# 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

INSTITUTE for RESEARCH on POVERTY
UNIVERSITY OF WISCONSIN–MADISON

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## J. Michael Collins

Faculty Director, Center for Financial Security
Associate Professor, La Follette School of Public Affairs,
University of Wisconsin–Madison



## Caroline Ratcliffe

Senior Fellow, Urban Institute

# Studying the Financial Security Of Low-Income Families

J. Michael Collins
University of Wisconsin-Madison

Poverty and Policy Webinar Series


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development

# Common Goal

- Help people be “better off”
  - Independence
  - Control
  - Stability

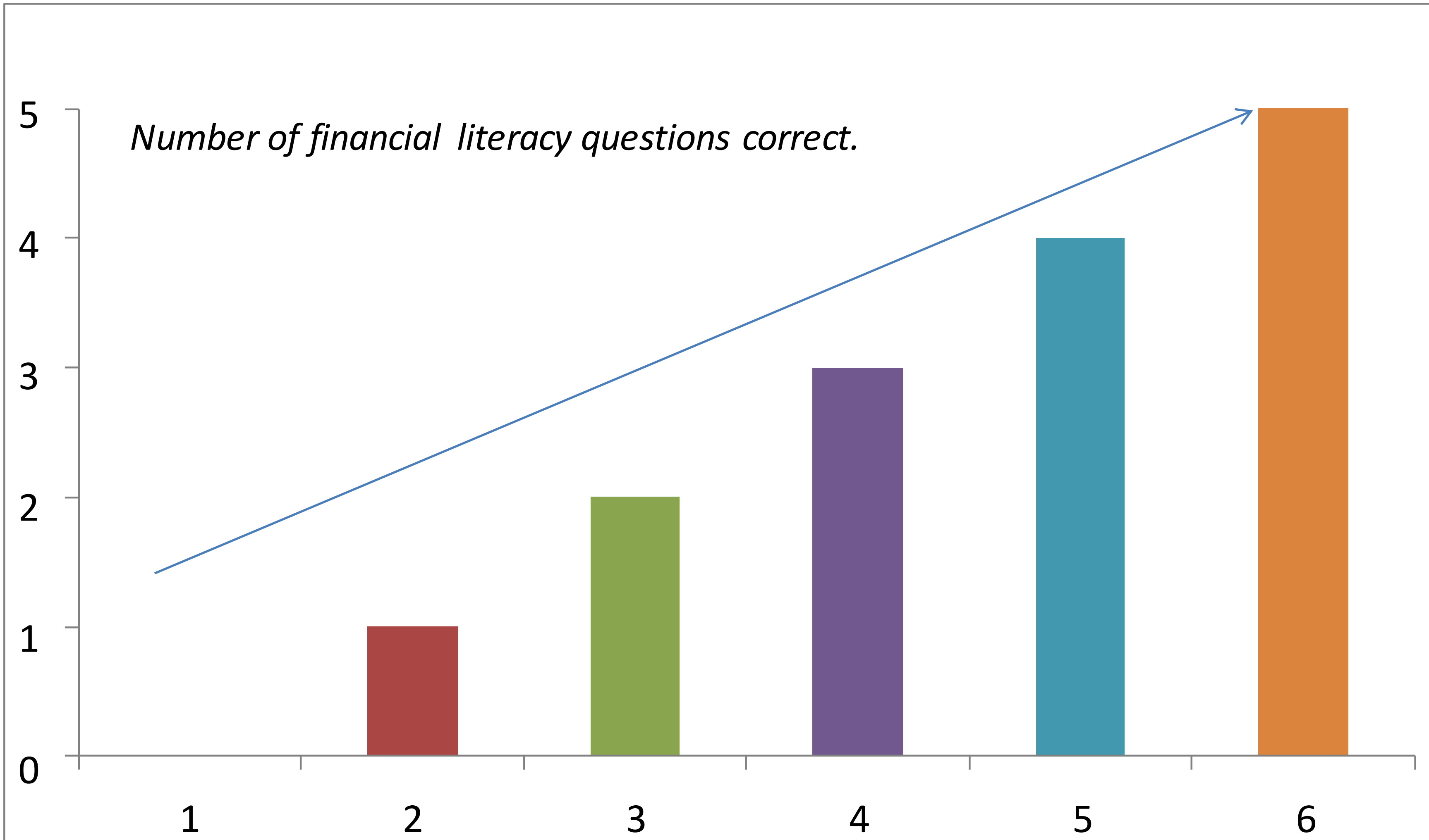

- How can people better manage the resources they have to reach a higher level of **well-being**?

