

Does Family Support Network Influence the Perceived Need for Emergency Savings?

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Abstract

Using the 2016 wave of the Survey of Consumer Finances, this study examines the association between households' perceived need (PN) for emergency savings and their expectation of financial support from family during the time of financial hardship. Regression results indicate that households who prefer to borrow from a family member are characterized by significantly lower perceived need for emergency savings. The amount of emergency funds needed by households who prefer borrowing from family members is lower by 24% compared to households who do not prefer borrowing from family members. The study also revealed a significantly lower perceived need for emergency savings for households who preferred to borrow from high cost consumer lenders such as title loan, payday loan or pawn shops, or for those households who preferred to borrow from church and social service institutions. Preference to borrow from friends, using a credit card, or obtaining a personal loan from a financial institution during a financial emergency appear to be insignificant predictors of PN.

Introduction

This study contributes to the scholarship on precautionary saving by examining how the preference for borrowing source affects the mental math of emergency savings adequacy. Since the great recession of 2008, numerous studies have pointed out that many American families are not able to come up with a small amount of liquid funds necessary to address an unanticipated emergency (Chang, Hanna, & Fan, 1997; Lusardi, 2011) thus exposing themselves to economic shocks if unexpected events arise (Kennickell & Lusardi, 2006; Lusardi, 2011, Lusardi, Schneider, & Tufano, 2011). This concern is reflected in several national surveys like the National Financial Capability Study (2015), which reports less than 50% of the respondents have set aside three months of living expenses to address an emergency situation. The contingency theory in sociology and altruism theory in economics suggest that families offer greater assistance to members in difficult life circumstances (Eggebeen & Davey, 1998; Fingerman, Miller, Birditt, & Zarit, 2009; Silverstein, Gans, & Yang, 2006; Schoeni, 1997), financial emergency being one of them. Parents and adult children provide each other emotional and financial support and other services forming a highly supportive network; siblings at times may also become a part of that network substituting for parents and children (Wellman & Wortley, 1989). Therefore, individuals who can rely on relatives for help in dealing with financial emergencies are likely to appraise the amount of emergency funds needed at lower level than those who do not.

Using the 2016 wave of the Survey of Consumer Finances, we study the differences in households' perceived need (PN) for emergency savings based on their preference to borrow from family in times of unexpected financial hardship. Moreover, we examine the influence of other sources of borrowing preference on the perceived need for emergency funds. Our findings indicate that households' preference to obtain support from families during financial emergencies is associated with significantly lower PN. The results highlight the need for education on the importance of precautionary saving and interventions encouraging the households to accumulate adequate emergency savings on their own in order to be better prepared for unexpected financial adversities.

Literature Review

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A range of unexpected events can disrupt regular income of the households. Households may also experience unforeseen expenses, e.g., spending related to adverse health events of a family member, unplanned maintenance of assets such as a car or roof (Babiarz & Robb, 2014). The most common notion of an emergency fund is that it is the financial holdings, which can be easily converted to cash in order to address unexpected expenditures or income shortages (Brobeck, 2008; Collins, 2015) without altering the household's living standard (Johnson & Widdows, 1985). Adequate emergency fund holding reflects the skills of managing, saving, and planning for the future and can be viewed as an indicator of wellbeing of a household (Hanna, Lee, & Lindamood, 2015). The appropriate amount of emergency savings, however, varies depending upon the nature of income source and number of earners in the family (Garman & Fogue, 1997). Households are more likely to hold adequate emergency fund reserves if they expect a decrease in their future income (Chang, Hanna, & Fan, 1997). The lack of adequate emergency funds could expose the household to economic shocks (Lusardi, 2011) and the negative material impact of these shocks on the quality of life is more pronounced in low-income families (Carrell & Zinman 2014; Melzer, 2011).

A common "rule of thumb" recommends holding three to six months of living expenses in the form of liquid assets (Collins, 2015; Johnson & Widdows, 1985; Prather, 1990). However, putting aside the amount adequate to cover three months of regular expenses might be a difficult task for low-income households leading such households to short term high cost borrowings to cope with emergencies (Collins, 2015) such as chronic illness or other health difficulties (Babiarz, Widdows, & Yilmazer, 2013).

