FINANCIAL EMERGENCIES

Roxanne Knapp and Ana Maria Sanchez-Rusinak
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EMERGENCY FUNDS ARE FUNDAMENTAL FOR FINANCIAL WELLNESS

According to the CFPB, financial wellness can be defined as a state wherein you:

1. Have control over day-to-day, month-to-month finances;

2. Have the capacity to absorb a financial shock;

3. Are on track to meet your financial goals; and

4. Have the financial freedom to make the choices that allow you to enjoy life
households that plan ahead for large, irregular expenses are 10x as likely to be financially healthy as those that do not plan ahead
SCALE OF PROBLEM
46% of Americans would not be able to pay a $400 emergency expense using cash or its functional equivalent.
American families reports having no savings at all, including 1 in 10 of those with incomes of more than $100,000 a year
60% of Americans experienced a financial shock last year and 55% of them reported that the shock made it hard for them to make ends meet.
55% of employees say their top financial concern is not having enough emergency savings for unexpected expenses
$300B

Yearly cost of employee stress to American businesses
USER PAIN
WHAT ARE FINANCIAL EMERGENCIES?

GUIDANCE
THINGS AND EVENTS
Company guidance recommends only using emergency funds for “true emergencies”

USERS
RELATIVE CIRCUMSTANCES
Our users defined emergencies in relation to their day-to-day lives and income level
USER DEFINITIONS OF EMERGENCIES

HURDLE

DISRUPTION

DEVASTATION
USER DEFINITIONS

HURDLE

Almost any budget irregularity can feel like a shock. Many repeat expenses or known expenses can be destabilizing—like bill payments or graduations. As a result, just living life month-to-month can feel like coping with a constant stream of hurdles.

WHO FEELS LIKE THIS?

Lower-middle income users who are living paycheck-to-paycheck and know where every dollar is going

Users who are living paycheck-to-paycheck because they are spending beyond their means

IN THEIR OWN WORDS:

An emergency is...

“everything”
“anything out of the ordinary”
USER DEFINITIONS

DISRUPTION

Emergencies are bigger expenses that catch users off guard, but often can and should be easily anticipated—such as house or car repairs.

WHO FEELS LIKE THIS?

Users who have modest savings to fall back on and have a high level of fear and anxiety about being financially insecure. These users often have a savings threshold that they feel very uncomfortable dipping below.

IN THEIR OWN WORDS:

An emergency is...

“unforeseen”

“urgent”
USER DEFINITIONS

DEVASTATION

Emergencies are catastrophic events that would wipe out my savings and upend my standard of living—like cancer or a market crash.

WHO FEELS LIKE THIS?

Users who are highly financially literate and have a large amount of savings. These users are often less afraid than others to move their money around in different vehicles, and are very confident that they can build back more modest savings draw-downs.

IN THEIR OWN WORDS:

An emergency is...

“crisis”
“bad circumstance”
“huge amount”
VARYING CONSEQUENCES

Financial shocks are disproportionately destabilizing for lower-middle income users. Shocks are more expensive for higher-income households but take far longer to cope with for low-income households.

At the extreme, it can take low-income households 70 more days of income to pay off shocks that are 1/10th the dollar amount of those faced by high-income households.

IT’S EASY TO MAKE UNECONOMIC CHOICES

Financial emergencies are emotionally taxing for everyone. Users often feel a sense of urgency, loss, anger and exhaustion when facing an unexpected expense, which clouds their ability to make in-the-moment rational decisions about how to cope.

Many resort to sub-optimal financial products, which extends the time it takes to recover from a shock. Additionally, these options can hamstring users’ access to good credit options in the future.

FEAR AND ALLOCATION

Many Disruption users are extremely reluctant to spend down their savings in the event of an emergency because of the fear associated with depleting their safety net.

Users are also reluctant to reallocate money earmarked for a positive goal in order to deal with something as negative as an emergency.

URGENCY AND MINDSHARE

For Hurdle households, shocks can have an immediate impact on the wellbeing of their loved ones, adding extreme urgency to dealing with the unexpected expense.

Dealing with the day-to-day hard work of just getting by depletes the pool of mental resources required to make a mindful choice.
HOW CONSUMERS ACCESS CREDIT

Estimated credit/loans outstanding and 401k withdrawals due to emergencies among the workforce:

- **Credit Cards**: $49.48B*
- **Small Dollar Credit** (Payday, Pawn Shop, Installment, and Auto Title Loans): $14.13B**
- **Bank Loans / Line of Credit**: $3.17B
- **401k Loans**: $22.20B
- **401k Hardship Withdrawals**: $6.68B
HOW CONSUMERS ACCESS CREDIT

Estimated credit/loans outstanding and 401k withdrawals due to emergencies among the workforce:

$95.66B
HOW CONSUMERS ACCESS CREDIT

Estimated interest, fees, and/or taxes incurred due to emergencies among the workforce:

- **Credit Cards**
  - Amount: $9.68B*
  - Average APR: 18%

- **Small Dollar Credit**
  - (Payday, Pawn Shop, Installment, and Auto Title Loans)
  - Average interest rate: ~400%
  - Amount: $5.58B**

- **Bank Loans / Line of Credit**
  - Average interest rate: 10.03%
  - Amount: $0.33B

- **401k Loans**
  - Average interest rate: 5.50%
  - Amount: $2.73B***

- **401k Hardship Withdrawals**
  - Withdrawal fee: 10%
  - Tax rate: 35%
  - Amount: $3B****
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  Avg. APR: 18%

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  Average r: 5.50%

- **401k Hardship Withdrawals**
  
  Withdrawal fee: 10%
  
  Tax rate: 35%
  
  $3B****

- **Marketplace**
  
  Future Self
  
  $21.32B
USER NEEDS

Across all users, the concept of coping with financial emergencies needs to be **reframed** from something negative to something motivating or positive.

**HURDLE USERS**
**NEED TO...**
- Shrink length of the financial and emotional impact of emergencies
- Access safer and more affordable credit options
- Understand all viable options
- Navigate hot states to make rational decisions

**DIRSUPTION USERS**
**NEED TO...**
- **Anticipate** common emergency expenses
- **Feel confident** that they can build back any savings they use and will stay protected while doing so
- **Feel comfortable** reallocating designated savings
- **See** the value of having a dedicated emergency fund

**DEVASTATION USERS**
**NEED TO...**
- **Feel** like their emergency fund money is working for them