# 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*




*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

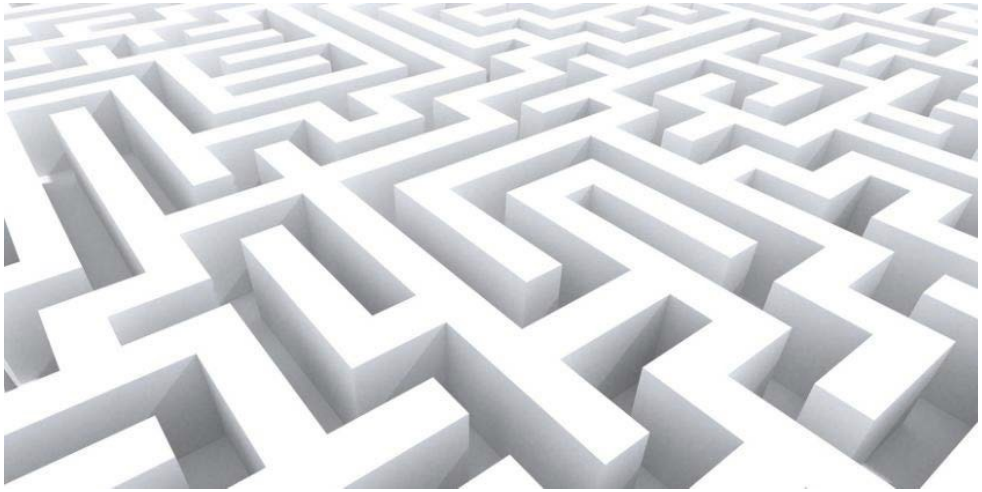
- Defaults
- Automatic Deposit
- Product constraints

# Central Challenge for Financial Capability Field

1. What are the outcomes?

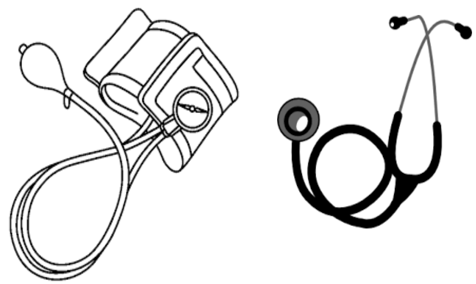
2. What is the return on investment?

   …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*

# Financial Capability Scale
# Self Reports of….

| Concept | Constructs Measured |
|---|---|
| **Budgeting** | Signal of future orientation about money |
| **Goal Confidence** | Subjective capability to follow through on financial decisions |
| **Automated Deposit/Save** | Recognizing self-control failures |
| **Emergency Fund** | Anticipating financial contingencies |
| **Spending < Income** | Signal of stability, attention and financial planning |
| **Charged Late Fee** | Credit management ability |

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)?