Many people belong to kin networks of mutual assistance, e.g., with parents or other relatives (Sausman & Burchinal, 1962). Gibson (1972) posits that single, divorced, and widowed individuals are more likely to exchange support within their kin network. Exercising the mutual help within extended families is a common phenomenon in places where there are no well-developed markets of credit and insurance (Baland, Bonjean, Guirkingier, & Ziparo, 2016). Studies also document the existence of racial difference in giving and receiving financial assistance. Some studies show that White households are more likely to receive monetary assistance from kin network than African American households (Cooney & Uhlenberg, 1992; Eggebeen, 1992; Eggebeen & Hogan, 1990; Goldscheider & Goldscheider, 1991; Hogan, Eggebeen, & Clogg, 1993; Hoyert, 1991; Parish, Hao, & Hogan, 1991) or Latinos (Jayakody, 1998). Many immigrants also form a close kin support system and pool resources to help each other (Litwak, 1960; Tilly & Brown, 1967; Choldin, 1973; Taylor, 1986; Menjivar, 1995). Moreover, the livelihood of some households in developing countries relies on help exchanged within extended families and kin networks (Cox & Fafchamps, 2008).

There is a large body of research on the relationship between personal well-being and kin safety-net including the supports from siblings and extended families (Berkman, Glass, Brissette, & Seeman, 2000; Harknett & Hartnett, 2011; House, Umberson, & Landis, 1988; Thoits, 1995). While most studies focus on the emotional support, child-care, services, assistance and housing, the concept of financial support is addressed predominantly by the studies of intergenerational assistance and intergenerational exchanges. The beneficiaries of the financial transfers are usually young adults (Cheal, 1983). Monetary support flows generally from older generation to the younger generation (Irving, 1972; Attias-Donfut, Ogg, & Wolff, 2005) whereas time transfers are directed in both ways (Attias-Donfut, Ogg, & Wolff, 2005). In the USA, Germany and Norway, parents transfer the most amounts when they are in their 50s and early 60s and the amount of transfers decline as the children age (Cox & Rank 1992; Grundy, 2005; Gulbrandsen & Langsether, 1999; Rossi & Rossi, 1990). Harris and Associates (1975) argue that the act of gifts or monetary transfers from parents and grandparents to children/grandchildren diminishes over time (Cheal, 1983). Transfers to children are motivated both by altruism (Harknett & Hartnett, 2011; McGarry & Schoeni, 1995; Becker, 1974) and the expectation of future reciprocity from their children (Grundy, 2005).

Empirical studies have also found that it is not unusual for the adult children to receive prolonged assistance from their families (Aquilino, 1999; Fingerma et al., 2009; Schoeni & Ross, 2005; Yelowitz, 2007). The cultural changes have elongated the transition into adulthood (Bell, Burtless, Gornick, & Smeeding, 2007; Swartz, Kim, Uno, Mortimer, & O'Brien, 2011) leading the younger generation to be dependent on their parents for an extended period of time. Parents provide a fair amount of financial help to their adult children, either for special circumstances or for recurring expenses (The Pew Charitable Trusts, 2016). Children of wealthy families receive more financial support (Hogan, Eggebeen, & Clogg, 1993; Schoeni & Ross, 2005). While many young adults expect financial help from their parents

(Glodscheider, Thornton, & Yang, 2001), even those adults who believe in financial independence are willing to accept such assistance (Sussman & Burchinal, 1962) during times of financial distress.

The feeling of obligation to support family members in times of need goes both ways across the intergenerational hierarchy, i.e., the elders supporting their adult children and vice versa (Coleman, Ganong, & Cable, 1997; Goldschiefer & Lawton, 1998). Elderly parents receive increasing support from middle-aged children when they are in poor health (Eggebeen & Davey, 1998; Fingerman et al., 2009; Grundy, 2005; Silverstein, Gans, & Yang, 2006). High earning children assist their needy parents by the means of monetary support (Couch, Daly, & Wolf, 1999). Streib (1958) reports that even among elderly parents, the proportion of parents providing financial support to their children is larger than those who received financial support from the children.

