at the end of the month–no regular plan") and find that those who save regularly are less likely to have difficulty paying bills (Appendix Table 3). While 17.4 percent of consumers who save regularly experienced difficulty paying for a bill or expense in the past year, 32.9 percent of consumers who save whatever is left over at the

end of the month experienced difficulty paying for a bill or expense. We also find a higher likelihood of having difficulty paying for a bill or expense for those who report they "don't save–usually spend more than income" than for those who report they "don't save–usually spend as much as income."

A savings buffer is particularly vital in the face of unexpected shocks, as it provides a personal safety net to help weather these shocks. Indeed, the need for a savings buffer is evident when recognizing that most U.S. consumers are hit with an economic shock each year. Over two-thirds (67.1 percent) of consumers report experiencing a shock in the past year—either a significant drop in income or significant unexpected expense (Table 3).[24] Expense shocks are more prevalent than income shocks. Over half of all survey respondents (57.4 percent) report experiencing an expense shock in the past year and roughly a third of respondents (32.6 percent) report experiencing an income shock.[25] Nearly a quarter (22.9 percent) of survey respondents report experiencing both an expense *and* income shock in the past year.[26]

TABLE 3: MOST PEOPLE REPORT EXPERIENCING A SIGNIFICANT DROP IN INCOME OR AN UNEXPECTED EXPENSE IN THE PAST YEAR

Shock category	Share of respondents
Any shock (income or expense)	67.1%
Expense shock	57.4%
Income shock	32.6%
Income and expense shock	22.9%

[24] This is generally consistent with prior research. For example, a Pew Charitable Trust (2015) study finds that 60 percent of households experienced a financial shock in the past year.

[25] Significant unexpected expense shocks include: major medical or dental expense; major vehicle repair or replacement; major house or appliance repair; TV, computer, or mobile phone repair or replacement; legal expenses or fines; or some other major unexpected expense. Significant income shocks include: unemployment; reduction in work hours; changes to a lower-paying job; loss of government benefits; working less because of illness or injury; or other significant drop in income. See Fulford and Rush (2020) for a more detailed breakdown.

[26] See Appendix Table 4 for the share of respondents who have experienced these shocks by income level.

People who experienced an income shock are more likely to have difficulty paying for a bill or expense (65.8 percent) than those who experienced an expense shock (50.0 percent; not shown).[27] This pattern is consistent with research that finds greater declines in financial well-being for those who experience an income versus expense shock.[28] Greater financial struggles for people who experienced an income (versus expense) shock may result from the ongoing nature of some income shocks (e.g., unemployment or health-related work limitation).

Consumers who experienced a shock in the past year *and* do not have a saving habit fared substantially worse in their ability to pay their bills and expenses than those who experienced a shock but do save. Among consumers who experienced a shock in the past year, 34.3 percent of savers experienced difficulty paying bills, while more than twice as many—77.4 percent—of non-savers experienced difficulty paying bills (Figure 9).[29] Again, this difference holds for all levels of income. For those in the two lowest income groups, 53 percent of savers experienced difficulty paying bills, while more than 80 percent of non-savers experienced difficulty paying bills. Among consumers with household incomes between $40,001 and $70,000, the difference is even larger—30.2 percent versus 80.1 percent, or nearly three times higher for those who do not save. This large difference holds for even the highest income group ($100,000 or more), with nearly three times as many people who do not save (57.0 percent) having difficulty paying bills than those who do save (21.0 percent).

Although these analyses are descriptive and do not show that having a saving habit *leads to* less difficulty paying bills, they do suggest that a saving habit may position people to weather the financial shocks that hit many U.S. consumers.[30]

While the amount of savings people should strive to build is complex and specific to their unique circumstances, the cost of the shock that consumers report led to their difficulty paying bills and expenses provides a frame of reference for understanding consumers' needs. Among people

[27] Among all people who experienced either an income or expense shock in the past year, 51.2 percent had difficulty paying for a bill or expense.