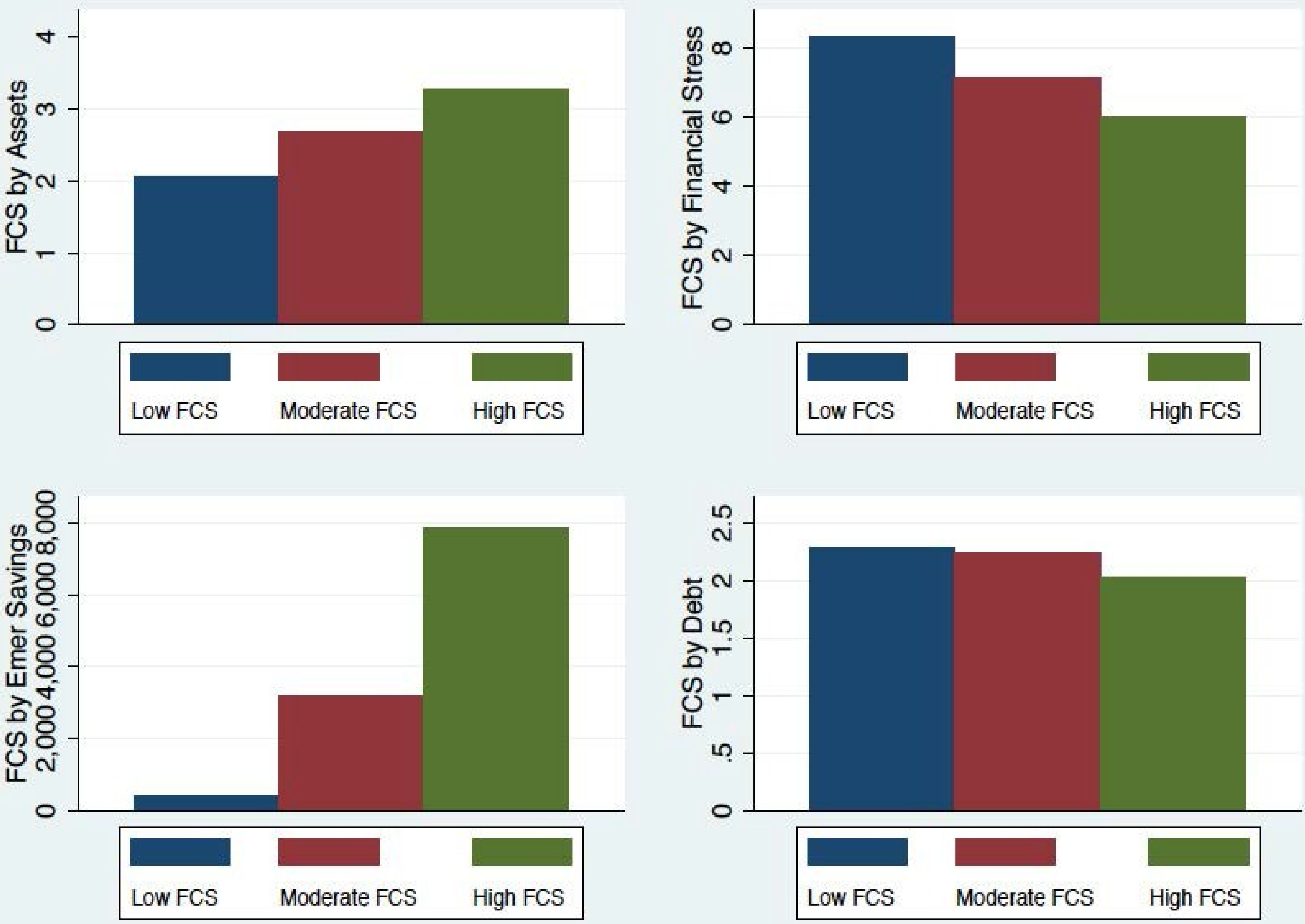
   Yes (1 point) | No (0 points)

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)



FCS by Assets
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Low FCS
Moderate FCS
High FCS
FCS by Financial Stress
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Moderate FCS
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FCS by Emer Savings
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High FCS
FCS by Debt
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2
2.5
Low FCS
Moderate FCS
High FCS