Marital status of the parents and the adult children makes considerable differences in the exchange pattern; children receive lesser support from widowed and divorced parents whereas children provide significant support to their widowed but not divorced parents (Eggebeen, 1992). One study claims that the financial assistance the young adults receive depends on the closeness to the parents (Johnson, 2013) while another study argues the support and reciprocal exchanges depend upon the history of affection in parent-adult child relationship and the contemporary exchanges are not influenced by earlier conflict (Parrott & Bengtson, 1999). Women are more involved in these exchange relationships and hence give/receive higher levels of support (Hogan, Eggebeen, & Clogg, 1993).

While the topics of household savings, safety nets, and intergenerational transfers have received a fair amount of researchers' attention in the past, relatively little has been written specifically about the role of expectation of family support on the perceived adequacy of saving for a financial emergency. This paper is primarily focused on examining the difference in perceived need for emergency savings of the households based on their preference to borrow from their family in the event of financial emergencies. Our hypothesis is that the households who report they would borrow from relatives when faced with financial adversities perceive a lower need for emergency funds relative to households that do not prefer such support. We also briefly investigate the influence of other sources of preferred borrowing beside family support network on the perceived need for emergency liquidity.

Method

Data was drawn from the 2016 wave of the Survey of Consumer Finances (SCF), a nationally-representative triennial cross-sectional survey of the U.S. families sponsored by the Federal Reserve Board in cooperation with the Department of Treasury. The unit of analysis is the primary economic unit, an economically dominant single individual/couple (married or living as partners) and all other individuals in the household who are financially interdependent with that individual or couple. Responses are obtained from the household head: a single individual or either the male in mixed sex couple or the older individual in case of the same sex couple. Data were collected using the computer-assisted personal interviewing and the sample utilized in this research comprised of 6,248 households who provided valid responses to questions used in coding the variables.

Dependent variable: The continuous dependent variable, Perceived Need (PN) is based on response to the following question: "About how much do you think you (and your family) need to have in savings for emergencies and other unexpected things that may come up?"

Key independent variable: The SCF households are asked: "If tomorrow you experience a financial emergency that left you unable to pay all of your bills, how would you deal with it? Would you borrow money, spend out of savings or investments, postpone payments, cut back or something else?" Those who responded that they would borrow money were further asked whether they would borrow from family, friends, credit card, high cost consumer credit (car title lender/pawn shop/title loan/payday lender), church/ social service institution, personal loan/financial Institution. The binary variable "Family Support Network" was created with the value set equal to 1 if the household head responded that they would borrow from family, 0 otherwise.

Control Variables: We control for a number of variables that are possibly related with PN. This includes demographics such as age, race, gender, household size, marital status, and education. Also, we include

controls for financial characteristics such as household income, asset and debt, and variables representing personal traits of the household head such as attitude towards credit and risk or the expectation of future performance of the national economy. Finally, we include controls for health status, ownership of health insurance, and employment status.

Given the heavy skewness in the distribution of continuous variables (PN, income, asset and debt), these variables are log-transformed in order to meet the normality condition of the distribution of errors in the least squares regression.

Female, married, have some sort of insurance for all the family members, poor health status of head or spouse and foresee health cost for self or others in future, are all binary indicator variables. Similarly, race, education, risk attitude, credit attitude and employment status are all multi-level indicator-coded categorical variables. Race has 4 levels: White, Black, Hispanic and other, where White households are the reference group in the regression. Education has 3 levels: High school or less, some college and college, where the reference group in the regression is high school or less. Risk attitude has 4 levels: Substantial risk taker, above average risk taker, average risk taker and not at all risk taker, where the not at all risk taker is the reference group in the regression. The credit attitude of the households is divided into 3 categories. Good is for the households, which think credit is good, and is the reference group in the analysis, good in some ways and bad in others for the households that answered credit is sometimes good and sometimes bad and bad is for the households answering credit is bad. Likewise, retired or not working, work for someone else and self-employed are three indicator coded variables for the employment status of the household head. The reference group in the analysis is the retired or not working group of households. Better, worse and about the same are 3 indicator coded variables for the economic expectation of the households answering, respectively, that economy will be better, worse and About the same over the next year.

