Financial Security: How to Measure it and Why it Matters for Families

J. Michael Collins and Caroline Ratcliffe

Hosted by Steve Cook

May 11, 2016

Webinar begins at 1:00 p.m. CDT/2:00 p.m. EDT
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Faculty Director, Center for Financial Security
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University of Wisconsin–Madison

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Studying the Financial Security Of Low-Income Families

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Poverty and Policy Webinar Series
Common Goal

• Help people be “better off”
  – Independence
  – Control
  – Stability

• How can people better manage the resources they have to reach a higher level of well-being?
Ideal Outcomes

• Develop **stronger financial skills**
• **Empower to adapt** to new economic contexts
• Increased **self-efficacy and self-control**
• **More focused attention** and reduced inattention
• Support planned, **goal-driven** financial behaviors
People with More Financial Knowledge Seek Advice

Advice on debt, taxes, investment, insurance in last 5 years

Number of financial literacy questions correct.

Source: Tabulations of FINRA National Financial Capability Survey
Information Models
- Disclosures
- Print/Web
- Interactive Web
- Workshops
- One:One

Advice Models
- Technical expert (credentialed)
- Transactional guide (may have sales focus)
- Counseling (acute problem solving)

Mechanism Models
- Defaults
- Automatic Deposit
- Product constraints
Central Challenge for Financial Capability Field

1. What are the outcomes?

2. What is the return on investment?
   ...costs and benefits
What Are the Outcomes of Financial Capability Interventions?

- Standardized measures?
  - Health care, public health, nutrition
    - Ex. Outcomes per health care expenditure

- Financial programs use wide range of outcomes

- Common “yardsticks” will help. Two examples.
  1. Financial Capability Scale (behavior)
  2. Financial Well-being Scale (subjective)

- Tested on 1,035 low-income respondents
<table>
<thead>
<tr>
<th>Concept</th>
<th>Constructs Measured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeting</td>
<td>Signal of future orientation about money</td>
</tr>
<tr>
<td>Goal</td>
<td>Subjective capability to follow through on financial</td>
</tr>
<tr>
<td>Confidence</td>
<td>decisions</td>
</tr>
<tr>
<td>Automated Deposit/Save</td>
<td>Recognizing self-control failures</td>
</tr>
<tr>
<td>Emergency Fund</td>
<td>Anticipating financial contingencies</td>
</tr>
<tr>
<td>Spending &lt; Income</td>
<td>Signal of stability, attention and financial planning</td>
</tr>
<tr>
<td>Charged Late Fee</td>
<td>Credit management ability</td>
</tr>
</tbody>
</table>
1. Do you currently have a personal budget, spending plan, or financial plan?
   Yes (1 point)  |  No (0 points)

2. How confident are you in your ability to achieve a financial goal you set for yourself today?
   Not at all confident (0)  |  Somewhat confident (1)
   Very confident (2)

3. If you had an unexpected expense or someone in your family lost a job, got sick or had another emergency, how confident are you that your family could come up with money to make ends meet within a month?
   Not at all confident (0)  |  Somewhat confident (1)
   Very confident (2)
4. Do you currently have an automatic deposit or electronic transfer set up to put money away for a future use (such as savings)?
   Yes (1 point)  | No (0 points)

5. Over the past month, would you say your family’s spending on living expenses was less than its total income?
   Yes (1 point)  | No (0 points)

6. In the last 2 months, have you paid a late fee on a loan or bill?
   Yes (0 point)  | No (1 points)
Financial Well-being

“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 enjoyment of life.”

Elements of financial well-being:

☐ Having control over day-to-day, month-to-month finances

☐ Having the capability to absorb a financial shock

☐ Being on track to meet financial goals, and

☐ Having the financial freedom to make choices that allow one to enjoy life

<table>
<thead>
<tr>
<th>This statement describes me....</th>
<th>Completely</th>
<th>Very well</th>
<th>Somewhat</th>
<th>Very little</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Because of my money situation, I feel like I will never have the things I want in life.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am just getting by financially.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am concerned that the money I have or will save won’t last.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How often would you say...?</th>
<th>Always</th>
<th>Often</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have money left over at the end of the month.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My finances control my life</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Outlook

• Integrated or combined models
  – Foster care, SNAP, TANF, LIHEAP, Housing, etc.
  – Improve program outcomes via financial capability
  – Also gain financial skills

• New developments in measurement
  – Not just finances ($)
  – Stress, health
  – Longitudinal outcomes

• Partnerships across sectors and fields
  – Collaborative models are needed
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Center for Financial Security
UNIVERSITY OF WISCONSIN-MADISON
Thriving Residents, Thriving Cities: Family Financial Security Matters for Cities

Signe-Mary McKernan, Caroline Ratcliffe, Breno Braga, and Emma Kalish
Presented by Caroline Ratcliffe

Institute for Research on Poverty and Urban Institute Poverty and Policy Webinar Series
Motivation and research questions

- Economic health of communities depends on the financial health and stability of residents

- Examine relationship between family financial health—measured by savings and debts—and four outcomes that matter for cities:
  - Ability to pay rent/mortgage, ability to pay utility bills, eviction, benefit receipt

- Examine family financial health in the face of three income disruptions:
  - Involuntary job loss, health-related work limitation, income drop of at least 50%

- Two key research questions:
  - Is increased financial health associated with decreased financial hardship?
  - Is increased financial health associated with reduced reliance on public benefits?
Why family financial health matters to cities

