

The background is a deep blue with various white and light blue icons. At the top left is a dome-shaped building. To its right is a house with a person in a window. Further right is a large circular gauge with an arrow pointing upwards. On the left side, there is a person holding an umbrella. In the center, the title text is prominently displayed. To the right of the title, there is an icon of a person holding a magnifying glass over a dollar sign. At the bottom right, there is a 3D bar chart with four bars of increasing height, colored green, dark green, light blue, and orange. A wavy blue line runs across the bottom of the page.

THE STATE OF FINANCIAL SECURITY 2020

A FRAMEWORK
FOR RECOVERY
AND RESILIENCE

Author

This report represents a synthesis of research, experience, and writing by many people: Loren Berlin was the primary writer on behalf of the Aspen Institute Financial Security Program and Genevieve Melford led the research and synthesized many of the findings. Ida Rademacher has shaped the thought leadership for this report, and has led the program for the past five years.

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The findings, interpretations, and conclusions expressed in this report—as well as any errors—are the Aspen Institute Financial Security Program's alone and do not necessarily represent the view of Aspen FSP's funders or those acknowledged above.

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About the Aspen Institute Financial Security Program The Aspen Institute Financial Security Program's mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity.

We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. Aspen FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.

To learn more, visit AspenFSP.org, follow @AspenFSP on Twitter, or sign up for our newsletter at <http://bit.ly/fspnewsletter>.

Letter from the Executive Director



Dear Reader,

Five years ago, I joined the Aspen Institute to lead the Financial Security Program into a new phase of engagement with leaders from the government, financial services, and nonprofit sectors to explore how the rapidly evolving financial systems and public policies could work together to improve the financial security and financial well-being of all Americans. With a renewed vision, we sought to expand upon the program's strong reputation working on issues of long-term savings, investment, and ownership. That work—and the diverse network of leaders we convened—formed a strong foundation upon which to build.

And build we have. We expanded the range of financial challenges we needed to illuminate and solve for, adding to long-term retirement security, the important but overlooked day-to-day income volatility challenges people face, along with consumer debt, housing insecurity, municipal and court fines and fees, and caregiving. As our focus became more comprehensive, we also expanded the diversity of partners and systems we engage with, in service of connecting and galvanizing a much broader community of leaders committed to making household financial security a top national priority.

All of this work was taking place against the backdrop of the longest uninterrupted economic expansion in US history. Our work and that of many others helped illuminate just how few Americans were sharing in that prosperity, and yet as a nation we struggled to reach a tipping point for change.

In the few short months since the beginning of 2020, ushered in by a global pandemic and the killing of George Floyd and so many others, a shift has taken place. Three big reveals of this period have helped us as a nation demand change. First, the extent to which financial precarity has become the defining characteristic of millions of families became astonishingly clear in the economic fallout of COVID-19. Second, the ways that both the health and economic crises inflicted disproportionate impact in communities of color became undeniable and indefensible. Third, the extent to which our institutions systematically devalue, deprioritize and destroy lives and livelihoods in Black and Brown communities ushered in a renewed reckoning with our nation's history of structural racism.

In this new moment it is plain to see the ways that financial insecurity and racial inequity destabilize not only households, but also democracy and the larger economy. What is cause for hope is that we have a new public and political willingness to solve these challenges. This report adds a powerful set of insights to help us design our strategy for the work that lies ahead. It synthesizes everything we have learned over the past five years into a new framework we—and you—can use to help shape the strategies and priorities for an inclusive recovery on a foundation of inclusion, equity, and financial security for all.

A handwritten signature in black ink, reading "Ida Rademacher".

Ida Rademacher

The State of Financial Security 2020: A Framework for Recovery and Resilience

We are living through an uncomfortable moment in America's economic history. Given the booming stock market, nominally low unemployment, and historic economic expansion that characterized the past five years, we would have expected to see significant improvement in peoples' financial well-being leading into 2020. But we didn't.

Non-wealthy Americans are contending with the twin pressures of stagnant real wages and rising household expenses. And as currently designed, public and private benefits do not fill the gap. The result of this mismatch is too much debt and too little savings. Today, fewer than half of American adults—47 percent—possess the necessary savings to cover three months of expenses in the event of job loss, sickness, or another of life's inescapable curve balls.¹ One member of an Aspen FSP focus group, a professional who has worked in the retirement industry, explained, "I've spent my entire career in retirement, but what I've come to realize is people are financially fragile today and the slightest thing can tip them into financial problems."

"I've spent my entire career in [the retirement savings industry], but what I've come to realize is **people are financially fragile today and the slightest thing can tip them into financial problems.**"

Clearly, there is a disconnect between the data we, as a nation, rely on to understand the status of our economy, and the real financial lives of people across America. What does it say about our economy if it's performing beautifully on paper at the same time millions of people are straining to make ends meet? What does it say about our values when people of color are disproportionately financially struggling? In that gulf between what we are measuring and what people are experiencing is the evidence that our metrics are flawed. We are overlooking the real measure of economic strength: household financial security.

We need a new framework for understanding and addressing the challenges of household financial

insecurity, one that acknowledges that financial insecurity is a many-headed beast, the product of a series of failed or failing systems across the public and private sectors—including the labor and housing markets, education, financial services, healthcare, and retirement savings, to name just a few. And we need a formula for achieving financial security that addresses three essential building blocks: routinely positive cash flow to cover expenses and allow for savings; personal financial resources to support household resilience, wealth, and well-being; and public and private benefits that can provide a functioning safety net to fill in gaps in the current economic system and protect individuals against financial catastrophes.

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On the fifth anniversary of the establishment of Aspen FSP, we have taken a step back to take stock of what we and others have learned over the past five years. The result is this new framework and an updated vision of the path this field must forge over the next five years to build a future that ensures financial security for all Americans.

The origins of the financial security field focused on advancing reforms to products, policies and institutions that allowed individuals to build and manage personal financial resources, by which we mean assets, wealth, and personal savings. The focus was both innovative and laudable, and building personal resources remains a fundamental pillar to achieving financial security in this report. The new framework widens the aperture to call out other systems that are also essential and shows how they are connected. It acknowledges that how cash flows into and out of households is a core component of financial security, and accordingly treats cash flow and benefits as co-equal pillars which require both diagnoses and solutions. This updated framework marks an effort to formally recognize that people can and should only be expected to self-insure for so much shock out of increasingly skinny and erratic paychecks. The new framework expands the scope of the financial security field—and it recognizes that if we are to give people the opportunity to pursue economic mobility, we must address all three pillars: cash

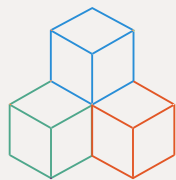
flow, personal resources, and public and private benefits.