# 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."*

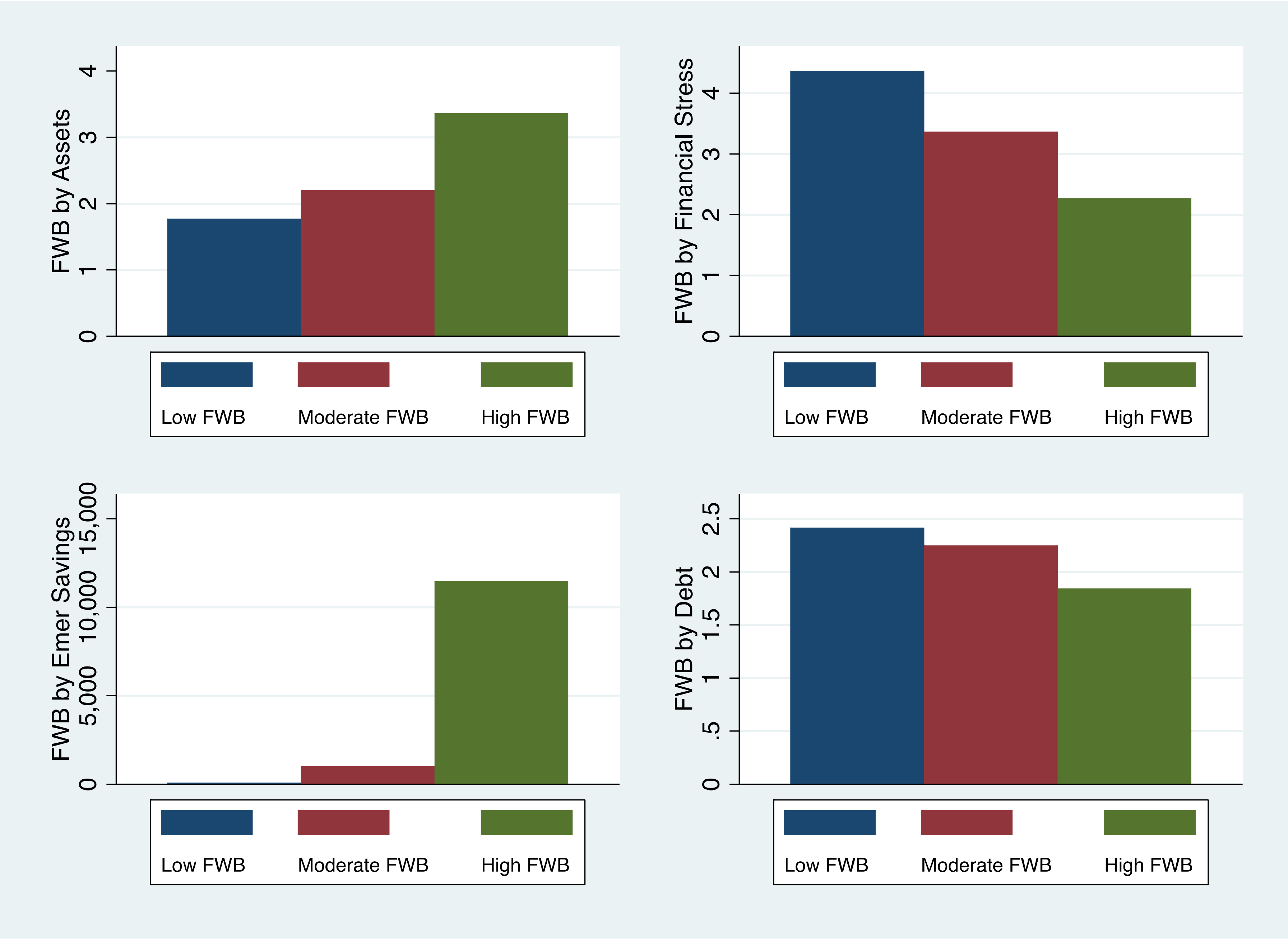
**Elements of financial well-being:**

- ☐ 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



http://www.consumerfinance.gov/newsroom/cfpb-releases-tool-to-help-measure-financial-well-being/

| *This statement describes me….* | Completely 5 | Very well 4 | Somewhat 3 | Very little 2 | Not at all 1 |
|---|---|---|---|---|---|
| Because of my money situation, I feel like I will never have the things I want in life. | | | | | |
| I am just getting by financially. | | | | | |
| I am concerned that the money I have or will save won't last. | | | | | |