- City budgets rely on tax revenue
  - Property taxes and sales taxes accounted for 47% and 11% of local revenue in 2012

- When families can pay rent or mortgage, more likely to pay property taxes

- When utilities city-owned, non-payment of utility bills reduces revenue

- Evictions can lead to homelessness, increasing shelter costs for cities and potentially disrupting children’s education

- Families may turn to public benefits
Approach

- US Census Bureau Data
  - Survey of Income and Program Participation (SIPP)

- Examine families over time

- Savings and Debt
  - Nonretirement savings:
    - Savings/checking accounts, money market accounts, savings bonds, mutual funds
  - Unsecured debt:
    - Credit card debt, installment loans, and student loans
    - Excludes debts that can be paid off by selling the asset securing it (e.g., vehicle loans and mortgages)
Families with even small savings less likely to experience hardship

<table>
<thead>
<tr>
<th>Savings</th>
<th>Missed housing payment</th>
<th>Missed utility payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20,000+</td>
<td>4%***</td>
<td>5%***</td>
</tr>
<tr>
<td>$5,000–$19,999</td>
<td>6%***++</td>
<td>8%***</td>
</tr>
<tr>
<td>$2000–$4,999</td>
<td>11%***</td>
<td>11%***++</td>
</tr>
<tr>
<td>$750–$1,999</td>
<td>13%***</td>
<td>16%***</td>
</tr>
<tr>
<td>$250–$749</td>
<td>15%***++</td>
<td>19%***+++</td>
</tr>
<tr>
<td>$1–$249</td>
<td>21%</td>
<td>25%</td>
</tr>
<tr>
<td>$0</td>
<td>20%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**/*** Savings category differs significantly from $1–$249 at the 0.05/0.01 level.
++/+++ Category differs significantly from previous category at the 0.05/0.01 level.
Families with debt not worse off after income disruption

• No significant evidence that families with more unsecured debt experience greater hardship when an income disruption occurs

• Families with unsecured debt are less likely to receive public benefits
  • 31% of families with no debt receive public benefits, compared with 25% of families with $1-$1,000 in debt

• Unsecured debt is related to access to credit, so families with debt can be more advantaged than families without debt
Some cities help families repay delinquent debt

- Local Interventions for Financial Empowerment through Utility Payments (LIFT-UP) pilot

- Five cities:
  - Houston (TX), Louisville (KY), Newark (NJ), Savannah (GA), and St Petersburg (FL)

- 20-48 percent of municipal water utility customers were in debt to the city

- Customer debt payments restructured; financial coaching provided

- Early results promising: repayment of debt and reduced termination of services
Savings is important for all families

Low-income families experience some hardship after an income disruption, but more savings help lessen the blow.
Income disruptions happen often

### Share of Families with an Income Disruption over a Year

<table>
<thead>
<tr>
<th>Income disruption</th>
<th>Share of families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involuntary job loss</td>
<td>6%</td>
</tr>
<tr>
<td>Health-related work limitation</td>
<td>5%</td>
</tr>
<tr>
<td>Income drop of 50 percent or more</td>
<td>18%</td>
</tr>
<tr>
<td>Any of three disruptions</td>
<td>26%</td>
</tr>
</tbody>
</table>
Income disruptions are linked to greater hardship and higher use of public benefits

- **Missed housing payment**
  - Experienced job loss: 16%***
  - Did not experience job loss: 7%

- **Missed utility payment**
  - Experienced job loss: 20%***
  - Did not experience job loss: 10%

- **Received public benefits**
  - Experienced job loss: 29%***
  - Did not experience job loss: 18%
Instability is not only an issue for low-income families.
Many families are not prepared to weather income disruptions

<table>
<thead>
<tr>
<th>Liquid Assets</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>24%</td>
</tr>
<tr>
<td>$1–$249</td>
<td>13%</td>
</tr>
<tr>
<td>$250–$749</td>
<td>8%</td>
</tr>
<tr>
<td>$750–$1,999</td>
<td>9%</td>
</tr>
<tr>
<td>$2,000–$4,999</td>
<td>9%</td>
</tr>
<tr>
<td>$5,000–$19,999</td>
<td>14%</td>
</tr>
<tr>
<td>$20,000 or more</td>
<td>24%</td>
</tr>
</tbody>
</table>
Summary and implications

• Families with a small amount of savings are less likely to experience a hardship or receive public benefits when income disruptions occur

• Savings matter beyond income
  • Low-income families with $2,000-$5,000 in savings are better off than middle-income families without savings

• Many families have only a small financial cushion

• Steps to improve family financial health can improve city financial health

• Cities have been using several approaches to address family financial health, many which are integrated into other programs and services
  • Financial counseling integrated into workforce development, housing services, homelessness and foreclosure prevention, and domestic violence prevention
  • Matched savings at tax time, children's savings accounts (CSAs), and individual development accounts (IDAs)
Learn more

RESEARCH BRIEF
Thriving Residents, Thriving Cities: Family Financial Security Matters for Cities

INTERACTIVE FEATURE
Why Cities Should Care About Family Financial Security
Please submit questions in the Q & A box at the bottom of your screen.
Thank you!
Our Next Webinar

How Economic and Social Disadvantage affects Health and Life Opportunities

Geoffrey Swain, Sheri Johnson, and Katie Ports

June 8, 2016
1–2 pm CDT/2-3 pm EDT

Registration is open at
http://irpwisc.formstack.com/forms/june_8