FCAB Initiative
Center for Social Development
Brown School at Washington University
https://csd.wustl.edu

Understanding Financial Vulnerability in American Families: A Portrait[1]

PowerPoint Notes

Slide 1 – Understanding Financial Vulnerability in American Families: A Portrait

Slide 2 – Module overview

This module provides social workers with an overview of current financial conditions of U.S. families. This knowledge provides vital context for social workers' understanding of how to build financial capability and assets in families and communities:

- Financial vulnerability
- Financial conditions and effects on outcomes
- Assets and debt in financially vulnerable families
- Increasing income and wealth inequality
- Measuring financial capability
- Helping financially vulnerable families

Slide 3 – Financial vulnerability

- Financial vulnerability refers to "having a low income, being financially insecure, and being exposed to risks, shocks, and stress" (Chambers, 1989). In addition, people with no financial backup (savings and other assets) are financially vulnerable. By this definition, millions of U.S. families are financially vulnerable. Individuals from such families make up a large portion of the population with whom social workers often work.
- Some of the many financial challenges these families face are as follows:
    - Low and fluctuating incomes that make it difficult to pay their bills on time every month

[1] Notes adapted from: *Financial Capability and Asset Building in Vulnerable Households: Theory and Practice Introduction, Chapters 2, 20, 22,* and *23,* by Margaret S. Sherraden, Julie Birkenmaier, and J. Michael Collins, Oxford University Press, 2018

    - A household budget wherein most of income goes to fixed expenses (e.g., rent, child care), which may make it difficult to cover variable expenses (e.g., food, health care).
    - Financially vulnerable families often have difficulty covering unexpected and emergency expenses. In 2017, nearly 40% of households reported difficulty paying for a $400 unexpected expense (Chen, 2019).
    - Lack of assets restricts future opportunities, such as higher education, homeownership, and secure retirement.

Slide 4 – The effects of financial vulnerability on well-being

- Beyond struggling to meet financial commitments, financial vulnerable families may experience:
    - Lack of access to adequate medical care
    - Lack of access to quality education (Wiedrich, Sims, Weisman, Rice, & Brooks, 2016).
    - Hunger
    - Homelessness
- Pressing financial challenges and the resulting stress often make it difficult to cope, find hope, and plan for the future (Mullainathan & Shafir, 2013).
- The most commonly mentioned personal stressors, money and work are the top two causes of stress in U.S. families according to the 13th annual “Stress in America” survey (American Psychological Association [APA], 2019).
- Studies find that financial strain can contribute to psychological and physical distress (though causation goes both ways) (e.g., Drentea & Lavrakas, 2000; Taylor, Jenkins, & Sacker, 2009).
- Having a low income is strongly associated with negative health outcomes (Dowd et al., 2011) and lower life expectancy (Chetty et al., 2016; Woolf et al., 2015).
- Individuals experiencing problem debt are more likely to report health problems (Choi, 2009). Consumer financial debt and specifically use of short-term loans (e.g., payday or title loan, cash advances) is associated with physical and mental health problems (Sweet, Kuzawa, & McDade, 2018).
- Financially struggling families feel stressed, , embarrassed, and uncertain about the future (APA, 2019; Atwood, 2012)

Slide 5 – Family Finances: Income, Expenses, Assets, and Debt

Slide 6 – Family finances: Income and expenses

- To assist families in becoming financially capable, social workers should understand basic household finance terminology.
- *Income* and *expenses* refer to the flow of money into and out of households. *Income* is the flow of money into a household. *Expenses* are the flow of money out of the household (i.e., household consumption).

Slide 7 – Income: Flows of money into the household

- Families may have multiple sources of income. The average share across all consumer units follows:
    - Wages and salaries (78.1%)
    - Social Security, private, and government retirement (10.7%)
    - Income from self-employment (7.2%)
    - Investments (e.g., dividends, interest, property income) (2.4%)

- Public assistance (0.5%)
- Unemployment and workers' compensation (0.7%)
- Other unspecified (0.4%)

- As of 2019, the average (mean) U.S. household income (before taxes) was $82,852 and after taxes was $71,487 (U.S. Bureau of Labor Statistics, 2020).
- The gaps between the highest and lowest income quintiles are large. In the income categories of wages, self-employment, and interest/dividends, the highest income quintile receives 52, 93, and 43 times more income (respectively) than the lowest 20%.

  Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2019

Slide 8 – Expenses: Flows of money out of the household

- Lower income families spend more, proportionally, on daily necessities than high-income families (e.g. housing, food, health care).
- Higher income families spend more, proportionally, on protecting assets (e.g., insurance) and saving for the future (e.g., retirement savings).

  Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2019

Slide 9 – Family finances: Assets, debt, and net worth

- Income and expenses reflect the day-to-day and month-to-month financial stability of families. Assets and debt offer a different perspective on financial well-being that affect financial security and opportunity.
- *Assets* are what families own.
- *Debt* is what families owe.
- *Net worth* is a family's assets minus their debt.
- There is growing evidence that it is important for people to have not only enough income to survive, but also to own assets and have positive net worth for current and future well-being. "Assets are hope in concrete form." (Sherraden, 1991).

Slide 10 – What are assets?

- A family's assets are their financial and nonfinancial resources, property, and possessions that have economic value.
  - *Financial assets* include savings and money in bank accounts, stocks, bonds, 401[k]s, and IRAs.
  - *Nonfinancial or tangible assets* include houses, businesses, vehicles, and jewelry. Even appliances and other durables may be considered tangible assets.
- Assets have positive effects on well-being:
  - Improve household stability
  - Enable focus
  - Create future orientation
  - Stimulate development of other assets
  - Increase personal efficacy
  - Increase social influence
  - Enhance welfare of offspring
  - Increase political participation (Sherraden, 1991)
- Research confirms that owning assets is associated with positive health outcomes:

- Asset accumulation in a Child Development Account (CDA) reduced maternal depressive symptoms, especially in low-income and less educated mothers (Huang, Sherraden, & Purnell, 2014).
    - CDAs improve early social–emotional development in children, especially for children of mothers who are low-income and less educated (Huang, Sherraden, Kim, & Clancy, 2014).
- Young adults owning assets are more likely to have positive health outcomes later in life (Bynner & Paxton, 2001; McKnight, 2011).

Slide 11 – What is debt?

- Debts, or liabilities, are what people owe.
- People borrow for many reasons, such as covering emergencies (e.g., health care), investing (e.g., home ownership), and making major purchases (e.g., a washing machine).
- The largest debts owed by U.S. families, in order of magnitude, are: home mortgages, education loans, vehicle loans, credit cards, and lines of credit (Aspen Institute, 2018).
- Debt is not always a negative. Debt can be positive, especially when it helps people make an investment (e.g., in education or in a home). But debt also can be a pathway to instability, especially when borrowers cannot keep up with payments and fall into arrears. We call this *problem debt*.
- Many families struggle with problem debt (Tescher & Schneider, 2015):
    - 43% struggled to keep up with bill payments.
    - 30% carried an unhealthy amount of debt.
- Lower income families have lower debt than higher income families:
    - This may seem positive, but lack of debt could signal restricted access to homeownership and higher education

Slide 12 – Economic Inequality

- Economic inequality in the United States has reached levels unheard of since the Gilded Age (1870–1900).
- Income inequality is high, but wealth inequality is much higher.

Slide 13 – Income inequality

- *Income inequality* refers to differences across the population wherein a few families earn a lot, and many families earn very little.
- The average after-tax income of the top 20% of households ($174,777) is 14 times more than the income of the lowest 20% ($12,236) (U.S. Bureau of Labor Statistics, 2020)
- Income for the top 10% has risen primarily from investments rather than from salary income. Pretax income of the middle class has risen primarily due to tax-exempt fringe benefits (Piketty, Saez, & Zucman, 2018).
- Average pretax income has stagnated since 1980 for the bottom 50% at around $16,000, but it has multiplied by three for the top 1% to about $1,300,000 as of 2014. The result is that the top 1% adults earned 81 times more in 2014 than the bottom 50%. (Piketty, Saez, & Zucman, 2018)
- Gender inequality differs by age groups. Men aged 20–34 earn 1.3 times more than women their age, and for adults aged 55–65, men earn about two times the women in their age range. In addition, women represent only about 16% of the top 1% of wage earners (Piketty, Saez, & Zucman, 2018).