To identify the effect of household's expectation of family support during financial emergency on perceived need for emergency funds, the following multiple regression model is estimated:

$$\ln(PN_i) = \alpha FS_i + \beta X_i + \varepsilon_i$$

where $\ln(PN_i)$ is the natural logarithm of perceived amount of emergency funds needed by the i th household, FS_i is the indicator of family support network, X_i is the vector of observable demographic and other control variables, ε_i is the random error and α and β are the parameters to be estimated.

Results

The descriptive analysis of sampled respondents reveals that 12.90% of them would first borrow from family if they experienced a financial emergency (Table 1). Descriptive statistics also show that the support-seeking households have lower mean income, asset, and debt and are younger, mostly single, less educated, have lower financial risk tolerance and are more likely to be male-headed households. The average perceived need for emergency saving among those households who rely on family for financial emergencies amounts to \$7,777 as compared to \$52,322 in the other group.

Table 1. Descriptive statistics (weighted)

	Full Sample (<i>n</i> =6,248)	Family Support Network	
		=1 (<i>n</i> =681)	=0 (<i>n</i> =5567)
Family Support Network	0.129	1	0
Perceived Need (PN)	46,580.12	7,777.31	52,322.09
Income	102,123.33	46,319.31	110,381.10
Asset	775,520.50	180,968.52	863,501.18
Debt	95,673.85	56,366.96	101,490.40
Household Size	2.542	2.670	2.523

Have some sort of health Insurance for all the family members	0.933	0.902	0.938
Employment status			
Work for someone else	0.562	0.614	0.555
Self-employed	0.106	0.083	0.109
Retired or not working	0.331	0.303	0.336
Foresee health cost for self or others in future	0.190	0.177	0.192
Poor Health status of head or spouse	0.077	0.095	0.074
Age	51.67	45.19	52.64
Female	0.275	0.357	0.262
Married	0.5675	0.476	0.581
Race			
White	0.680	0.583	0.695
Black	0.158	0.190	0.154
Hispanic	0.113	0.164	0.106
Other Race	0.048	0.063	0.046
Education			
High school or less	0.386	0.521	0.366
Some college	0.274	0.285	0.272
College	0.340	0.194	0.361
Risk Attitude			
Substantial financial risk taker	0.041	0.048	0.040
Above average financial risk taker	0.164	0.123	0.170
Average financial risk taker	0.385	0.307	0.397
Not a financial risk taker	0.409	0.523	0.392
Economic expectation over the next year			
Better	0.204	0.219	0.202
Worse	0.159	0.128	0.164
About the same	0.637	0.653	0.634
Credit Attitude			
Good	0.259	0.309	0.251
Good in some ways, bad in others	0.424	0.397	0.427
Bad	0.318	0.294	0.321

The average age of the respondents with family support network is slightly above 45 in comparison to approximately 53 for do not indicate they would borrow from relatives. The percentage of female-headed households with family support is higher by approximately 10 percentage points in comparison to female-headed households without family support. Further, the percentage of married respondents without family support network is also about 10 percentage points higher in comparison to the respondents with family support network. The proportion of White households was 69% in the group without support network and 58% in the group with support network. The percentage of Hispanics with support network is about 6 percentage points higher compared to those without support network.

There seem to be important differences in the distribution of educational attainment between groups of respondents who can/cannot rely on family for borrowing. About 52% of the respondents in the group with

support network have only high school level education or less in comparison to 36.6% in the other group. On the contrary, 36% in the group without support network have college degree in comparison to 19.4% in the other group.

The regression results (Table 2) show that PN is lower by an average of 24% for the support-seeking households. A 1% increases in income, asset and debt, are associated with 0.18%, 0.31% and -0.03% change in PN, respectively. While these effects are significant, age, gender, household size, health insurance and credit attitudes are not significant predictors of PN. In comparison to the household heads who are retired or not working, PN is lower by an average of around 16% for the households whose heads are working for someone else and higher by an average of 28% for those who are self-employed. Poor health does not appear to be a significant predictor of PN. However, if the heads foresee substantial health expense for himself/herself or others in the future, PN increases by around 9%, on average. PN is higher by 11% for married households when compared to single males. When compared to White households, PN for African Americans is not significantly different whereas it goes up by 16% for Hispanics and by 19% for other races.

