The Faces of Financial Vulnerability in Greensboro, North Carolina

Understanding Financial Vulnerability

In 2014, D2D undertook an in-depth research project with a small group of credit union consumers in Greensboro, NC in order to better understand the granularity of challenges faced by the financially vulnerable and the role prize-linked savings accounts can play in engaging with savings and coping with financial disruptions.[1]

Understanding the full picture of consumer financial health is crucial for designing appropriate interventions to address challenges. Consumers are not homogenous: they and their households face varied circumstances. Consumers may be married, single, living with other adults, supporting children; household composition significantly impacts money coming in and out, relative to sources of income and necessary expenses. Consumers may have full-time employment, part-time employment, full- and part-time employment, seasonal employment, or no employment. Regardless of one's starting point, unexpected events in life can cause financial dips and spikes; however, if the starting point is low-or moderate income, the dips can be particularly disruptive and make it harder to secure stability.

The financially vulnerable are those who are very susceptible to financial challenges, who face a lack of financial stability, or who are unprepared for financial disruption. Signs and circumstances of the financially vulnerable may include: underemployment/unemployment; lack of preparation for an emergency; lack of preparation for retirement; foregoing costly medical treatment; denial of credit/offer of less credit than requested/choosing not to apply for credit due to lack of confidence; owing more on mortgage than home is valued at; any major life event associated with a significant cost, such as divorce; or supporting children on a single income. Essentially, any event that incurs a cost for which one lacks sufficient cash liquidity to cover may contribute. Often, the difference between sinking and swimming is access to and use of financial products that buffer individuals and families during times of unexpected expenses or loss of income.

Enduring financial disruption without savings

Savings are an important part of any consumer's financial health. Consumers with higher incomes are more likely to have access to a cash reserve, or savings, when faced with an unexpected cost or other financial disruption. Having the ability to manage daily financial activities, cope with unavoidable financial emergencies, and seize opportunities to reach financial stability and mobility are all affected by a consumer's ability to save.

1 The focus of this paper is on the qualitative data gathered in Greensboro, though the full study included a quantitative analysis of a survey conducted with customers at Piedmont Advantage, a credit union based in Winston-Salem, NC.

Only 45 percent of Americans indicate that they have enough money set aside to cover three months of expenses.[2] Financially vulnerable consumers cannot fall back on savings.

Nationally, nearly a quarter of respondents to a survey of economic well-being indicated that some member of their household experienced a financial hardship – such as job loss, health emergency, or foreclosure – in the year prior.[3] Almost a third said they were not prepared to withstand a financial disruption lasting three months by covering expenses during that time through savings or borrowing. For many, the inability to save was directly related to spending exceeding income. About 20 percent of respondents reported that their spending exceeded their income; this increased to more than 25 percent among respondents with incomes under $40,000. This financially tenuous status is likely related to some combination of a mismatch of expenses and income and how that is financed with savings and debt.[4]

Based on the evidence that savings is particularly challenging for low- and moderate-income consumers, D2D has pioneered the introduction of prize-linked savings (PLS) accounts in this country. To demonstrate the viability of PLS in financial institutions, in 2009 D2D and Michigan credit unions[5] created Save to Win™ (STW), the first scaled program based on PLS. Save to Win offers special balance building certificates of deposit (CDs) that enter members into raffles for cash prizes with each deposit of $25 or more. Michigan credit unions that participated in the initial pilot demonstrated that the possibility of winning encourages people to save.

The success of Save to Win Michigan inspired other states and entities to launch similar PLS programs to better serve consumers and in 2013, North Carolina launched STW. It is one of 15 states[6] that allow financial institutions to offer prize-linked savings accounts. Several North Carolina credit union partners have experienced a high take-up rate of their PLS accounts. Since 2013, nearly 3,000 North Carolinians have saved over $5.2 MM. One of the institutions offering STW accounts is Greensboro Municipal Federal Credit Union in Greensboro, a city of about 270,000 people where 20 percent of the population lives in poverty.[7]

Following an overview of the research methodology, this report discusses several Greensboro Municipal Federal Credit Union consumers' circumstances and their unique challenges in the context of financial vulnerability.