| ***How often would you say…?*** | **Always 5** | **Often 4** | **Sometimes 3** | **Rarely 2** | **Never 1** |
| I have money left over at the end of the month. | | | | | |
| My finances control my life | | | | | |



FWB by Assets
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FWB by Debt
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Low FWB
Moderate FWB
High FWB

# 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

J. Michael Collins
jmcollins @ wisc.edu
608.616.0369

**cfs.wisc.edu**

ssc.wisc.edu/~jmcollin/

Twitter: @jmcollinswisc

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# 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?

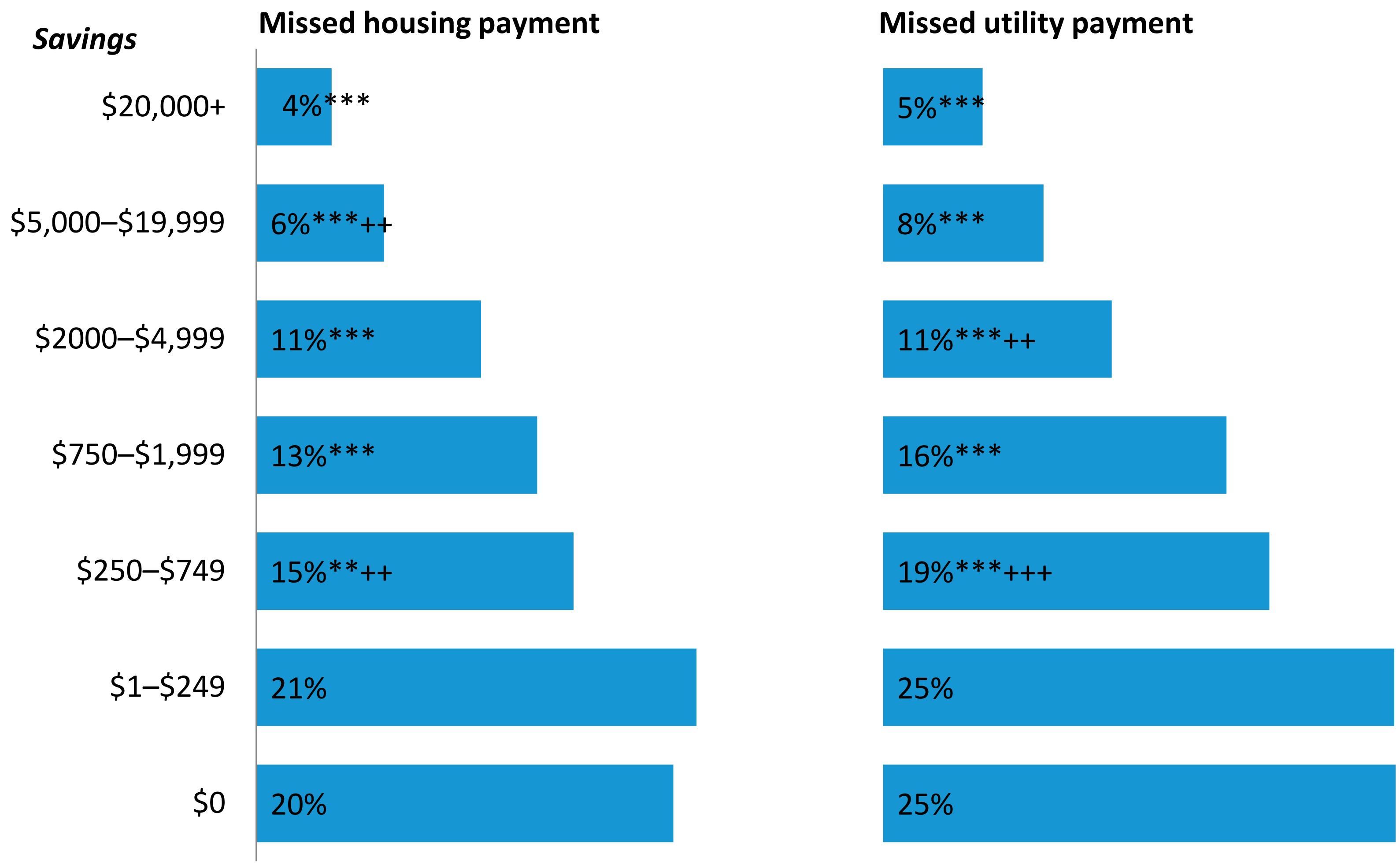
# Why family financial health matters to cities