Going forward, we need to take a systemic approach to the challenges of financial insecurity, acknowledging the interrelated problems we seek to solve. We also need to enlist a wider range of stakeholders, to make clear to people who don't see themselves as having a role in addressing financial insecurity that in fact, they do. You do. We need you if we are going to repair our ailing systems. It is our hope that in these pages you find your place in meaningfully helping to improve the financial security for America's millions of economically vulnerable families.



Methodology

This report is informed by eight months of extensive research, including the synthesis of the last five years of insights and evidence published by Aspen FSP and other institutions. The research process also included four focus groups with experts in various aspects of household financial security, two consumer focus groups, and an expert survey across Aspen FSP's networks. Our thinking in this report has also been informed by our nation's renewed reckoning with racial injustices, the global COVID-19 pandemic, and a historically swift and severe economic contraction, all of which have added new complexity and urgency to the financial challenges households are facing.



A New Framework for Financial Security

At Aspen FSP, we have adopted as our definition of financial security the description of financial well-being established by the Consumer Financial Protection Bureau (CFPB) **"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."**²

In practice, this means that an individual can weather the unplanned and unavoidable "financial shocks" of life. They can save enough money to cover the unexpected car repair without worrying if they will now be short on money for food. They can take a day off work to care for their sick child without fear they will fall behind on their bills. They can choose when and how to invest in future opportunities like education or buying a house. And, critically, they can be thrown a curve ball by life, as we all inevitably are, and catch it without derailing their financial footing.

Short-Term Resilience...

In addition to these smaller shocks of daily living, there are also much larger ones, such as job loss, the death of a loved one, or major medical expenses. The ability to recover from these less frequent, more severe disruptions to routine life is another element of financial security. As a member of an Aspen FSP consumer focus group explained, "I was diagnosed with breast cancer. We had good health insurance, but I was out of work for a whole year and my husband had to foot all of the bills and take care of the kids. This wiped out \$50,000—\$60,000 savings that we had been building for 20 years, since college. We're just average working people. It's hard to come back from that. We have never recovered from that."

Paves the Way for Long-Term Security

Achieving long-term financial security is a process that begins by establishing short-term stability. In the immediate term, a person needs enough income to cover all of their expenses. This isn't as simple as, say, earning \$35,000 a year and spending \$35,000 that same year. Rather, there are critical questions around the timing and predictability of both the income and the expenses. Income fluctuates significantly for many Americans, especially hourly and seasonal workers. Similarly, expenses can also fluctuate considerably, producing a mismatch between when income is available and when it is needed to cover an expense.

To plug this gap, an individual may accrue debt, delay payments, or put off medical appointments or car repairs, for example. These are short-term strategies that, while understandable, come with a risk that what's owed in the future will be even costlier, making it that much harder to achieve financial stability.

Additionally, income and expense volatility are dangerous because they can make it impossible for an individual to establish routinely positive cash flow. Absent regular net income, people can't save money. They can't establish the shorter-term, or "liquid" savings, that can help buffer against immediate hardships and establish short-term stability. Nor can they save for retirement or other long-term goals, such as homeownership or education—asset-building strategies that can fuel a virtuous cycle of ever-strengthening financial footing and build wealth within and across generations.

At least to a point. It is true that in theory, as long as an individual has more money than they spend and can minimize income and expense volatility, they "should" be able to establish a buffer. But such logic assumes that the person earns a living wage, lives in affordable housing, has decent health insurance, and presupposes a slew of other conditions that are simply not reality for the 50 million Americans living in or near financial crisis.³

Instead, we are witnessing a steady rise in basic living expenses at the same time wages are stagnating, with a stunning 44 percent of American workers earning median hourly wages of \$10.22. The result is an American economy that has appeared strong on paper for nearly a decade—low unemployment, steady growth—but in practice is not working for most people. Aside from the nation's wealthiest individuals, few Americans are able to establish themselves on financially secure ground. No matter how many hours they work, the math just doesn't add up. As a member of an Aspen FSP consumer focus group explained, "Working for the state provides good benefits and retirement, but salary is still an issue. We went eight years without a raise, and the last one was only 2 percent. Every time you get a raise, they increase your health insurance."

Consequently, the formula for achieving financial security is significantly more complicated, relying on critical inputs that draw from not only the labor market, but also from family, community, and the public and private sectors. Specifically, there are three essential building blocks of financial security: routinely positive cash flow to cover expenses and allow for savings; personal financial resources to support household resilience, wealth, and well-being; and public and private benefits that can provide a functioning safety net to fill in gaps in the current economic system and protect individuals against financial catastrophes. We discuss each of these in more detail in the text and infographic on the next page.

THREE PILLARS OF FINANCIAL SECURITY





PEOPLE NEED A SUFFICIENT
COMBINATION OF THE
THREE COMPONENTS



Routinely positive cash flow allows people to build **personal resources**.



Public and private benefits bolster **personal resources** and enable **routinely positive cash flow**.



Sufficient combinations of **positive cash flow**, **personal resources**, and **public and private benefits** are necessary for households to achieve financial security.



**FINANCIAL
SECURITY**

There are many opportunities for government, business, and philanthropy to work together and advance household financial security—but it cannot get done without addressing all three pillars.



A New Framework for Financial Security



ROUTINELY POSITIVE CASH FLOW

Inarguably, the foundation of financial security is an income that exceeds expenses. Routinely positive cash flow buffers against immediate financial hardships by ensuring an individual can cover their reoccurring expenses. At the same time, net income paves the path to sustained financial security over the long-term by allowing for the establishment of savings. To achieve this most fundamental component of financial stability, an individual's income must:

- be reliable;
- cover basic needs, such as housing, utilities, food, and healthcare;
- pay for any ongoing debt payments, such as student loans or car payments; and
- provide enough slack in the budget to allow for savings and the ability to make choices.