Research Methodology

The Greensboro research focused on quarterly in-depth interviews (IDIs) with eight members of the credit union who volunteered for the study. D2D recruited both PLS account-holders and those without PLS accounts in order to understand the difference across the two groups and the potential impact of PLS. Research participants were contacted four times between May 2014 and May 2015 and received a small monetary incentive for each stage of participation.

Participants included relatively young adults, early in their careers, and older individuals, close to the age of retirement. Most relied on multiple sources of income, including earnings from full- and part-time employment. They represented a variety of careers and behaviors around spending and saving money. All reported indicators of financial vulnerability, including income and consumption volatility, low savings, and high levels of debt, among others. Participants were also deliberately chosen to represent a cross-section of PLS users in North Carolina in terms of gender, race, income, and presence of children in the household.

2 Respondents to a national survey, as reported in: *Report on the Economic Well-Being of U.S. Households in 2014*. Board of Governers of the Federal Reserve System, May 2015.
3 Ibid.
4 Ibid.
5 A broad coalition contributed to the creation and introduction of Save to Win accounts.
6 As of this writing. Source: Doorways to Dreams Fund.
7 Source: U.S. Census Bureau, 2009-2013 5-Year American Community Survey

Participants were asked a series of questions related to their financial behaviors. The questions and responses can be loosely categorized as follows: savings behaviors; spending; budgeting habits; and borrowing. Questions ranged from the general (What does saving mean to you?) to the specific (Are there times in the past four months where you have forgotten about an expected bill or expense?). The answers from respondents reveal the challenges faced by low and moderate-income families and how they attempt to manage their circumstances. To supplement and support the IDI findings, participants were also asked to complete quarterly surveys detailing their financial situations, documenting any financial shocks they may have experienced, and sharing their use of a variety of financial products.

There are limitations to data gathered through qualitative interviews. These include the following:

- *Defining income.* While efforts were made to define income, for any given person asked to recall income from memory, what he includes may differ from another respondent.

- *Limited data.* D2D collected rich data from eight consumers. The data reveals much about the respondents' financial lives. It should be noted, however, that eight is a limited sample size and drawing conclusions from this data is limited.

- *Data is self-reported.* The data collected in these interviews, for example, income (as noted above) is based on respondents' memory and knowledge of their own activities. While they are in the best position to supply this information, imprecise recollections of timing, for example, could impact overall findings.

Despite these limitations, D2D staff were able to collect detailed information from respondents, which painted a picture of overall financial health, and highlighted various challenges that make one financially vulnerable. This report presents some of their stories.

Fluctuating work and low earnings: A profile of Paul[9]

A high school graduate in his mid-twenties, Paul relies on a low annual income from two part-time jobs in school transportation. His work follows the school calendar so it is light in the summer, when he has reduced hours, and heavy the rest of the year, when he may work up to 70 hours some weeks.

Although Paul was single throughout the majority of the study and did not have rent as an expense (he was living with his mother), he struggled to get by on his inconsistent salary. He regularly spends more than he earns. Much of his earnings go towards fast food and maintaining his car, with several incidents that required significant investments in repairs. Paul resorts to personal loans from family or friends, payday loans, and credit cards when he is short on money, as he does not have a savings reserve to cope with such events.

For financially vulnerable consumers with unpredictable work schedules and income, like Paul, expenses that might not be perceived as emergencies to someone with a steady income become onerous. While Paul concedes that down times of employment are theoretically ideal opportunities to manage financial decisions—given the extra time—the stress of not having work is disabling. In other words, the emotional toll of income volatility makes taking steps to do something about it much more challenging.