Table 2. Marginal Effects from Multiple Regression

	Perceived Need (PN)
Family Support Network	-0.242 ***
LogIncome	0.181 ***
LogASSET	0.313 ***
logDEBT	-0.034 ***
Household Size	-0.011
Have some sort of health Insurance for all the family members	0.011
Employment Status	
Work for someone else	-0.159 ***
Self-employed	0.281 ***
Foresee health cost for self or others in future	0.089 **
Poor Health status of head or spouse	-0.063
Age	-0.0003
AgeSq	0.00004
Female	-0.077
Married	0.113 **
Race	
Black	-0.010
Hispanic	0.165 ***
Other Race	0.186 **
Education	
Some college	0.183 ***
College	0.474 ***
Risk Attitude	
Substantial financial risk taker	0.413 ***
Above average financial risk taker	0.305 ***
Average financial risk taker	0.234 ***
Economic expectation for next year	
Better	-0.023

Worse	0.135 ***
Credit Attitude	
Good in some ways, bad in others	-0.013
Bad	0.006

Households with some college education and those with college education, respectively, reported an additional 18% and 47% of PN in comparison to those with only high school education. Compared to risk-averse households, PN of households who take substantial amount of financial risk is higher by 41%. Likewise, households taking above average financial risk report 30% higher need for emergency funds and those taking average financial risk perceive 23% greater need for emergency funds relative to the reference group. Households expecting better-performing economy do not report significantly different PN compared to those who do not foresee change in economy. On the other hand, households who expect the economy to become worse over the next year report PN higher by an average of 13% in comparison to the reference group.

We have also compared the difference in PN when the participating households prefer first to borrow from sources other than family. The results are presented in Table 3.

Table 3. Marginal Effects from Multiple Regression

Safetynet	Friends	Credit Card	High cost consumer credit (Car title lender/Pawn shop/Title loan/Payday lender)	Church/Social service institutes	Personal Loans/Financial Institutions
if 1 then n=	171	182	49	38	148
if 0 then n=	6,077	6,066	6,199	6,210	6,100
	Estimates	Estimates	Estimates	Estimates	Estimates
Support Network	(0.143)	(0.148)	(0.439) **	(0.690) ***	(0.206)
LogIncome	0.182 ***	0.182 ***	0.182 ***	0.182 ***	0.181 ***
LogASSET	0.316 ***	0.316 ***	0.316 ***	0.315 ***	0.316 ***
LogDEBT	(0.033) ***	(0.033) ***	(0.033) ***	(0.033) ***	(0.033) ***
Household Size	(0.012)	(0.012)	(0.014)	(0.012)	(0.011)
Have some sort of health Insurance for all the family members	0.009	0.011	0.004	0.006	0.012
Employment Status					
Work for someone else	(0.162) ***	(0.161) ***	(0.160) ***	(0.163) ***	(0.161) ***
Self-employed	0.276 ***	0.276 ***	0.276 ***	0.275 ***	0.278 ***
Foresee health cost for self or others in future	0.090 **	0.090 **	0.091 **	0.089	0.088
Poor Health status of head or spouse	(0.069)	(0.067)	(0.066)	(0.066)	(0.066)
AGE	0.001	0.001	0.002	0.001	0.001
AgeSq	0.000	0.000	0.000	0.000	0.000
Female	(0.084)	(0.084)	(0.084)	(0.084)	(0.090)
Married	0.110	0.112 **	0.115 **	0.110	0.107