Notably, by income we do not only mean the money earned through employment. Rather, there are also a host of “non-labor” income streams that may be disconnected from an individual's current job and can meaningfully impact their financial position. These could include—among other income streams—private pensions, social security retirement or disability payments, earnings on a personal investment portfolio, or various forms of guaranteed income.⁴

Though routinely positive cash flow is the starting point for financial stability, it remains largely out of reach for many Americans. Even before the fallout of the COVID-19 pandemic, nearly half (46.5 percent) of households reported that their income did not exceed their spending over the course of a year. For households with annual income of less than \$30,000, this number increases to three in five (61.5 percent).⁵

Even before COVID-19, just half of households reported that their income did not exceed their spending over the course of the year.



A New Framework for Financial Security



PERSONAL FINANCIAL RESOURCES

Debt and wealth are two sides of the same coin.

Consistently positive cash flow is a precursor to accessing the second building block of financial security, financial cushions and net worth, which we refer to in this paper as “wealth.” These are personal resources that act as unrestricted funds to be used when and how the person chooses. As with net income, a strong personal balance sheet can protect against short-term financial shocks and afford an individual the freedom to not simply dream about the future, but also to take the necessary steps to seize it.

Liquid savings are perhaps the most obvious example of personal financial resources and are the single variable most highly correlated with financial well-being, according to the Consumer Financial Protection Bureau (CFPB).⁶ This makes intuitive sense, as savings can be seen as both an outcome of having routinely positive cash flow, which is in itself a foundation of financial security, and as a key form of financial stability in its own right.⁷ Other examples of personal financial

resources include retirement savings, good credit, personal insurance, and family and friends who can provide financial support, either in the moment or down the road in the form of inheritance.

Absent an inheritance, accumulating most personal resources hinges on routinely positive cash flow. For example, establishing good credit requires enough money to keep up with all the bills. Building savings and maintaining sufficient insurance coverage require surplus income that can be diverted away from immediate needs. Absent net income, an individual’s balance sheet may be weakened by unmanageable debt, poor credit, and a lack of the savings and assets that are critical to financial stability and economic mobility. In other words, an individual can only build wealth if they are free of debts that siphon off would-be savings—and the associated future compounded returns—from a household balance sheet.

“After **\$200,000** in education debt, you’d think I’d be further along than I am.”

—Respondent from a focus group

All of this is to say that debt and wealth are two sides of the same coin. And unless people have enough net income to rein in their debt, they can’t build wealth. Until this is addressed, millions of people will continue to be so focused on immediate needs that they will be unable to build a better future for themselves and their families.



A New Framework for Financial Security



PUBLIC AND PRIVATE BENEFITS

A popular American myth is that people living in poverty “need” public supports while those with wealth do not. In reality, no one in America achieves financial security entirely on their own. In the same way that an individual with a low or moderate income may require some degree of institutional support—such as housing vouchers to reduce the cost of housing or the Earned Income Tax Credit to supplement income—so, too, does a wealthy individual look to tax codes to reduce their tax liabilities and build and protect their assets.

Additionally, wealthy individuals typically have access to high-quality workplace benefits that prevent them from having to drain their personal resources to pay for the normal ups and downs of life, such as elderly or aging parents, familial illness, and parental leave. Health insurance and paid time off are among the supports that are disproportionately offered to high-income individuals—and are unavailable or unaffordable to many working-class households.

People need benefits in order to live long, healthy, and dignified lives. In their most basic function, private and public benefits are structured to serve groups of people, as opposed to an individual, by pooling risks and sharing costs to make it affordable for a

group of people to take care of elderly, sick, and the most vulnerable loved ones. In this way, benefits bolster personal resources and enable routinely positive cash flow. Absent routinely positive cash flow and sufficient personal financial resources, people need benefits to close the financial gaps of daily life.

Broadly speaking, there are four ways that people use benefits to support their household financial security.

1. Benefits that directly supplement or replace income.

- Public sector examples: unemployment insurance, Social Security, and the Earned Income Tax Credit (EITC).
- Private sector examples: paid sick leave, and paid parental leave.

2. Benefits that reduce an individual's cost of living.

- Public sector examples: Supplemental Nutrition Assistance Program, housing vouchers, and federal tax deductions for childcare.
- Private sector examples: childcare or tuition credits, student loan debt assistance, discounted gym memberships, and discounted mental health services.

For more information on the central role of benefits, read

“A Modernized System of Benefits is the Foundation for an Inclusive Economy.”

To learn more about Benefits21, visit aspeninstitute.org/programs/benefits21/



A New Framework for Financial Security

3. Benefits that help families to protect against major economic shocks too large to self-insure against, such as job loss, major medical expenses, or natural disasters.

- Public sector examples: unemployment insurance and Medicare.
- Private sector examples: subsidized healthcare, life insurance, emergency grants, short-term disability, and parental leave benefits.

4. Benefits that assist individuals to build wealth and pursue economic mobility.

- Public sector examples: mortgage interest deductions, loans and grants for higher education and small businesses, federal tax incentives for retirement saving in defined contribution accounts and Individual Retirement Accounts (IRAs), and federal tax incentives for college savings in 529 plans.
- Private sector examples: Pensions and employer contributions to retirement plans.