Paul is conscious of the importance of saving, and he does have two retirement accounts (one that he opened through his employer near the start of the study period and one he had opened separately). Paul noted that having his retirement savings "out of sight" is an important mechanism to ensure that he does not spend it, but at the same time, he is reticent about not having more access to savings for use in an emergency. For that reason, he

9 The names of all study participants referenced have been changed to protect their identity.

has a separate regular savings account from which he withdraws more than three times each month to cover bills and expenses.

Paul's impediment to financial security is insufficient income. A higher income might help him to establish a savings buffer and not have to live paycheck-to-paycheck. Given a higher income, Paul's stress might be alleviated enough for him to confidently reassess how he manages his finances and thereby take advantage of different financial products to build a financial cushion.

Facing a lack of savings for the golden years: A profile of Silvia

Silvia is in her sixties and lives with her husband. They have two children, both of whom were in college at the time of the study. She is nearing retirement and has enjoyed financial well-being, but she has never made saving a priority. She experiences negative balances in her checking account about once a month and resorts to loans and her numerous credit cards to cover financial emergencies. For example, Silvia used a loan to cover the cost of a dental expense that was a financial emergency.

Prior to the study's onset, Silvia and her husband were both employed and had a combined household income that allowed them to live comfortably; however, Silvia lost her job just prior to the first interview. When she experienced this abrupt change late in her career, she did not have traditional savings to turn to; she acknowledges that she and her husband were not always good savers, especially when her children were at home and her expenses were higher. While she was unemployed, she was able to rely on the financial support of her husband's income, but she also had to withdraw a large sum from her retirement account.

Faced with a financial shock, Silvia reassessed her savings priorities. She has the flexibility to make savings goals but still accesses credit to cover expenses. Silvia feels that only now is she in a position to make savings a priority because her expenses are lower. In addition to a PLS account, she has three retirement accounts, including a mutual fund, but she doesn't make contributions to these accounts and does not consider them as a source of accumulated savings.

Silvia's experience illustrates that a lack of financial planning and inability to predict changes in cash flow constrains one's ability to maintain savings balances. It also reveals that those with family on whom they can lean on for financial support have valuable social capital, a result of which may be that the impact of the financial "emergency" may not be as dire.

When others rely on you in times of emergency: A profile of Wendy

Wendy, in her early fifties, holds a post-secondary certificate in health administration; she works full-time in local government and makes a modest salary. Unique among participants in this study, Wendy lives in a household with members of her extended family (her mother and sister). She also has two adult children who do not live at home. She is financially vulnerability because her limited salary has to provide for the significant financial support she provides her children and grandchildren.

Wendy relies on a variety of financial vehicles to help cover her expenses. She actively uses seven credit cards, has taken from her 401K savings, withdraws from her short-term savings, and has taken out loans for unexpected expenses (such as when her son was unemployed). Despite her debt causing her some stress, Wendy does manage it and endeavors to save.

Wendy does not have a specific savings goal, but she actively uses several savings vehicles with varying degrees of liquidity – from a 401k, to a PLS account, to a physical jar at home. She automatically deposits into her retirement account each paycheck and contributes to the other accounts regularly, albeit in varying amounts. Although having retirement accounts gives her some peace of mind, she still feels as though she has not been able to save sufficiently for either the short- or long-term.

Wendy is not confident about how she manages her money. She supported her son in his time of need, but took on debt in order to do so. Though she describes herself as risk-averse, she has many lines of revolving credit. The fact that she takes responsibility for financially vulnerable family members magnifies her challenges.

Supporting children as a single mother: Profiles of Anne, Julia and Clare

Not all single parents are financially vulnerable; however, among the consumers interviewed as part of this research, respondents included three single mothers who are financially vulnerable due to the burden of raising children on their own and other financial shocks, such as divorce and job loss.

Anne is the mother of three school-aged children. She is in her late forties and has a college degree. Anne works in human services, making an annual salary equal to about 175% of the federal poverty line.[10] She feels fairly confident about managing her money, but is aware that she could be doing better to spend less. Anne's children require a lot of spending and she is determined to provide her children with all that they need. Summer months are the most difficult for Anne to build her savings, as she sends all of her children to camp and pays for childcare. For Anne, the extra expenses in the summer leave her with little extra money, so she has a hard time saving and ends up taking on debt.

