

# Hybrid Financial Products: Solutions for a New Era of Financial Instability?

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# Short-Term Financial Insecurity Affects Millions of Families

Mounting evidence:

- Income volatility is prevalent – 1/3 of US households struggle to cope
- Expense volatility can vary by nearly 30% per month
- Financial shocks – up to 60% of households experience one in a given year
- Lack of savings buffer -- 44% of Americans do not have \$400 to cover emergency expense

Families Can't Save for Long-Term Goals if they are overwhelmed by short-term needs

# Households Have Need for Short- & Long-Term Products

The Wobbly Three-Legged Stool:

- Tier 1 Universal Pensions
- Employer Pensions
- Private Savings

Wanted: A Stepping Stool for Short-Term Needs

- Emergency Savings
- Affordable Credit
- Social Insurance – Not All Needs Can Be Solved Individually

# Hybrid Products

A working definition:

*Hybrid products combine the functions of two or more consumer financial products that are generally offered separately, integrated for the purpose of improving people's capacity to effectively manage their money*



# Types of Hybrid Products

- Spend & Save
- Borrow & Save
- Budget & Save
- Payroll Plus
- Save & Save

# Key Features of Hybrid Products

- Data Matters: Understand Financial Needs and Patterns
- Behavior Matters: How Do People Actually Manage Their Money
- Design Matters: Products Must Meet Real Needs
- Rules Matter: Need for Space to Experiment
- Employers Matter: Building the Business Case for New Benefits

# Sidecar Savings

Leakage –Estimates indicate as much as 40% of each dollar saved leaks out of the US system

In effect, we have a hybrid short-term/long-term product, but it developed accidentally

Formalizing the process, with intentional design, could:

- Reduce loss of long-term funds
- Increase access to simpler, more affordable liquid savings



# For More Information:

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Two Birds, One Stone: Using Hybrid Financial Products to Manage Income Volatility

- <https://www.aspeninstitute.org/publications/two-birds-one-stone-using-hybrid-financial-products-manage-income-volatility/>

Driving Retirement Innovation: Can Sidecar Accounts Meet Consumers' Short- and Long-Term Financial Needs?

- <https://www.aspeninstitute.org/publications/driving-retirement-innovation-can-sidecar-accounts-meet-consumers-short-long-term-financial-needs/>



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The Financial Security Program is dedicated to solving the most critical financial challenges facing America's households, and to shaping policies and financial products that enable all Americans to save, invest, and own.