- Income inequality by race/ethnicity is high (U.S. Census Bureau, 2018b). Data from 2017 show difference in median household income:
  - Asian American = $81,331
  - White = $68,145
  - Hispanic = $50,486
  - African American = $40,258

Slide 14 – Wealth inequality: *Far* more unequal than income

- An individual's wealth, also known as "net worth," is a measure of all the assets they own minus what they owe. Household wealth measures the total of assets minus liabilities of the entire household.
- As of 2018, the top 10% of the wealthiest Americans owned 70% of total household wealth held in households, and the top 1% owned almost 32%. (Batty et al., 2019).
- In contrast, the 50–90% of the wealthiest Americans owned 29%, and the bottom 50% owned 1% (Batty et. al, 2019).
- The World Inequality Database was developed in 2011 and includes an interactive historical database on world distribution of income and wealth. [*Instructor: This is a great interactive tool for students to use. Provide time for students to look at variations in wealth and income by country, state, and timeframe. Students can also "take the test" for where they are in the income distribution].*

Slide 15 – Wealth inequality is growing

- Wealth inequality is increasing, and there are deep and growing disparities between rich and poor, young and old, and whites and non-whites.
- Since 1989, net worth has risen at a higher rate for the top 10% of income percentile than the other 90% (Data source: Federal Reserve 2016 Survey of Consumer Finances).
- The distribution of liabilities is more equitable across groups—and changed little since 1989. Thus, rising inequality is due to increases in assets, not declines in liabilities. These assets are primarily investments (such as real estate and returns on the stock market) rather than wages (Batty et al., 2019).
- Since 1963, the inequality ratio of wealth by ethnicity has been consistent: White families have almost seven times more wealth than Black families, almost five times more than Latinx families, and two times more than families of other racial/ethnic groups (Urban Institute, 2017).

Slide 16 – Wealth inequality by race/ethnicity, gender, and age

- In 2016, the net worth of white households was $171,000; Black households was $17,600; and Latinx households was $20,700 (Dettling, Hsu, Jacobs, Moore, & Thompson, 2017).
- The percentage of families with zero or negative net worth by ethnicity: white 9%; Black 19%; Latinx 13%; and other 14% (Dettling et al., 2017).
- Notably, 19% of Black and 13% of Latinx households hold *no wealth or negative wealth*, respectively—meaning they owe more than they own. Only 9% of white households had zero or negative net worth.
- *Homeownership* explains part of the difference in net worth:
  - More white households are homeowners. Data from 2016 show that 73% of white households, 45% of Black and Latinx households, and 54% of other ethnic groups are homeowners. ("Other" reflects a large group comprised of Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, and multi-ethnic.)

    - Mean housing wealth of homeowners by ethnicity (as of 2016): white $216,000; Black $94,000; Latinx $130,000; and other $221,000 (Dettling et al., 2017)
    - Foreclosures during the 2008 Recession led to an estimated 2.5 million home foreclosures. These resulted in nearly twice the rate of homeownership loss in African American and Latinx households than in white households (Bocian, Li, & Ernst, 2010; Saegert, Field, & Libman, 2011).
- Retirement assets also explains part of the difference in net worth by race/ethnicity:
    - Over half (60%) of white households have a retirement account. In contrast, 34% of Black households, 30% of Latinx households and 48% of "other" households have a retirement account (Dettling et al., 2017).
- Intergenerational wealth also helps to explain differences:
    - White families (26%) are more likely to receive an inheritance or other major gift compared to less than 10% Black and Latinx families (Dettling et al., 2017).
- Women and young households also hold less wealth:
    - Women own only 36 cents for every dollar of wealth owned by men (a much bigger gap than income inequality). The gap is even greater for single women (Chang, 2010).
    - Household heads younger than age 35 had a net worth of $11,100, contrasted with households headed by someone age 65 and older, whose net worth was $224,100 (20 times greater) in 2016 (SCF, 2016).