- 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




**/*** 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

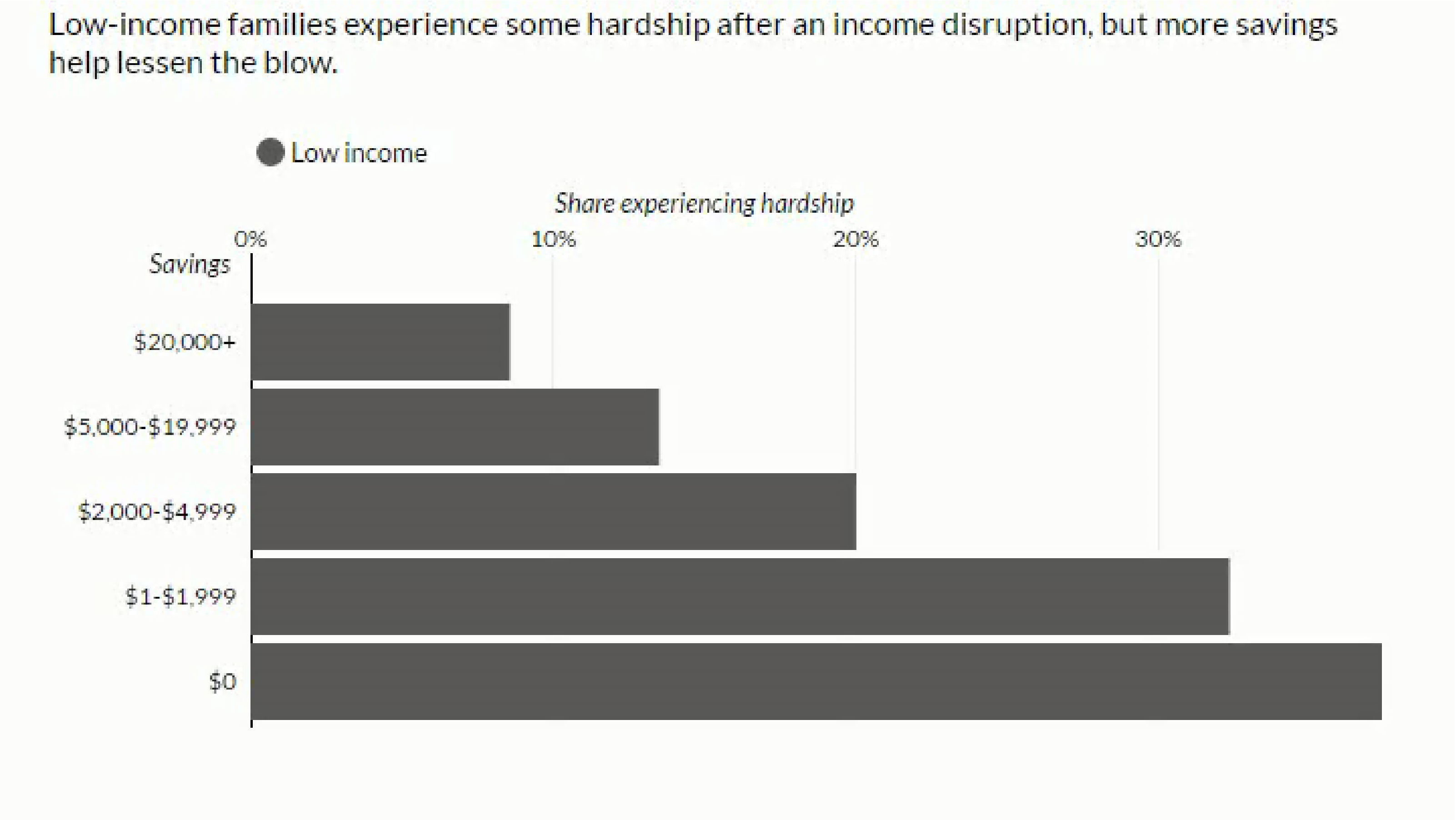
- Families with unsecured debt are less likely to receive public benefits
  - 31% of families with no debt receive public benefits, compared with 25% of families with $1-$1,000 in debt

