Volatility and Resilience in Financial Well-Being: Evidence from Two Studies on Low-Income Households

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Research Questions

To what extent is financial well-being stable or volatile in an economically vulnerable population?

What is the relationship between different negative financial events and changes in financial well-being?

How do different types of liquidity buffer households against the impacts of negative financial events?

Today's presentation presents findings from two papers:

Assessing the Short-Term Stability of Financial Well-Being in Low- and Moderate-Income Households (Roll, Kondratjeva, Bufe, Grinstein-Weiss, Skees, 2021)

- Examines how changes in financial well-being relate to household characteristics and experiences

Financial Shocks and Financial Well-Being: What Builds Resiliency in Lower-Income Households? (Bufe, Roll, Kondratjeva, Skees, Grinstein-Weiss, Forthcoming)

- Examines the impact of income, expense, and medical shocks on financial well-being, and the extent to which different resources (income, assets, credit, social) mitigate these impacts

Study Setting

- Both studies use 2018 data from the Refund to Savings initiative, which pairs administrative tax data with two waves of survey data

TurboTax Online
Freedom Edition

TTFE Qualifications

- AGI $33,000
- Earned Income Tax Credit

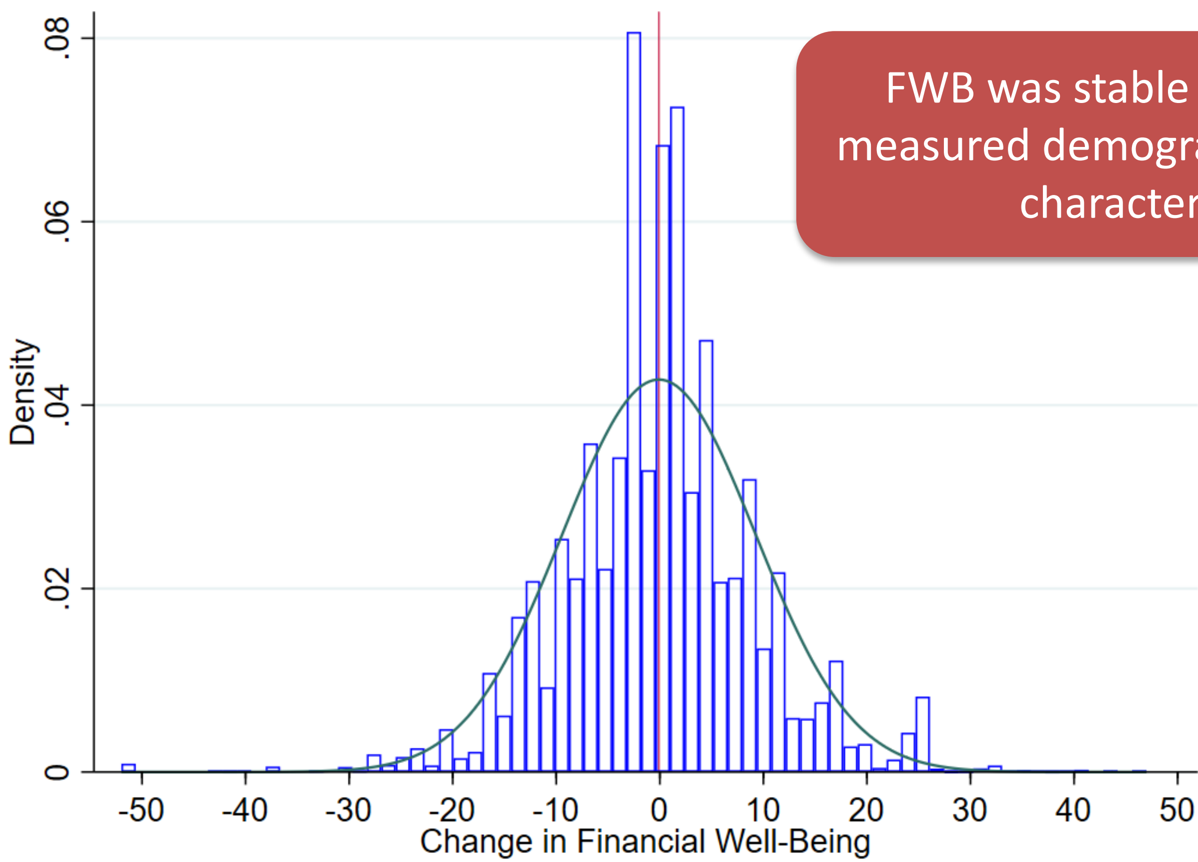
Household Financial Survey (HFS) – Wave 1
At the time of tax filing