Slide 17 – Wealth inequality video

This short video on wealth distribution in the United States makes the point vividly: Wealth inequality in America (White, 2013): https://mashable.com/2013/03/02/wealth-inequality/

Slide 18 – Measuring Financial Capability

Slide 19 – Financial literacy: Knowledge and skills

- *Financial literacy* refers to a person's knowledge, skills, attitude, habits, motivation, confidence, and self-efficacy related to their finances (U.S. Government Accounting Office, 2011). The Organization for Economic Co-operation and Development (OECD), an intergovernmental economic organization that includes 36 member countries, uses a broader definition: "*Financial literacy is the knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life*" (OECD, 2019; p. 128)
- Financial literacy has become globally recognized as an "essential" life skill (OECD, 2017).
- Financial literacy is usually measured by testing factual knowledge about financial issues and financial management.
- In the United States, 21 states require students to take a personal finance course for high school graduation, and 25 states require a high school economics course (Council for Economic Education, 2020).
- Americans have overall low level of financial literacy, and getting lower. A national financial capability study showed that scores on a financial literacy quiz dropped between 12% and 13% for respondents aged 18–54 between 2009 and 2018 (Lin et al., 2019).

- The 2015 results from OECD's Program for International Student Assessment (PISA) financial literacy assessment show that 15 year olds in the U.S. scored an average 487 out of 1000, about the same as the average in the OECD, where the average is 489. The four highest scoring countries were China (566), Belgium (541), Canada (533), and Russia (512).
- Women score lower than men; younger people score lower than older people; and those with lower educational attainment levels score lower than those with higher educational attainment.

Slide 20 – Exercise – Financial literacy

1. Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

   a) More than $102 (answer)
   b) Exactly $102
   c) Less than $102

2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in the account?

   a) More than today
   b) Exactly the same
   c) Less than today (answer)

3. A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less.

   a) True (answer)
   b) False

(Source: FINRA Investor Education Foundation, 2020)

Slide 21 – Financial literacy resources

- Examples of financial literacy resources in the U.S. include the following:
  - **The Financial Literacy and Education Commission** promotes financial education in the United States: Mymoney.gov
  - **Consumer Financial Protection Bureau (CFPB).** A federal government agency established for consumer financial protection and offers numerous consumer financial education tools, such as Your Money Your Goals, in both English and Spanish.
  - **Jump$tart.** A coalition of 150 organizations across sectors that advances financial literacy in schools and colleges: https://www.jstart.org/
  - **The National Endowment for Financial Education (NEFE)** offers a variety of online financial education resources for different ages. The NEFE conducts a program evaluation periodically of its flagship high school financial planning program to assess student learning and effectiveness: https://www.nefe.org/education/school-based/hsfpp.aspx.
  - **The Federal Deposit Insurance Corporation (FDIC)** offers *Money Smart* financial education resources: https://www.fdic.gov/consumers/consumer/moneysmart/
  - **The National Credit Union Association (NCUA)** is part of the Financial Literacy and Education Commission, an interagency group created by Congress to improve financial literacy and education across the country: https://www.mycreditunion.gov/

Slide 22 – From financial literacy to financial capability

- However, measuring and increasing financial literacy is not enough to improve financial well-being because it cannot demonstrate an individual's practical access to financial opportunities and services or capability to use them.
- Financial knowledge and skills cannot be applied without access to (safe and affordable) financial policies, products, and services. Access to financial products and services is what we call "financial inclusion." In other words, financial knowledge cannot work in isolation to address financial well-being.
- Historically, certain groups, especially persons of color and women, have been financially excluded. As of 2018, 6.5% of Americans are financially excluded (unbanked) and 18.7% are underbanked (banked, but also use alternative financial services) (FDIC, 2018).
- Financial capability is the combination of knowledge/skills (ability to act) *and* access to safe financial policies and affordable financial products and services (opportunity to act).
- Key dimensions for measuring financial capability include the following: individual and household characteristics; income and employment; savings and safety nets; financial experiences; and financial behaviors, skills, and attitudes (CFPB, 2017).
- The CFPB (2017) has made progress on measuring dimensions of financial capability and found that large segments of the U.S. population are financially vulnerable.