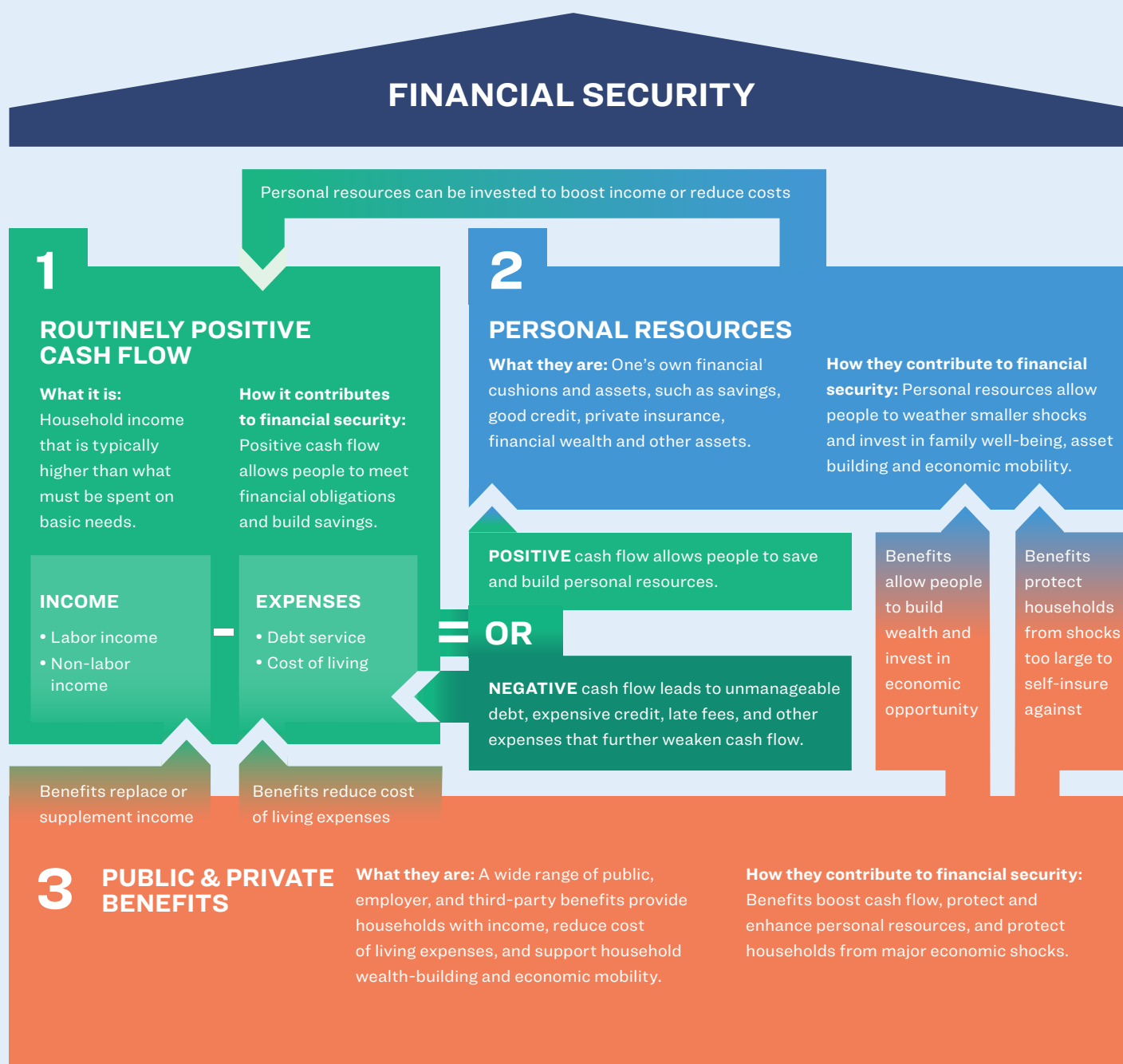
Implicit in the structure of our nation's private and public benefits systems is an important truth: through the tax code, taxpayers are subsidizing both public and private benefits. Yet a growing percentage of our workforce is disproportionately excluded from workplace benefits, and when these workers try to access public benefits, they face hurdles, stigma, and disincentives.

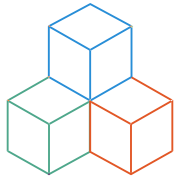
In fact, many public benefit programs are actually designed to inhibit economic mobility. For example, a number of safety net programs require participants to maintain assets below very low state and federal limits.⁸ Others are structured such that a small increase in the numbers of hours worked or dollars earned can push a family's wages above the eligibility threshold. As a member of an Aspen FSP consumer focus group explained, "I want a raise but it's more beneficial for me to receive the assistance. A raise will put you over the income limit and disqualify you for benefits that you could receive."

This phenomenon, known as a "benefits cliff," can trigger a reduction or complete loss of benefits, which in turn contributes to income volatility, the antithesis of the routinely positive cash flow necessary to build financial stability and a significant barrier for the financially vulnerable households that the programs are intended to help.

THE NEW FINANCIAL SECURITY FRAMEWORK

This visual depiction shows the three pillars of financial security and how money moves between them.





The State of Financial Security in America

Financial security is not experienced equally. America's long, brutal history of racist policies in housing, education, financial services, labor laws, criminal justice, and more has produced massive racial inequality that is fueling an ever-widening racial wealth gap. "The system encourages you to do better, to get an education, and to find a job. Yet even with a master's degree, there are people who are not my color who make more money than I do," explained a member of an Aspen FSP consumer focus group.

Leaders Say Structural Racism is a Major Challenge to Financial Security

Percent responding "A Major Problem" to the question "To what extent, if at all, are the following factors a problem for the financial security of households across America?"

Answer Choices	A Major Problem
Structural racism facing Black, Indigenous, and People of Color	91%
Cost and availability of stable housing	80%
Insufficient household income	80%
Cost to households of healthcare	80%
Households' lack of emergency savings	80%
Lack of available quality jobs	77%
Lack of workplace benefits for lower-wage workers	76%
Cost and availability of quality care	75%
Insufficiency of public safety nets	74%
Consumer debt	71%
Housing instability	67%
Insufficient retirement savings	67%
Non-loan debt	58%
Cost to households of post-secondary education	52%
Lack of access to technology/high speed internet	45%
Workers lack skills and training	40%
Lack of economic opportunities for Millennial generation	37%
Lack of financial education	25%

Data from the Aspen Institute Financial Security Program's expert survey in June 2020. n=164