HFS – Wave 2
6 months after tax filing

- Key outcome in both studies is the *change* in financial well-being over a six-month period, as measured using the CFPB’s FWB scale

Finding 1: FWB is very stable over a six-month interval in our low-income sample

- Wave 1 FWB=49.04; Wave 2 FWB=48.96



N=3,324

FWB was stable across most measured demographic/financial characteristics

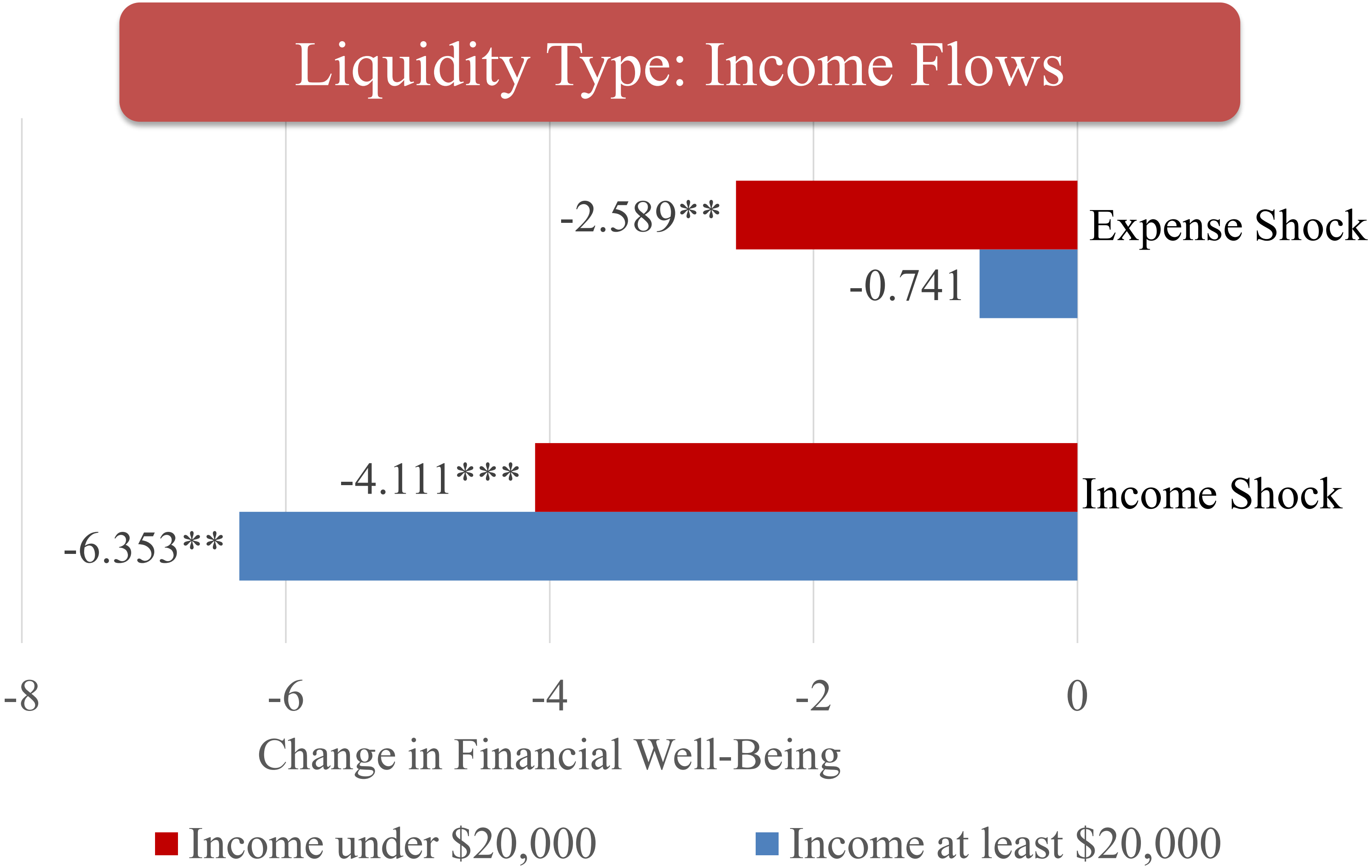
Finding 2: Income shocks lead to larger declines than expense shocks and medical shocks