- 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

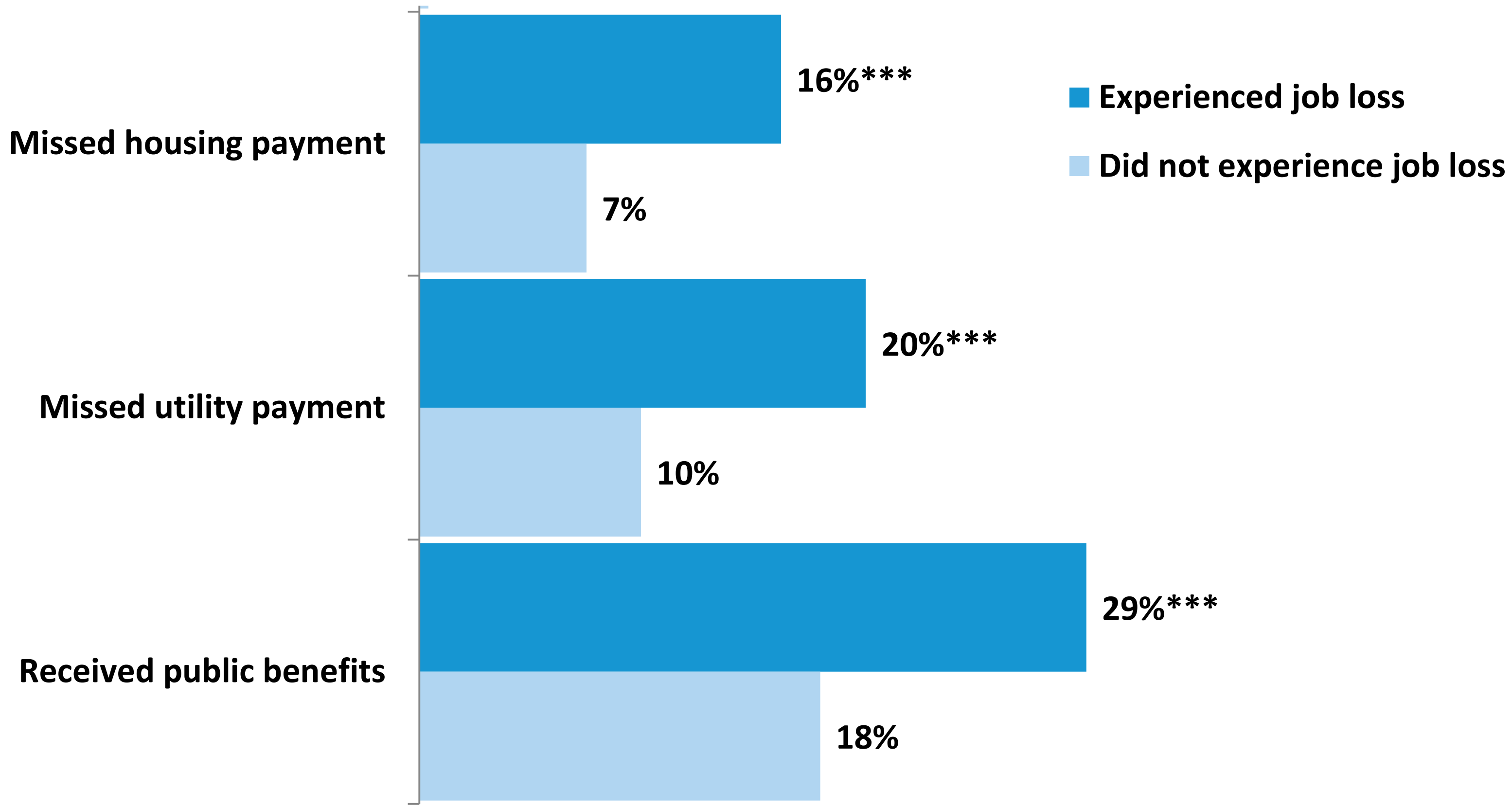


# Income disruptions happen often

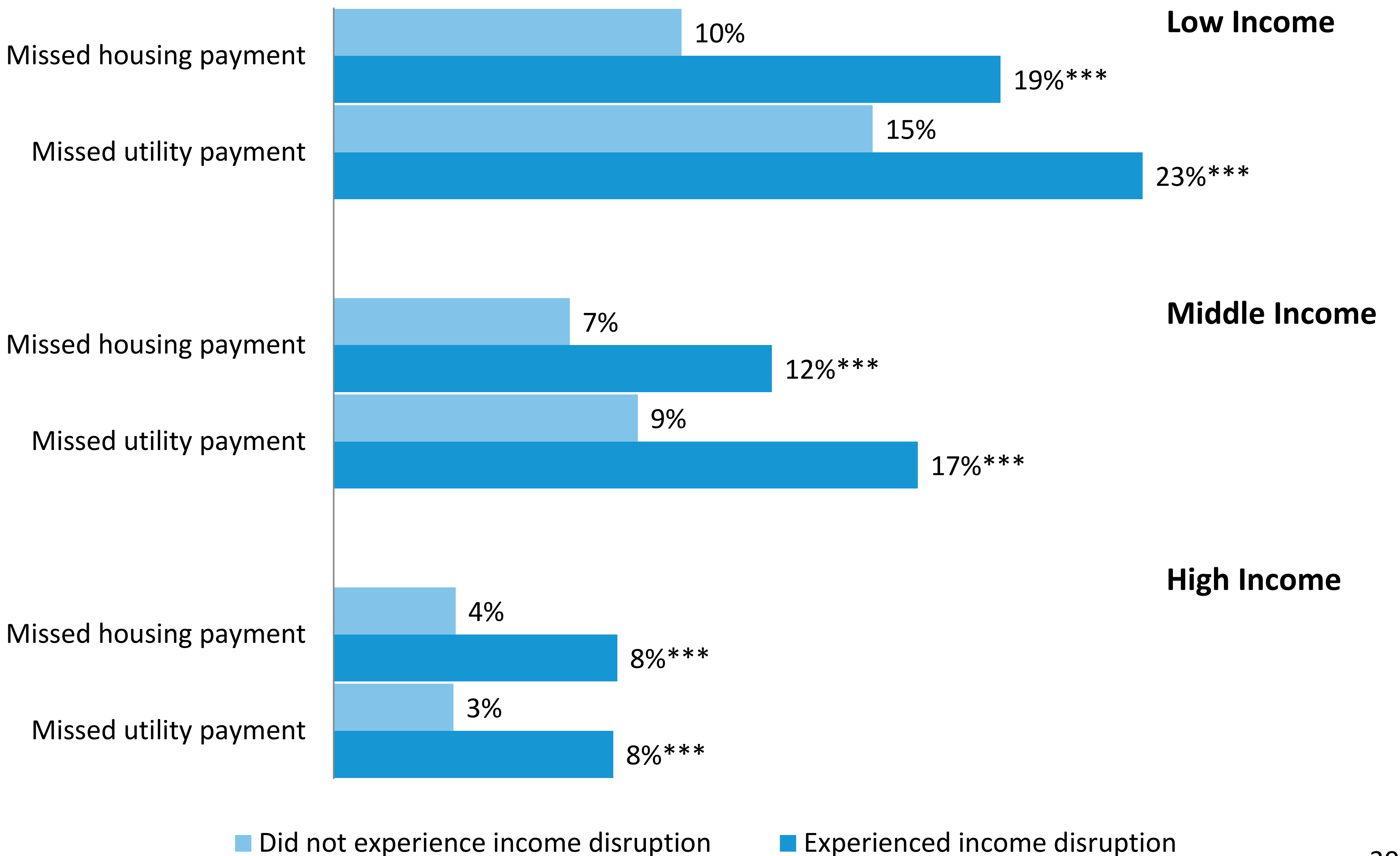
**Share of Families with an Income Disruption over a Year**

| Income disruption | Share of families |
|---|---|
| Involuntary job loss | 6% |
| Health-related work limitation | 5% |
| Income drop of 50 percent or more | 18% |
| Any of three disruptions | 26% |