The typical family experienced a **36%** change in month-to-month income

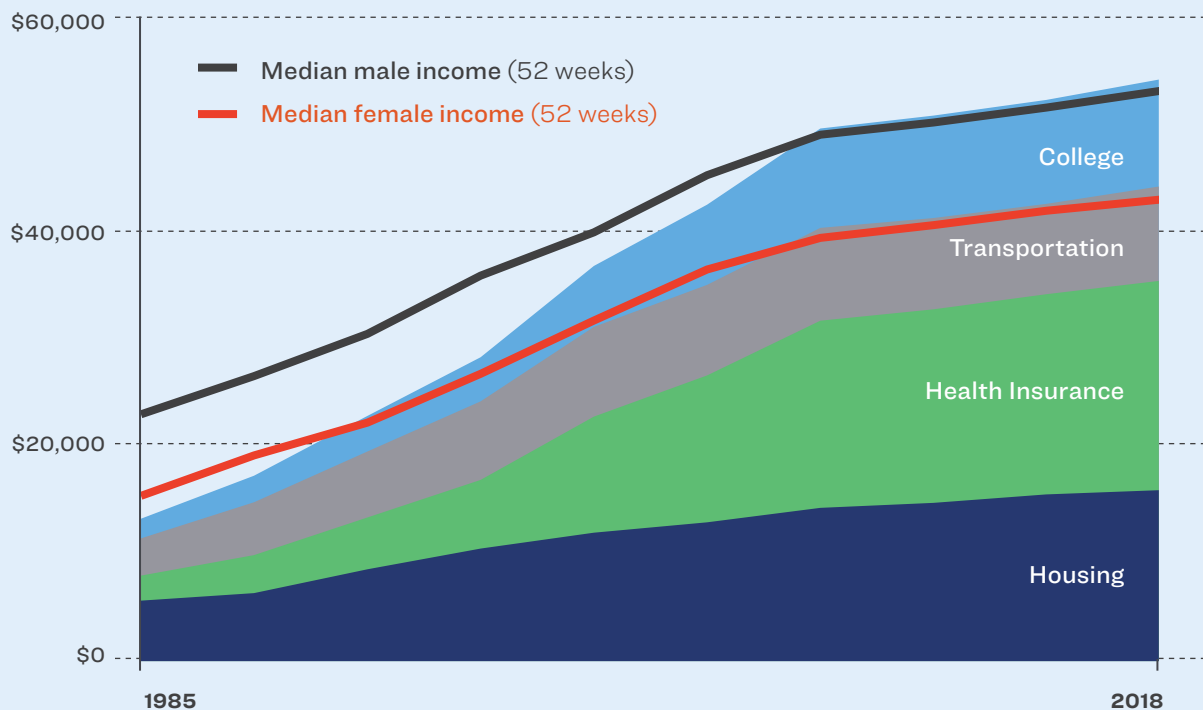
It's not surprising, then, that 91 percent of respondents rated structural racism as a major problem for the financial security of households across America in Aspen FSP's June 2020 survey in which we asked more than 150 experts how they view various issues facing households across America. In 2016, the typical White family owned 10 times as

much wealth as their Black counterparts and 7.5 times as much wealth as their Hispanic counterparts.⁹ Stark differences also exist for Indigenous populations and other communities of color. Further, when racial or ethnic identities intersect with poverty, LGBTQ+ status, gender, disability, or immigrant status, the impediments to achieving financial security are more pronounced.

Wages no longer cover costs for the median American

(nominal dollars)

In 1985, the median worker's wages allowed him to cover the basic costs of living with room left over. By 2018, the median male worker would have to work 53 weeks to cover a year's worth of basic expenses—and for women, even longer.



Source: The Manhattan Institute's "The Cost-of-Thriving Index: Reevaluating the Prosperity of the American Family."



The State of Routinely Positive Cash Flow

Incomes have Stagnated...

How can it be that in a country that has experienced nearly a decade of economic growth and low unemployment, one in three Americans were unable to pay all their bills on time in 2019?¹⁰ For starters, the majority of American jobs don't pay very well. A stunning 53 million Americans between the ages of 18 and 64—44 percent of all workers—qualify as “low-wage,” with median hourly wages of \$10.22 and median annual earnings of about \$18,000.¹¹

The prevalence of low-wage work in the United States is due at least in part to a shift away from salaried to contract work. The rise of the gig economy, coupled with increases in hourly and seasonal work, means that many Americans are grappling with inconsistent and unpredictable income. The typical consumer experienced a 36 percent change in month-to-month income between 2013 and 2018.¹² And new research shows that the impact of income volatility on forced

cutbacks in household spending is dramatically larger for Black and Hispanic households than for their White counterparts. Researchers attribute this to differences in liquid wealth—White households have more resources to cushion the blow of income volatility.¹³

While Expenses are Rising

At the same time that workers are struggling to secure livable wages, everyday life is getting more expensive. Out-of-pocket spending on health increased from \$705 per American in 2000 to \$1,150 in 2018.¹⁴ Similarly, housing, the most basic of human needs and also the largest expense for most Americans, is increasingly expensive. Prior to COVID-19, one in three American households—nearly 100 million people—were cost-burdened, meaning they pay more than 30 percent of their income for housing, and, as a consequence, may find it difficult to afford other basic needs. This includes the 25 percent of renters who spend more than half their income on housing.¹⁵

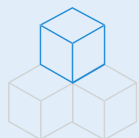
Like housing, the cost of caregiving services is also on the rise. In the past 10 years, the cost of childcare has increased by 25 percent, while the cost of direct care for an adult has increased 15–38 percent during the same period.¹⁶

The cost increases are even larger for individuals seeking to pursue higher education. Over the past 30 years, average tuition and fees tripled at public four-year institutions, and more than doubled at public two-year and private nonprofit four-year institutions, after adjusting for inflation.¹⁷ One of the most tried and true stepping stones to economic mobility is slipping farther out of reach for millions of Americans. As one member of an Aspen FSP consumer focus group explained, “After \$200,000 in education debt, you'd think I'd be further along than I am.”

Perhaps then, it's not surprising that in 1985, a male worker needed to work for 30 weeks to generate enough income to cover one year of expenses for a family of four, but by 2018, it took more than a year to do the same (53 weeks). For women, these statistics are even worse: In 1985, the typical female worker had to work for 45 weeks to afford these living costs, and in 2018, she needed to work more than 66 weeks.¹⁸

Expert Insights: Housing Costs and Caregiving are the “Sleeper” Issues for the Next Five Years

The high and increasing costs of housing, along with child, adult, and elder care, were identified as “sleeper” financial issues that are largely under the radar but likely to be a huge threat to household financial security in the future according to Aspen FSP's survey of more than 160 experts across financial security fields in June 2020.



The State of Personal Financial Resources

Short- and Long-term Savings have Declined...

Given that nearly half of Americans have expenses that match or exceed their income,¹⁹ it makes sense that many households lack the personal financial resources critical to financial security. Fewer than half of American adults—47 percent—possess the necessary savings to cover three months of expenses in the event of job loss, sickness, or another of life’s inescapable curve balls.²⁰ Household balance sheets are even more precarious for families of color. Whereas 53 percent of White adults have liquid savings—that key barometer of financial stability—fewer than a third of Hispanic (29 percent) and just over a quarter of Black (27 percent) adults have similar cushions.²¹

Nor can we look to retirement savings to protect financially vulnerable Americans. Decades of disappearing pensions, along with rises in hourly and seasonal work and the burgeoning gig economy, have created a retirement crisis in which 40 million American workers do not have access to a workplace retirement savings plan.²² Among those fortunate enough to have one, just under half participate in it. Those who do often can’t save very much because they are navigating

competing financial priorities that make saving difficult, with the median retirement account balance across savers estimated at just \$40,000.²³ Indeed, retirement security cannot be pursued without addressing short-term financial stability, cash flow, and consumer debt.