Change in Financial Well-Being, by Different Financial Shocks (Difference-in-Differences Analysis)

	Outcome: Change in Financial Well-Being		
	Income Shock	Expense Shock	Medical Shock
Change in FWB	-5.218***	-1.731**	-1.016
	(1.154)	(0.589)	(1.476)
Individual Fixed Effects	Yes	Yes	Yes
Propensity Score Weights	Yes	Yes	Yes
Observations (unique HHs)	1,573	1,573	1,573

***$p<0.001$; **$p<0.01$; *$p<0.05$

Finding 3: Different types of liquidity mitigate the impacts of different types of shocks



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N=1,573

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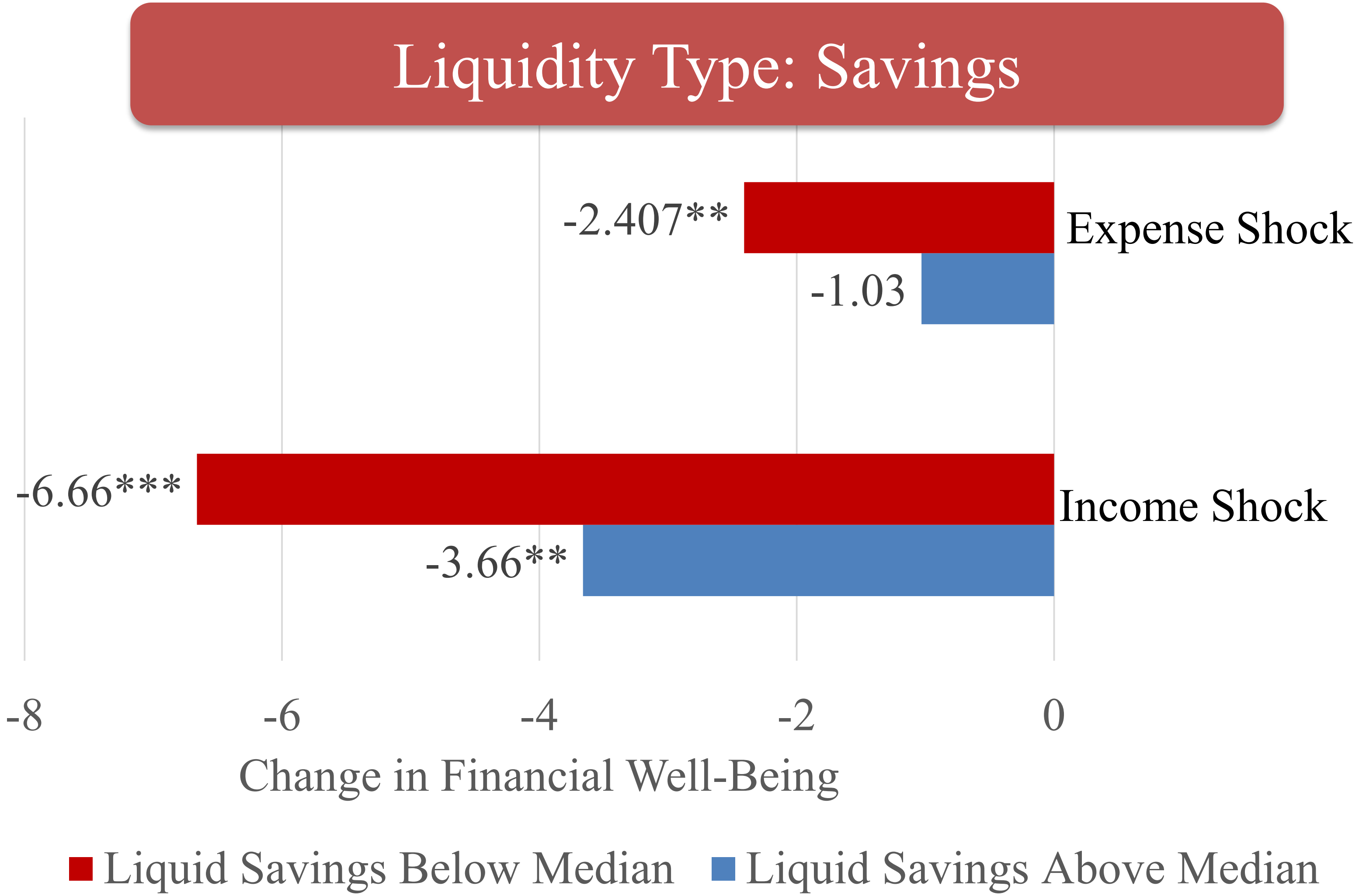