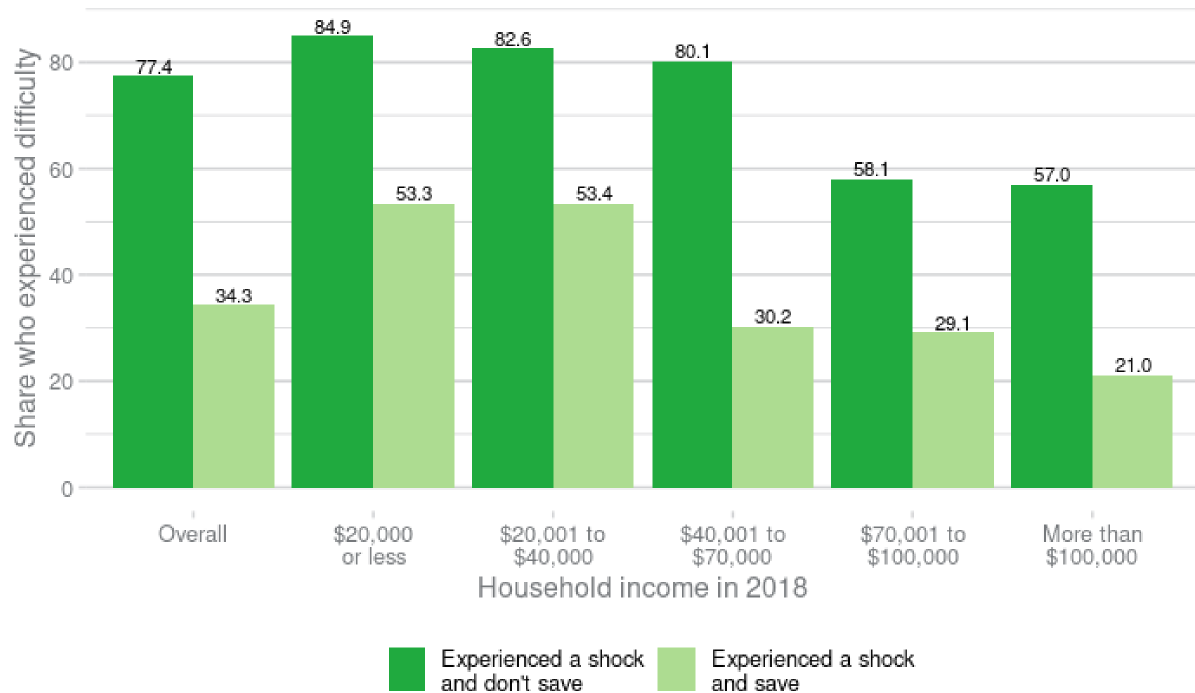
[28] Grinstein-Weiss and Bufe (2019).

[29] Among people who did not experience a financial shock in the past year, 11.6 percent of those who save had difficulty paying bills, compared with 41.2 percent of those who do not save.

[30] However, some research suggests that consumers might take on debt rather than use savings to pay for an emergency expense (Sussman and O'Brien 2016).

FIGURE 9: PEOPLE WHO EXPERIENCE A FINANCIAL SHOCK AND DO NOT SAVE ARE MORE LIKELY TO HAVE DIFFICULTY PAYING BILLS

Share of people who experienced a financial shock and had difficulty paying bills in the past year, by monthly saving habit and income



who had trouble paying bills in the past year, nearly three quarters (72 percent) reported an identifiable "event" that caused their most recent difficulty.[31] Across these different events, the median cost was $2,000 and the average cost was substantially higher at $6,138. The cost of these events tends to trend upward with income (Table 4). The median cost of the shock that led to consumers' difficulty paying bills and expenses was $1,100 for the lowest income group ($20,000 or less), $1,500 for the middle-income group ($40,001 to $70,000), and $3,500 for the highest-income group (more than $100,000).[32] The average costs are substantially higher.

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[31] For a more detailed breakdown of the events consumers identified as the source of their financial difficulty, see Fulford and Rush (2020).

[32] See Appendix Table 5 for the cost of financial shocks by quartile and income.

TABLE 4: COST OF FINANCIAL SHOCKS THAT PEOPLE REPORT LED TO THEIR DIFFICULTY PAYING BILLS, BY INCOME

Income	Mean	Median
Overall	$6,138	$2,000
$20,000 or less	$4,581	$1,100
$20,001 to $40,000	$4,492	$1,630
$40,001 to $70,000	$5,500	$1,500
$70,001 to $100,000	$7,983	$4,003
More than $100,000	$13,511	$3,500

This section examined an objective measure of consumers' financial situation—difficulty paying bills and expenses—and explored how monthly saving habits are related to difficulty paying bills in the past year. We find that consumers who do not have a habit of saving are more likely to experience difficulty paying bills, particularly in the face of financial shocks. We also looked at the cost of the financial shocks and find that, among the subset of consumers who experienced a financial shock and difficulty paying bills or expenses in the past year, the median cost of the shock was $2,000. While our data do not allow us to see consumers' saving habits prior to the financial shock, nor do they tell us about the cost of shocks for those who did not experience difficulty paying bills, they do suggest that building a habit of saving can help consumers weather financial emergencies and provide insight into the level of savings that could help buffer these shocks.

Conclusion

The CFPB's *Start Small, Save Up* initiative focuses on the importance of an emergency savings cushion as a pathway to financial well-being and security for all U.S. consumers. We find that many consumers have less in their checking and savings accounts than they think they need for emergencies, which may leave them vulnerable to negative financial outcomes. Using the CFPB's new Making Ends Meet survey, this research brief sheds light on the relationship between consumers' saving habits and their subjective (e.g., financial well-being) and objective (e.g., difficulty paying bills) financial situations.