While Debt is Rising, Especially Among Millennials and People of Color

At the same time Americans are struggling to secure assets, they are accumulating more debt. Collectively, people living in the United States possess more household debt today, in absolute terms, than in 2008 during the lead up to the Great Recession. And one in five households are in “net debt,” meaning they have zero or negative net worth.

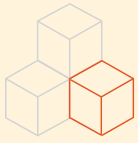
In the same way that a lack of positive cash flow limits an individual’s ability to accumulate

wealth and other resources, a lack of personal assets limits opportunities to establish long-term financial security. The result is a widening wealth gap between today’s millennials and those of previous generations, signaling both a growing trend toward financial instability among young people, and a weakening environment for generational wealth-building.

As is the case with every other component of financial security, racial inequity is both embedded in and fueling the generational wealth gap. In 2016, non-Hispanic White millennials had the highest median household income of all racial and ethnic groups at \$60,800, compared with \$37,300 for Black Millennials and \$40,500 for Hispanic Millennials, a discrepancy that only increases when looking at wealth. For every dollar owned by a White Millennial, a Black Millennial possessed 11 cents, while a Hispanic Millennial had 49 cents.²⁴



For every dollar owned by a White Millennial, a Black Millennial possessed **11 cents**, while a Hispanic Millennial had **49 cents**.²⁵



The State of Public and Private Benefits

Higher-Wealth Individuals Have Access and Choice in Private Benefits...

Private employers provide workers with a range of valuable benefits that promote financial security, including health insurance, paid leave and retirement benefits. However, the discretionary nature of benefits means that most aren't reaching millions of workers—including many of the 53 million low-wage workers, 15 million non-traditional workers, and 61 million workers of color in the US.²⁶ To a large degree, this inequitable access stems from companies' focus on shareholder value, which leads employers to reduce costs by increasing outsourced and part-time work, pushing the costs of benefits onto employees.

The result is a patchwork quilt in which workers across sectors, geographies, and income levels have widely varying access to, and participation in, workplace benefits. Comparing access to employer-sponsored retirement plans in the private sector, part-time workers are only 51 percent as likely to have access as full-time workers, the lowest wage workers are 49 percent as likely to have access as the highest wage workers, and workers in smaller companies are 64 percent as likely to have access as workers in

larger companies. Additionally, part-time workers are 63 percent less likely to have access to employer-provided healthcare plans. Similar disparities exist for other common workplace benefits, including paid sick leave and life insurance.²⁷

The failure of employers to provide workers with adequate workplace supports manifests in the reality that nearly 75 percent of participants in major public benefit programs live in a household with at least one working adult.²⁸

While Lower-Income Households are Forced to "Take or Leave" Insufficient and Complex Public Offerings

Like private benefits, public benefits are both critical to promoting financial security and are failing to effectively support the people who use them. Because the federal government grants states broad flexibility in allocating federal funding, public benefit programs vary in eligibility, application, participation requirements, and even in how the support is delivered, forcing already struggling families to navigate a fragmented system. Simply put, many households that are eligible for assistance don't get it. In 2018, only 22 percent of families who qualified for Temporary Assistance for Needy Families

received it, down from 65 percent in 1996.²⁹ Similarly, despite the enormous need for affordable housing, only one in four families eligible for federal rental assistance receives it.³⁰

Equally problematic, in the event that a family does secure assistance, is that support often falls short of what the family needs. For example, more than half of all participants in the federal Supplemental Nutrition Assistance Program (SNAP) exhaust their monthly benefit in two weeks,³¹ which helps to explain why nearly one in three recipients of SNAP also utilize food banks.³²

Healthcare coverage is a glaring example; in 2019, American had 27.9 million non-elderly uninsured. Forty-five percent said they remained uninsured because the cost of coverage was too high. Not having adequate health insurance means families decide to forego medical care—including lower-cost preventative care—or accruing medical bills and potentially medical debt.³³ Perhaps it's not surprising, then, that a member of an Aspen FSP expert focus group declared that we need to "strengthen our resolve for healthcare for all."



Principles for How We Work

Inarguably, the state of people's financial health in America is grim. Equally true is the fact that there is absolutely a way to establish financial security for all Americans—but it will require us to work differently. The problem is that due to the inordinate amount of risk that has been shifted away from institutions and onto households, people's cash flow and balance sheets aren't adding up.

Solutions that focus solely on household-level insecurity won't fix it. What will fix it is a principled, rigorous, evidence-informed approach to redesigning the components of our systems that are inaccessible, inequitable, or actively harmful, and working to ensure they are intentionally designed to help people thrive.

As individual actors across various sectors, we have agency to hold ourselves accountable to understanding the interconnected systems at work and to build a habit of reflecting on how our values and actions can contribute to positive systemic change.

Financial instability is a solvable problem, if we commit ourselves to systemic change. And the first step in making that happen is to agree on a shared approach. At Aspen FSP, we believe that this approach must be grounded in four fundamental principles and four priority issue areas for the financial security field.



Principle #1: We all have a role in addressing financial insecurity.

In a society that rewards expertise, it is natural and easy to narrowly focus on the issues and industries that we deem our personal sphere of influence and responsibility. But the challenge of financial security demands more of us. Financial insecurity doesn't exist in a vacuum. Instead, it stems from a range of problems in a collection of interconnected systems, including housing, education, labor markets, criminal justice, and healthcare—to name a few—and across the private, nonprofit, and public sectors.

Recognizing that interconnectedness, we need to both broaden the pool of stakeholders and take a holistic approach to solving problems. We have a real opportunity to bring diverse set of people across sectors into this work to solve for the financial insecurity upending not just individual lives, but also the nation's ability to recover, prosper, and thrive. All of us can make important and meaningful contributions to solving this problem.



Principle #2: We must confront the legacy of racism in the American economy by making racial justice an intentional goal of financial security.

Throughout our nation's history, narratives around who has wealth and why have served to maintain the material benefits of whiteness and justify treating those who struggle financially as though they can't be trusted to make their own choices. This outcome is abetted by the current practice of policymaking where the beliefs, interests, and ideological attitudes of those making policy are given far greater credence than the actual needs, wants, and experiences of those impacted by policy.