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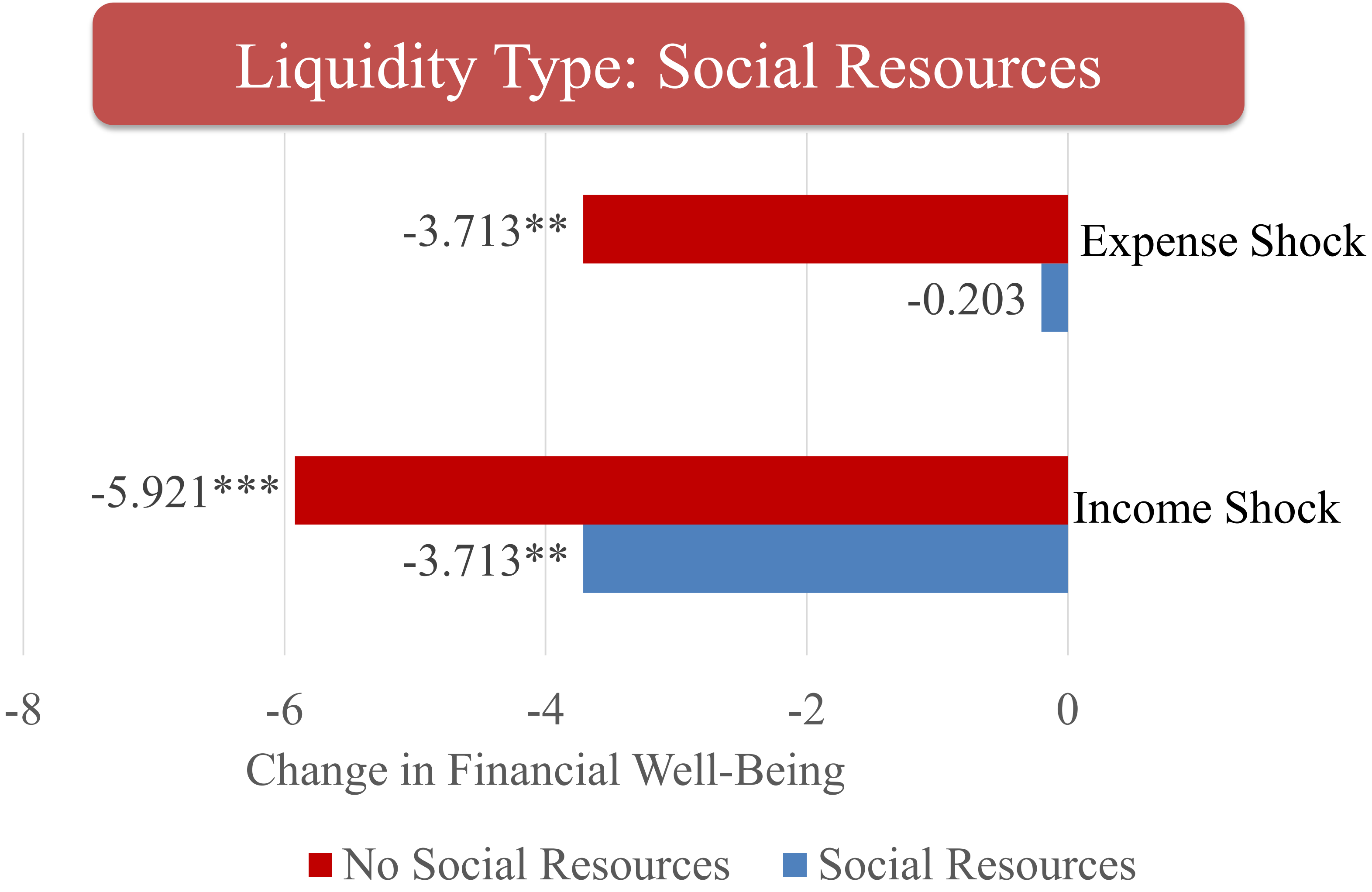