Slide 23 – Financial capability scale (CFPB)

- The CFPB offers a financial well-being scale. The standard version includes 10 questions and the short version has 5 questions. The scale and scorecard are available at: https://files.consumerfinance.gov/f/documents/bcfp_fin-well-being_short-scorecard.pdf

Slide 24 – Case examples: Different levels of financial capability

- Despite their financial challenges, these four families have moderately stable incomes, intact support systems, and make the best decisions they can about managing their household finances. Nonetheless, for historical and contemporary reasons, they have differential access to and experience with financial policies, products, and services. In addition to the historical circumstances that puts each family at a disadvantage, they face discrimination that places them at a financial disadvantage.
- Jewell Murray – Low financial capability.
  - Volatile income
  - Almost no assets
  - Few family resources (former foster child)
  - Abusive ex-husband controlled all family finances
  - Strong support system
  - Goal: establish financial independence
- Yolanda Walker – Developed stronger financial capability over the years, but has overwhelming family responsibilities.
  - Learned how to manage finances, raise children and manage household on low wages.
  - Widow and still learning to manage financial tasks that her husband previously looked after.
  - Owns some assets and will inherit mother's house but these won't be enough.
  - Has strong support system and previous skills.
  - Goals: Caring for mother and daughters and planning for future security.

- Silvia Hidalgo Acevedo and Hector Espinosa Contreras – Higher income than the other families but disadvantaged in credit.
    - They save regularly but have no credit history
    - Care for extended family in their home and in Mexico
    - Fluctuating incomes
    - Young children and a strong support system
    - Goal: Buy a house
- George Walker – Financial capability increasing but struggles to make ends meet.
    - Past mistakes and high expenses
    - Financially supports daughters
    - Realizes future is dependent on higher income
    - Goal: focus on getting more education (bachelor's degree)

Instructor: Ask students to compare and contrast levels of financial capability through these cases and explain reasoning.

Slide 25 – Helping Financially Vulnerable Families

Slide 26 – Practitioners and the financial lives of clients

- These four cases reflect the lives of many typical Americans.
- Social workers can help individuals and families achieve financial capability and well-being through gaining knowledge and skills and accessing resources.
- They also help families achieve financial capability through program and policy solutions:
    - Income supports, financial services, access to credit, savings opportunities, employment and business development, and other direct service resources
    - Financial education, coaching, and counseling initiatives

Slide 27 – Program Spotlight: MyPath

- MyPath is a national nonprofit agency that that has developed and tested models to help cities and nonprofits to integrate economic mobility pathways into their youth employment programs. These models include helping low-income youth to get banked, set goals, start to save, and build credit. https://mypathus.org/
- MyPath also engages in policy advocacy at local, state, and federal levels to increase youth access to financial services and expand youth economic opportunity.
- Program evaluations show increases in the number of savings accounts opened, savings, financial knowledge, and confidence in saving (Loke et al., 2016).

Slide 28 – Policy Spotlight: The Urban Institute

- The Urban Institute is a nonprofit research institution that informs social and economic policy.
- Its website features research reports, briefs, analyses, and congressional testimony.
- It conducts studies on topics such as:
    - Income and wealth
    - Income and employment
    - Financial products and services
    - Inequality

- Recent studies from affiliated scholars include an assessment of the low income housing tax credit, helping students decide on how to repay college loans, and understanding African American economic security and the role of Social Security.

Slide 29 – Exercise: How does your community rank?

- How does your community rank in opportunities to build financial capability and assets? How can you help to improve its score? See Prosperity Now's Scorecard https://scorecard.prosperitynow.org/data-by-location

Instructor: Use the Prosperity Now Scorecard to review characteristics of financial vulnerability in students' communities across the country. Issue areas include financial assets and income, businesses and jobs, homeownership and housing, health care, and education. Explore policies that can facilitate or hinder improvement of vulnerable families' financial well-being.

Slide 30 – Summary of what we learned

- Many families with low and fluctuating incomes, low levels of savings and wealth, and problem debt face struggles in reaching for everyday necessities and planning for the future.
- Increasing income and wealth disparities may lead to further challenges when coupled with a lack of financial capability.
- Social workers can play a key role in improving the financial wellbeing of financially vulnerable families through efforts at the individual, program, and policy level.