Race										
Black	(0.006)		(0.007)		(0.004)		(0.004)		(0.008)	
Hispanic	0.166	***	0.167	***	0.166	***	0.160		0.159	**
OtherRace	0.178		0.178	**	0.181	**	0.180	**	0.175	**
Education										
Some College	0.187	***	0.192	***	0.187	***	0.188	***	0.188	***
College	0.483	***	0.487	***	0.482	***	0.485	***	0.482	***
Risk Attitude										
Substantial financial risk taker	0.415	***	0.417	***	0.414	***	0.418	***	0.414	***
Above average financial risk taker	0.312	***	0.311		0.313	***	0.313	***	0.312	***
Average financial risk taker	0.240	***	0.240	***	0.240	***	0.242	***	0.240	***
Economic Expectation for next year										
Better	(0.022)		(0.022)		(0.022)		(0.020)		(0.021)	
Worse	0.140	***	0.141	***	0.142		0.138	***	0.140	***
Credit Attitude										
Good in some ways, bad in others	(0.009)		(0.011)		(0.010)		(0.011)		(0.009)	
Bad	0.012		0.010		0.011		0.014		0.013	

The results show that the preference to borrow using a credit card or financial institutions as a first line of defense to cope with emergencies is not a significant predictor of perceived need for emergency saving. Likewise, friends as a source of borrowing are also an insignificant factor in predicting future emergency financial needs.

Borrowing from high cost consumer credit providers or Church and Social service institutions are significant determinants of perceived need for emergency saving. The regression results show that PN is lower by an average of approximately 44% and 69% respectively for the households which prefer to borrow from high cost consumer credit such as car title loan/ pawn shop/title loan/payday and from church/social service institutions.

Discussion

Our findings suggest that the family support network is an important determinant of the perceived need for emergency savings. PN is lower for households who have a family network they can ask for financial support. The high-income households and those holding larger amounts of assets report the need for higher emergency funds. The finding is noteworthy in that the high debt-holding households perceive the need of lower emergency fund.

Family support is not without drawback. Holding inadequate emergency funds based on perceived strength of such a network has the potential to make a household vulnerable to financial distress, especially if the relatives that one relies on are not capable to cover the full extent of emergency expenses. Such a scenario might be particularly likely if emergency needs are correlated among family members, e.g., during an economic downturn like the great recession of 2008. Further, ethnographic research has found stronger norms of reciprocity where resources were scarce (Dominguez & Watkins, 2003; Menjivar, 2000; Nelson, 2000). Reciprocity is the foundation of continuity in support from the safety-net (Grundy, 2005; Harknett & Hartnett, 2011). Thus, if the households are unable to reciprocate enough

to the network, they might not get the desired support when needed in the coming times, which could bring detrimental consequences.

Borrowing via Credit Card, Personal Loans, Financial Institutions and Friends are not significant predictors of the perceived need for emergency liquidity. While the investigation of reasons for these findings is not within the scope of this study, perhaps individuals expect that when they are faced with significant financial adversities, they would not be able to borrow an adequate amount to address the emergency.

While researchers have argued that consumers approach high cost credit providers as a lender of last resort (Bhutta, Skiba, & Tobacman, 2015), we have noted that borrowing via “High cost consumer credit” is a significant determinant of the perceived need for emergency saving. One possible reason might be the quick action demanded by the situation and the easy availability of the high cost consumer credit.

Prior research has also found that the religious affiliation has a positive association with various aspects of social support (Bradley, 1995; Ellison & George, 1994). Our study is in agreement with these findings as we have found preference of the household to borrow from church or social service institutions during financial emergencies and individuals who rely on these sources of funds report lower perceived need for emergency savings.

This study underscores the need to educate consumers about the importance of holding adequate emergency savings while also sensitizing them to the fact that dependency on an external agent might not always be feasible. Reliance on external agents like relatives has the potential to bring about negative consequences to the support-seeking households if the lenders themselves are exposed to financial distress. The Pew Charitable Trust (2016) report indicates that the support providers can feel burdened especially at a time when they themselves are facing financial discomfort during times like recession. Educational interventions could help households realize the risks and unpredictability of family support network and improve their preparedness for random adverse events. However, it is unlikely that there exists a “fit for all” solution (Tufano & Scheider, 2010) and any educative intervention would need to be tailored according to the specific needs and circumstances of the target population.

The present findings are limited in a number of ways. As we cannot claim that the family support network is randomly assigned to the respondents, a causal relationship cannot be established. The SCF 2016 does not address the financial help that is a gift rather than a loan. Also, the questionnaire does not allow us to identify households who might be able to rely on relatives for borrowing even if this source of emergency fund would not be their first choice.

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