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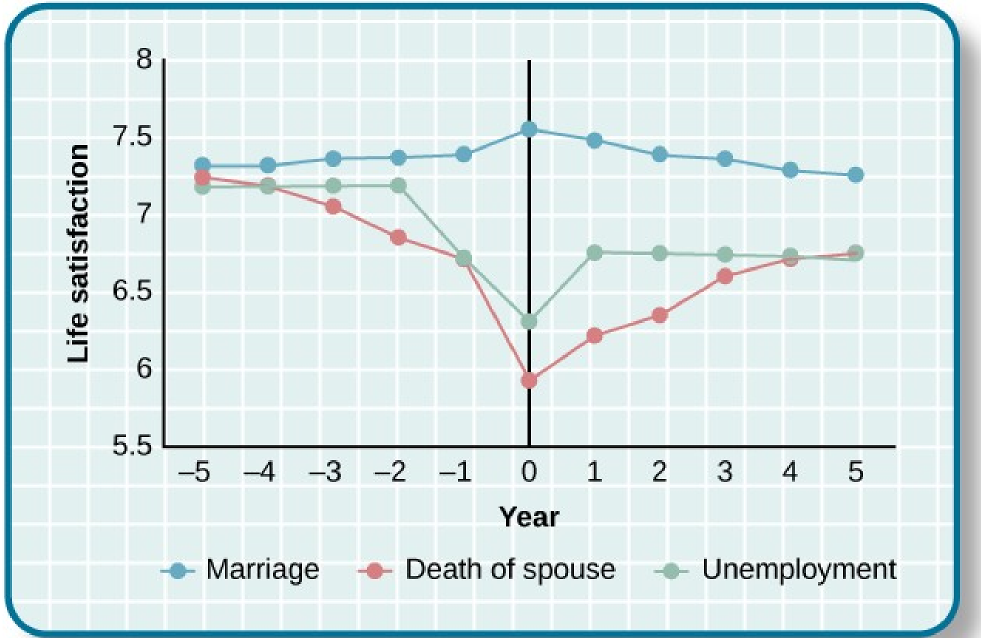
N=1,573

Conclusions and Implications

- Different shocks have different impacts on financial well-being: Income>Expense>Medical
- Similarly, different types of liquidity appear to be better suited toward mitigating different types of shocks
  - Income, savings, and social resources almost fully attenuated the impacts of **expense** shocks, but savings and social resources only partially attenuated impact of **income** shocks
  - Though not shown, access to credit cards did not mitigate these impacts
- These results speak to the potential importance of liquidity options in promoting well-being

Conclusions and Implications

- By mitigating the negative impact of financial shocks in the short-term, liquidity access may help people recover more quickly from events like job loss and promote higher well-being in the long-term
  - More research is needed on this front



From Diener et al. (2006)

Conclusions and Implications

- Building savings and increasing income is extremely challenging for low-income U.S. households, but promising opportunities may include:
  - Helping households access gig economy in the event of income shortfalls
  - Expanding and maintaining social welfare programs targeting economically vulnerable (e.g., recent CTC/EITC expansions)
  - Identifying key opportunities to help households save (e.g., the tax refund, payroll deductions into savings accounts)

Conclusions and Implications

- Alternatively, employers and policymakers could take steps to decrease the impact of income shocks
  - Laws generally do not require employers to give substantial advance notice of termination, and allow for employers to engage in irregular and unpredictable scheduling practices.
  - This reality likely exacerbates the impacts of income declines, while also making it harder for low-income workers to build their savings

Thank You!

Any Questions?

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