As a result, bias and assumptions are translated into inequitable and exclusionary policies and programs. Confronting this legacy of racial exclusion, as well as the contemporary acts to maintain them, requires affirmatively anti-racist policies. This is why we must keep calling for accountable government and social policies that prioritize equity and justice. And, looking within, we need to discern and confront racism and other learned prejudices in our everyday lives, seeking to understand and dismantle ways that we have either benefited from or perpetuated discrimination and injustice.



Principle #3: People experiencing financial insecurity must have power and influence over the policies and products impacting them.

For policies and products advancing financial security to reflect people's experiences and needs, people need power and influence over how those policies and products are designed, delivered, and evaluated. This means upending the current top-down approach and positioning the people and communities impacted as essential stakeholders driving this process, rather than the passive recipients of policy and product design. Critically, by defining the change that is needed from, and supporting the leadership of, historically and currently marginalized communities, this approach prioritizes equitable, inclusive, and reparative solutions for building financial security and economic dignity.



Principle #4: We must repair multiple, interconnected systems if we are to secure the financial future of all people living in America.

Financial health and security have long been viewed as outputs of a handful of financial systems: banking, payments, credit, and increasingly, financial technology. However, financial systems alone cannot deliver financial security for everyone. In part, this is because the inputs to people's financial lives are actually the outputs of other inequitable, non-financial systems at work in our society: the labor market, the care economy, higher education, healthcare, the housing market—even our court systems.

We must acknowledge that nearly all structures and systems in American life can either support or damage people's financial security. And we therefore should not expect that financial products and services alone can compensate for the inequities throughout society. We need an honest accounting of how well and for whom our financial and non-financial systems are really working, and we need to build new decision-making processes that acknowledge the expertise and agency of the people suffering negative financial consequences as a result of their engagement with, say, the courts, or the rental market, or the care economy. We also need a shared understanding of the financial security outcomes we desire for all people in America and a common set of household metrics for evaluating progress. By changing whose input we most value and how we measure success, we can move toward a future in which the outputs of our society's systems make it easier, not harder, for households to achieve financial security.



Priorities for the Financial Security Field

For those of us who have been participating in the work of building household financial security—working across public, private, and philanthropic sectors, and on multiple issues—the challenge to build an inclusive economy in this moment has become paramount. Using the framework and the principles as our compass, we offer four directional coordinates for the financial security field to help chart the course forward.

- ⊕ **Make life's fundamentals affordable and accessible.**
- ⊕ **Boost household income.**
- ⊕ **Reimagine the future of wealth and ownership—and start by grappling with household debt.**
- ⊕ **Move from "financial inclusion" to building inclusive financial systems—and expand the set of systems we understand to be "financial."**

Four Priorities for the Next Five Years



Make life's fundamentals affordable and accessible.

Positive cash flow has two components: income and expenses. Yet the role that core cost-of-living expenses play in the financial health of a household is often overlooked. For millions of families across the United States, an increasing proportion of their income is going toward basic needs, including housing, health, education, and care for family members. These combined expenses place an enormous burden on household budgets, and the out-of-pocket costs of medical care and post-secondary education are major drivers of household debt.

Beyond core expenses, whether or not people have access to stable, quality housing, healthcare, education, and care for family members has additional impact on financial security because they affect a household's ability to work, earn, and invest in future well-being. These arrangements provide the stable foundation on which household financial security can be built.

It may seem daunting for those of us in the financial security field—who typically do not directly control the cost or availability of housing, healthcare, and other foundational social goods—to meaningfully engage with these issues. But how well they work for households nonetheless deeply impacts the financial security and well-being outcomes we care about, and indeed, the likelihood of success of our own core work and organizational objectives. It is therefore our responsibility to engage with the systems that drive core cost-of-living expenses and build a strong foundation for financial security.

In the next five years we can do so by speaking up about the ways that housing, healthcare, education, caregiving, and other systems impact household financial security, by actively supporting organizations and advocates leading the work to improve access, quality, and affordability in these systems, and by collaborating with these leaders to bring a household-centric view to assessing and promoting potential solutions in their fields.

Boost household income.



Make work pay. Ensuring that all workers earn a fair and living wage is one of the most important things we must do to make household financial security the north star of an inclusive economic recovery.

2020 revealed the clearest picture yet of what actually happens when workers' paychecks reflect a smaller share of national income year after year for decades. Along with that reveal came newfound respect for essential workers and for the reality that our economy—70 percent of which is fueled by consumer spending—is vulnerable to freefall when workers with inadequate and volatile cash flow lack the financial means to keep demand strong.

We owe workers more. **In the next five years, we see an unprecedented opportunity to actively support and collaborate with colleagues on the front lines of driving changes that build worker power, address systemic pay inequities, promote more women and leaders of color, and reverse the decades-long decline of workers' share of income.** At the heart of these conversations should be worker dignity, agency, and a focus on designing with and for those who are typically marginalized and persistently left out—low-wage workers, workers in non-traditional work arrangements, women, and workers of color.

Reimagine public and private benefits. As we saw with the historic deployment of Pandemic Unemployment Assistance in 2020, both public and private benefits are a critical part of boosting and protecting income for the millions of workers who have effective access to them. But a growing percentage of our workforce is disproportionally excluded from important workplace benefits and often relies on a public system of benefits that is complex, fragmented, and not designed to meet their needs.

We seek to build a people-centric, tech-enabled, interoperable, and equitable set of public and private benefits that can support workers across their lifetimes. As we do so, we must grapple with defining the right role for the employer as facilitator or fiduciary for the many benefits that channel through the workplace. It is time to revisit whether benefits such as retirement savings, healthcare, and paid leave should be a perk of employment or, as in many other countries, a right of citizenship. And as the nature of work continues to shift, we have an even greater responsibility to redefine who has access to benefits, how to design benefits that are easily portable from job to job, and how to provide continuous, accessible benefits when workers are temporarily unemployed or employed part-time.

In the next five years, we must radically reimagine benefits design and delivery with workers at the center of the process, acknowledging that everyone in America relies on public benefits at different times and in different ways. We face an urgent moment in time to bring a diverse group of leaders together—working in public benefits, private benefits, and portability of benefits—to utilize our collective energy and creativity to advance new solutions that ensure work is a source of security and mobility for all workers.



Reimagine the future of wealth and ownership—and start by grappling with household debt.