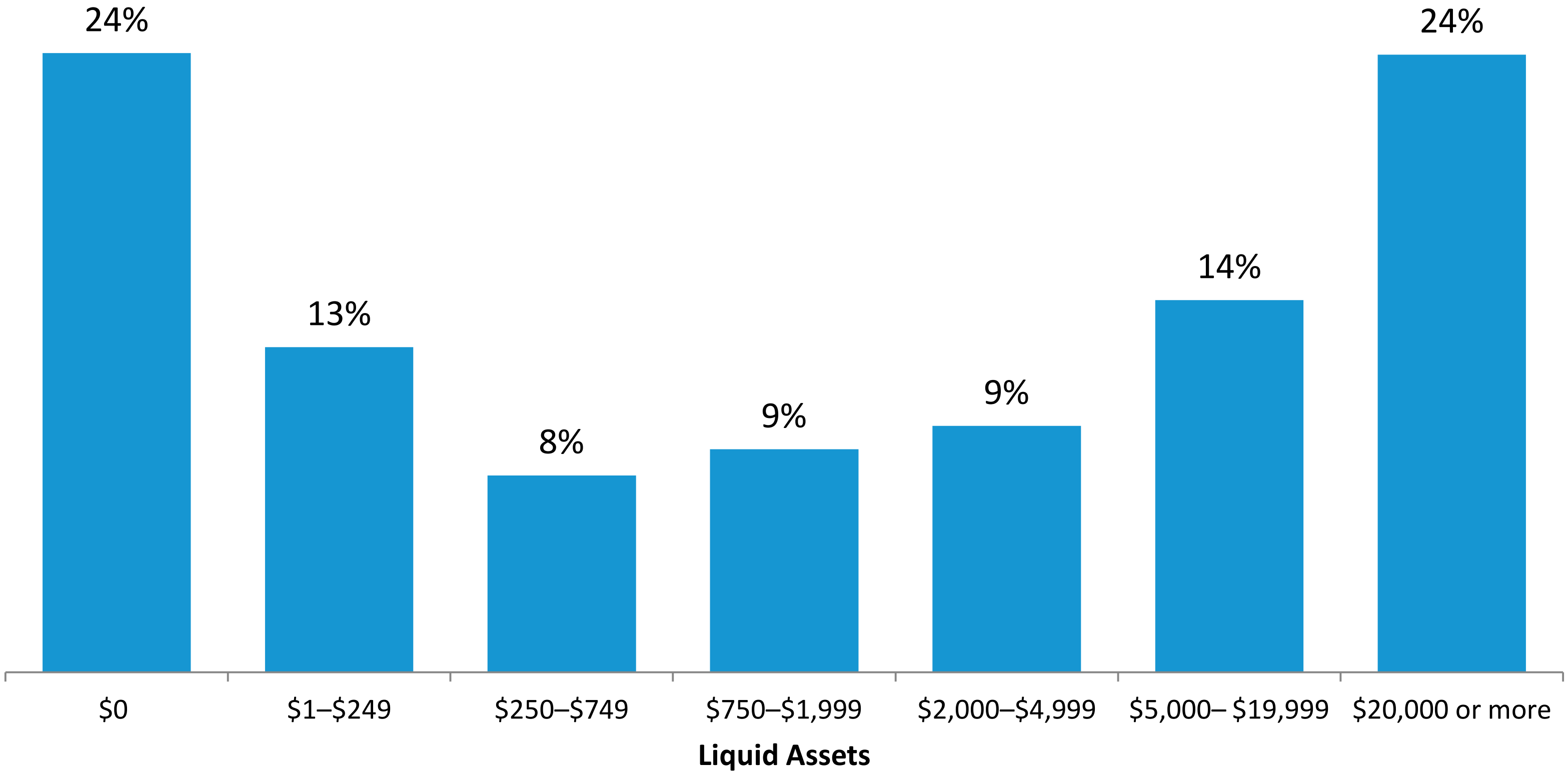
# Income disruptions are linked to greater hardship and higher use of public benefits



# Instability is not only an issue for low-income families



# Many families are not prepared to weather income disruptions



# 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**

http://www.urban.org/research/publication/thriving-residents-thriving-cities-family-financial-security-matters-cities

## INTERACTIVE FEATURE

**Why Cities Should Care About Family Financial Security**

www.urban.org/features/why-cities-should-care-about-family-financial-security

# Q & A

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