Lower levels of financial well-being and a greater likelihood of feeling that finances control their lives are associated with consumers reporting that they do not have a habit of saving; likewise, those who do not have a saving habit are more likely to have difficulty paying bills and other expenses. Further, we find that when negative circumstances are compounded, consumers experience greater financial strain. Specifically, when consumers have less than they think they need for emergencies *and* they do not have a habit of saving, their financial well-being is particularly low and they are even more likely to report that finances control their lives. Similarly, consumers who experience a financial shock *and* do not have a habit of saving are more likely to have difficulty paying bills and other expenses. Although these findings are not causal, they suggest that a habit of saving may play a protective role in consumers' subjective and objective financial experiences.

The notion that not saving may be a key factor in consumers' difficulty making ends meet, especially when financial emergencies arise, is particularly significant in light of the finding that about two-thirds of survey respondents report experiencing a significant shock in the past year. Consistent with the goals of the *Start Small, Save Up* initiative, fostering a habit of saving may serve as an important step in helping consumers weather these shocks.

Appendix

APPENDIX TABLE 1: SHARE OF PEOPLE IN THE FOUR MONTHLY SAVING HABIT GROUPS, BY INCOME

Income	Don't save – usually spend more than income	Don't save – usually spend about as much as income	Save whatever is left over at the end of the month – no regular plan	Save regularly by putting money aside each month
Overall	10.2%	21.9%	36.2%	31.7%
$20,000 or less	23.0%	33.7%	30.9%	12.3%
$20,001 to $40,000	13.4%	32.1%	37.9%	16.6%
$40,001 to $70,000	9.0%	21.5%	40.5%	28.9%
$70,001 to $100,000	5.3%	15.9%	37.2%	41.5%
More than $100,000	2.1%	7.9%	33.3%	56.7%

APPENDIX TABLE 2: SUMMARY OF SELECTED CHARACTERISTICS, BY INCOME

		Household income in 2018				
Variable	**Overall**	**$20,000 or less**	**$20,001 to $40,000**	**$40,001 to $70,000**	**$70,001 to $100,000**	**More than $100,000**
Report they "save"	67.9%	43.2%	54.5%	69.4%	78.7%	90.0%
Financial well-being score	51.0	43.2	46.0	50.4	53.3	59.5
Report "finances control my life" "always" or "often"	40.1%	61.6%	52.5%	40.5%	33.4%	16.7%
Average amount people think they need for emergencies	$18,573	$10,427	$11,762	$13,659	$21,613	$34,046
Experienced difficulty paying bills in past year	40.4%	62.4%	55.5%	38.8%	30.6%	17.7%
Experienced difficulty paying bills and save	25.7%	47.2%	38.4%	23.6%	24.4%	13.6%
Experienced shock and save	42.1%	31.1%	34.8%	44.0%	52.0%	48.6%

Note: The share of people in each income group is as follows: $20,000 or less (17.9 percent); $20,001 to $40,000 (19.2 percent); $40,001 to $70,000 (24.5 percent); $70,001 to $100,000 (17.3 percent); more than $100,000 (21.1 percent).

APPENDIX TABLE 3: FINANCIAL WELL-BEING, FINANCIAL CONTROL, AND DIFFICULTY PAYING BILLS, BY MONTHLY SAVING HABIT

Variable	**Don't save – usually spend more than income**	**Don't save – usually spend about as much as income**	**Save whatever is left over at the end of the month – no regular plan**	**Save regularly by putting money aside each month**
Financial well-being score	38.9	42.7	52.0	58.8
Report "finances control my life" "always" or "often"	69.1%	64.1%	35.2%	20.3%
Experienced difficulty paying bills in past year	84.6%	64.1%	32.9%	17.4%

APPENDIX TABLE 4: SHARE OF PEOPLE WHO REPORT EXPERIENCING AN UNEXPECTED EXPENSE AND/OR A SIGNIFICANT DROP IN INCOME IN THE PAST YEAR, BY INCOME

Variable	Any shock (expense or income)	Expense shock	Income shock	Income *and* expense shock
Overall	67.1%	57.4%	32.6%	22.9%
$20,000 or less	71.2%	52.0%	51.2%	32.1%
$20,001 to $40,000	72.2%	59.4%	43.2%	30.5%
$40,001 to $70,000	69.3%	61.7%	30.9%	23.3%
$70,001 to $100,000	71.6%	63.8%	26.9%	19.1%
More than $100,000	57.8%	53.3%	17.2%	12.7%

APPENDIX TABLE 5: COST OF FINANCIAL SHOCKS THAT CONSUMERS REPORT LED TO THEIR DIFFICULTY PAYING BILLS, BY QUARTILE AND INCOME

	Percentile		
Income	**25th**	**50th**	**75th**
Overall	$924	$2,000	$6,000
$20,000 or less	$500	$1,100	$3,000
$20,001 to $40,000	$800	$1,630	$5,000
$40,001 to $70,000	$700	$1,500	$5,000
$70,001 to $100,000	$2,000	$4,003	$7,410
More than $100,000	$2,000	$3,500	$9,364

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