The ultimate goal of the financial security field is not to help families merely better manage scarcity, but to truly create conditions of security and well-being that will enable full participation, agency, and dignity—not just in our economy, but in our democracy. While it continues to be critical for innovators and champions of inclusion to “meet people where they are” and address the root causes of instability and insecurity—as we describe in the first two priorities above—it is equally important that we refresh and revitalize the set of strategies that can help low-income households and households of color access wealth and ownership opportunities. There are different solutions required to diminish disparity than to help people build wealth. And it is time that as a field we become explicit about how we do both. In the next five years we must not only tackle wealth inequality from the top, we must spur new wealth creation by reinvigorating an inclusive wealth agenda that expands opportunities for asset ownership. We must create a new wealth agenda.

A new wealth agenda requires re-examining with fresh eyes the ways to expand access to the existing mechanisms through which working Americans accumulate wealth. The current list is not long. To the degree that working America has assets on its balance sheet, they accrue from home ownership, retirement savings, and business ownership. Policy reforms can help each of these channels become more accessible, equitable, and effective means of wealth accumulation. But we must also look beyond the existing strategies and structures that already have widespread adoption. New ideas and new forms of individual ownership and profit sharing such as baby bonds, citizen wealth funds, data dividends and community investment trusts should be seriously explored for their potential to expand access to new sources of wealth and capital income. There has been no shortage of policy and market innovation aiding wealthy people to grow and manage their assets. We need the same level of creativity, resources, and investment in solutions aimed at helping everyone else.

A new wealth agenda must also be anchored in recognition that millions of households across America start from a place of “net debt,” meaning they have zero or negative net worth. If the financial security field doesn’t address debt and the disparities in how different households accrue and experience debt, we will fail in any serious endeavor to close the racial and gender wealth gaps.

Over the next five years we should declare and advance a new wealth agenda that is ambitious, specific, and urgent enough to enable us to hold ourselves accountable for measurable change. It must take a reparative lens, aiming specifically to increase wealth for Black and Brown households after too many decades of wealth-stripping policies. Much like tackling climate change requires specific targets and timelines, we should take the same approach with closing the racial wealth gap. Setting an intentional goal to triple the wealth of households of color and the bottom 50 percent of the population who currently hold less than 1 percent of the nation’s wealth by 2030 would be a significant catalyst and accountability mechanism that helps spur new investment and new ideas aimed at truly creating capital ownership and capital income for all.



Move from “financial inclusion” to building inclusive financial systems—and expand the set of systems we understand to be “financial.”

Social entrepreneurs around the globe have worked tirelessly for decades to expand access to well-designed and well-priced financial tools among historically marginalized people. These efforts, buttressed by rapid technological innovation, have meaningfully increased participation in formal financial systems worldwide. But bringing more people into existing financial systems doesn’t always translate to better financial outcomes. Similarly, access to products doesn’t equal use of products. We need to intentionally build the next generation of financial systems to be structurally, rather than post-hoc, inclusive. **We must shift from a mindset of “financial inclusion” to one that centers on a set of interconnected and inclusive systems designed to provide all people with the ability to access, use, and reap the benefits of a full suite of financial services that facilitate stability, resilience, and long-term financial security.**

As we approach the work of redesigning financial systems with humility and with the partnership of those who are currently excluded, we must also expand our thinking about the essential components of that system. Beyond the systems designed to move, store, lend, and

There can be no economic justice without racial justice.

grow money, a truly inclusive financial system requires basic facilitators like digital identity and broadband access. It also requires us to address the ways that government transfer and retirement savings systems are, at their core, also inherently financial systems that currently exclude millions of people in America. Evaluating the current performance of these additional financial systems on outcomes-based metrics would reveal meaningful inadequacy in both design and efficacy. Such an evaluation would also likely reveal the biases—including racial bias—inherent in the design of our public benefits and retirement systems and would point the way toward a more people-centric, inclusive, and effective future state.

A truly inclusive financial system must also account for the *financialized* parts of non-financial systems in our society. Over time, non-financial systems in our society whose purpose is to deliver non-financial goods—like healthcare, housing, higher education, or justice—have squeezed revenue out of users and have implemented fees and penalties to attempt to shape people’s behavior. The significant administrative fees, interest, financing charges, financial penalties, and intermediary products, like debt consolidation or bail bonds, in systems like healthcare or the courts are now too costly to ignore as we seek to make our financial systems truly inclusive. In effect, they are leaks in the pipes that move money through household cash flow to savings and wealth, hampering the ability of households to build financial stability and security.

On the face of it, the assertion that consistent positive cashflow is the foundation for household stability and security seems intuitive. And yet, prioritizing solutions that solve for this outcome in people’s lives compels us to think in radically different ways about prioritizing function over form—and ends

over means. It is how we do our work, and the systems and delivery channels we must reimagine. We invite others to join us in using the framework to guide our collective efforts to advance policy and market solutions that place household financial security at “true north” in our quest to build an inclusive recovery.

A Call to Leaders

It's hard to imagine that any of us actually want a version of America in which you can work 40 hours a week—in some cases much more—and still fail to make ends meet.

None of us want a country where the deck is stacked for some people and against others, where the “American dream” remains a statistical myth. But that’s what we’ve got.

To be clear, all of us have personal responsibility for our futures. But not all of us have agency. When working a full-time job doesn’t earn you enough to cover your basic needs, you don’t have agency to decide how to live your life. When safe, decent housing eats up half your income, you don’t have agency to invest in your future. Most Americans are trying to do their part. Our economic system must do its part, too.

The window of opportunity for this type of structural policy change has moved. In the wake of the events of 2020, we have heard a surge of conversations around policies such as unconditional cash transfers and paid leave; a new level of support for policies addressing racial equity; and nation-wide awakening to issues of housing insecurity and the growing threat of homelessness.

We can rebuild in a way that recognizes individuals and families for what they are—the foundation of our nation and our economy—and prioritizes their needs as we move forward. But to make that happen we need you, wherever you sit and whatever work you do. We need voices in the private sector to lead in the areas where you have the power to do so, to name the problems the market alone cannot solve—and to find partners, policies, and solutions to solve them. We need the nonprofit sector to commit to elevating the messy, long-term, structural problems that people face, and to help hold us all accountable to “doing no harm” in communities across America. And we need people in a position to design and deliver government policies to do so with the meaningful input of the individuals they are intended to serve.

We need you. We ask you to be courageous and join us in committing to building better systems. Together we can move from words to actions so that we can establish an economy that not only looks great on paper but also works—really, sincerely works—for the millions of people across America who need a voice at the table and well-designed policies to help them build our more prosperous future.

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