

Protect Against Abusive Debt Collection: Working Families Need Wage Protection and a Chance to Save

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Debt collectors, including debt buyers, have weaponized the courts to seize money needed for basic necessities. Armed with a judgment, sometimes against the wrong consumer or for the wrong amount, they use wage garnishment orders and bank account levies to seize money from families who are the least able to afford it. Making changes now will promote racial justice: Systemic racism has fostered a debt collection landscape in which people of color are more likely to be contacted by collectors and more likely to be impacted by lawsuits resulting in wage garnishment and bank levies. State laws differ in terms of how much money is “protected,” or is unable to be seized by a debt collector, to leave money for a family’s basic needs. Federal protection is urgently needed.



The federal government should protect \$12,000 in bank accounts and an associated \$1,000 per week in wages to help families develop savings that could cover three months of basic expenses.

Financial experts recommend that families have enough savings to cover three to six months of living expenses, yet a report from the Financial Health Network shows that almost half (45%) of Americans do not have enough savings to cover this amount.^{1,2} In the context of the COVID-19 crisis, which has created high unemployment and rising poverty, robust bank account and wage garnishment protections are necessary and urgent.

Never in United States history have Black and other families of color experienced a fair financial playing field.³ This reality has resulted in a wide and persistent racial wealth gap: In 2019, the median white household had over \$188,200 in wealth, over seven times that of the typical Black household (\$24,100).⁴ Differences in typical net worth and average wealth are even more stark, and the COVID-19 crisis has exacerbated existing disparities.⁵ Recent research has found that cash reserves, a crucial source of liquidity in emergencies, follow a similar pattern: On average, Black households have just over \$8,500 in cash on hand compared to almost \$50,000 for white households—indicating that in many cases, white families will have 5.5 times more savings than Black families to financially withstand the pandemic.⁶ Thus, protecting even \$12,000 will provide a meaningful opportunity to help these families weather emergencies and build wealth.

"I maxed out all my cards. I end[ed] up with the \$20,000 debt.... It was horrible. Capital One decided to garnish me, 25% of each paycheck. I wasn't really making anything as it is.... I think I'm still somewhere at \$14,000 in debt. Capital One took their money. So that is actually paid off, but I am still paying the other two credit cards, that is for sure. And it's really hard to pay those and to pay the bills. I can't do it all!"

—Participant in CRL's "Women and COVID" focus groups (full report to be published in 2022).

The federal government should protect \$12,000 in bank accounts and an associated \$1,000 per week in wages to help families develop savings that could cover three months of basic expenses. Allowing families to save and keep these amounts will help them avoid eviction and afford essential expenses like medicine and food. While family savings cannot replace the social safety net, it is critical that families are able to provide for themselves at a minimum, basic level. And these protections are urgent: recent research has established that at least 8 million families have fallen into poverty since May 2020.⁷

\$12,000 Should Be Protected in Bank Accounts⁸

The federal government should protect \$12,000 from seizure to reflect the amount a small family needs to get through an emergency such as the COVID-19 crisis. Researchers have indicated that a family of two needs over \$60,000 per year to make ends meet in high-cost areas, and that financially healthy families typically have a median value of \$44,000 in liquid savings. Thus, protecting \$12,000 in a bank account will help low-income families develop a savings cushion, allowing them to weather emergencies for at least a few months.

- **How much does a small family need for basic expenses?** The federal poverty level (FPL) is \$17,240 for an adult with one child. However, the federal poverty level methodology has not been changed since 1969 and does not take into account significant expenses that American families pay today, such as the costs of health and child care, nor does it consider regional differences.⁹ “Living wage” calculators help determine a minimum wage that more accurately reflects how much money is needed for basic expenses in a city, state, or region—and this amount is \$46,743 for an adult with one child per year in a low-cost state like Alabama and \$64,310 for the same-size family in New York.¹⁰ Thus, \$12,000 represents an average of approximately two to three months’ worth of basic expenses.
- **What is a healthy amount to have in a savings account?** A report by the Financial Health Network states, “The Financially Healthy have a median value of \$44,000 in liquid savings accounts,” whereas those who are “Financially Coping have a median value of \$3,500 in liquid savings accounts.”¹¹ The report continues: “the Financially Vulnerable have a median value of just \$300 in liquid savings.” Thus, while \$12,000 is still not enough to be considered truly financially healthy, that amount would allow those who are financially “coping” or “vulnerable” to protect more liquid savings for unexpected expenses and close the baseline savings gap between groups.¹² Moreover, a protection of \$12,000 would assure that the “coping” and “vulnerable” families did not have their savings seized during a global pandemic.

\$1,000 per Week Should Be Protected from Wage Garnishment¹³

The federal government should protect \$1,000 in wages per week from garnishment to reflect the amount a small family needs to meet their basic needs. Even for those making a living wage, some workers would have to work more than full-time hours to cover their basic needs and should not have those funds garnished to cover debts.¹⁴ This sum, which amounts to \$12,000 over a three-month period, allows families to cover their basic expenses such as food, transportation, housing, and medical care.

- **What is a weekly living wage for a family of two?** Like the federal poverty level, the federal minimum wage of \$7.25 per hour is not regularly updated and does not reflect the increasing cost of living.¹⁵ While a full-time minimum wage job might pay \$290 per week (or up to \$609 per week for a person working 12 hours per day, seven days a week), these wages clearly do not cover basic needs for a small family. A living wage, by contrast, is closer to \$22.50 per hour in Alabama and \$31 per hour in New York for a family of two (resulting in a weekly wage of approximately \$1,240 for a full-time worker in New York).¹⁶

Our Federal Government Must Enact Protections Now

The COVID-19 crisis has resulted in high debt loads for consumers around the country, and recovery will be long term. The federal government must protect \$12,000 in a bank account, and \$1,000 in wages per week, to help families establish and build financial security. This amount represents roughly three months of savings, a recommended amount by financial health professionals, and an amount that is needed now more than ever due to the COVID-19 crisis.

¹ CNBC. *Do you need more than 3 to 6 months’ worth of expenses saved during the COVID-19 pandemic? Here’s what experts say.* <https://www.cnn.com/2020/03/27/how-big-your-emergency-fund-should-be-during-the-covid-19-pandemic.html>.

² Financial Health Network. *U.S. Financial Health Pulse – 2018 Baseline Survey Results.* https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2019/05/07151007/FHN-Pulse_Baseline_SurveyResults-web.pdf.

³ Baradaran, M. *The Color of Money: Black Banks and the Racial Wealth Gap.* 2017. Boston, MA: Belknap Press.

⁴ Moss, E. McIntosh, K.; Edelberg, W.; & Broady, K.E. December 2020. “The Black-white wealth gap left Black households more vulnerable.” Brookings Institution. Available at <https://www.brookings.edu/blog/up-front/2020/12/08/the-black-white-wealth-gap-left-black-households-more-vulnerable/>.

⁵ Ibid.

⁶ Gould, E. & Wilson, V. June 2020. “Black workers face two of the most lethal preexisting conditions for coronavirus—racism and economic inequality.” Economic Policy Institute. Available at <https://www.epi.org/publication/black-workers-covid/>.

⁷ DeParle, J. 2020, October 15. “8 Million Have Slipped Into Poverty Since May as Federal Aid Has Dried Up.” *The New York Times.* Available at <https://www.nytimes.com/2020/10/15/us/politics/federal-aid-poverty-levels.html>.

⁸ We recommend the \$12,000 does not include retirement accounts including Roth IRAs, Traditional IRAs, 401Ks, or 403(b)s.

⁹ Kolesnikova, N.A., & Liu, Y. 2012, July 1. “Understanding Poverty Measures and the Call to Update Them.” *Federal Reserve Bank of St. Louis.* Available at <https://www.stlouisfed.org/publications/regional-economist/july-2012/understanding-poverty-measures-and-the-call-to-update-them>.

¹⁰ Glasmeier, A.K. 2020. “Living Wage Calculator.” *Massachusetts Institute of Technology.* Available at <https://livingwage.mit.edu/>.

¹¹ Financial Health Network. *U.S. Financial Health Pulse – 2018 Baseline Survey Results.* https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2019/05/07151007/FHN-Pulse_Baseline_SurveyResults-web.pdf.

¹² According to the report from Financial Health Network (cited in footnotes 2 and 12), 17% of American’s are financially vulnerable, 55% are financially coping and 28% are financially healthy.

¹³ Excluding SNAP and WIC benefits.

¹⁴ Yahoo!finance. *The Average Hours You Need to Work to Live Comfortably in Every State.* <https://finance.yahoo.com/news/average-hours-live-comfortably-every-100000471.html>.

¹⁵ U.S. Department of Labor. *Minimum Wage.* <https://www.dol.gov/agencies/whd/minimum-wage#:~:text=The%20federal%20minimum%20wage%20is%20%247.25%20per%20hour,greater%20employee%20protections%3B%20employers%20must%20comply%20with%20both.>

¹⁶ Glasmeier, A.K. 2020. “Living Wage Calculator.” *Massachusetts Institute of Technology.* Available at <https://livingwage.mit.edu/>.