Anne is working on recovering financially after a series of setbacks, including a divorce, foreclosure, and repossession of her car. Her uneven spending and income are related to financial emergencies and random sources of income. In order to supplement her income, Anne is starting her own business; she also gets some extra money in the form of child support, though it only comes when the children's father is working. Unfortunately, she also experienced a seven percent pay cut during the study, resulting in her having to drain her emergency savings to cover expenses.

Anne uses credit cards to manage her debt and also has revolving debt. In the past, she has also borrowed from family. Towards the end of the study, Anne set up her savings account to receive automatic deposits from each paycheck. She does not have a specific goal, but she is working towards getting to a place of having savings and not living paycheck-to-paycheck.

Similar to Anne's pay-cut, Julia experienced a reduction in hours at her job during the course of the study. Julia is a single mother in her early thirties with one school-aged daughter. Julia has a bachelor's degree and is working full-time in mental health while also pursuing a master's degree. After losing hours, Julia had to search for a part-time job to compensate for lost income. The job she found ended up resulting in a net gain, because the new job is closer to her home so she saves money on gas. This has helped her with her conscious effort to save each month, which is motivated by a job loss several years prior when she had no emergency savings to fall back on.

Julia has a regular savings account, into which she automatically deposits $200 each month. Her only other savings tools are a small cash reserve at home for emergencies and a retirement account, which she has only deposited into once and has not used since. Although saving is important to Julia, she characterizes it as her third financial priority after paying bills and paying down debt. Supporting herself and her daughter while managing debt is a juggling act.

Clare is the single mother of two teenagers. She makes a decent income working in finance; however, a divorce left her in financial distress from which she is still recovering. Clare used all of her savings, borrowed from family, and used a home equity loan. As a result of this experience, she stopped using credit cards and filed for bankruptcy, but she also became motivated to be a more disciplined saver.

10 The federal poverty guideline for a family of four is $24,250 in 2015. Source: *Federal Register*, U.S. Department of Health and Human Services.

Clare's primary financial goal is to save enough to be able to support her two children when they are ready for college; she has a separate account for each them and gives them savings bonds on their birthdays. For herself, Clare automatically deposits from her paycheck and started saving for retirement. Clare has limited access to credit as a consequence of filing for bankruptcy.

Nearly all of the respondents relied on some or all of their savings at some point to cover the cost of a financial emergency. Julia indicated that when she needs to access cash unexpectedly she dips into her regular savings account. Anne, too, covered two financial emergencies she experienced through savings and reducing her savings deposit. All three women have benefited from tax-time refunds. While Anne has used hers to make repairs to her home, Clare and Wendy have taken advantage of tax time to build their savings.

Prize-Linked Savings Accounts as a tool for financially vulnerable

PLS products are designed to help motivate individuals to save by rewarding smart savings behavior. Among the consumers profiled here, all except Paul had a PLS account. For Paul, it is unlikely that an account would be the intervention to bring financial stability. On the other hand, Wendy indicated that her PLS account has allowed her to hold onto her savings longer, which may put her in a better financial position for future financial disruptions.

Julia has developed a savings habit as a result of her STW account; she deposits $25 each week. She was able to start making the deposits automatic after securing a new job. She opened the account to support a goal: to one day own a house. She likes that the money is difficult to withdraw and thinks that the prizes are enticing, but the reason she continues to use the account is that she feels, in using it, she has proven to herself that she can save and watch her savings grow. She is also motivated by the feeling of being part of a community of STW account holders who are trying to achieve their dreams through savings. She, like the other single mothers D2D interviewed, has extra motivation to save on behalf of her child.

Silvia attributes STW as helping her to start saving more intentionally than she had done in the past. Like Julia, she established a goal upon opening the account: to cover three months' worth of expenses in order to have peace of mind. She also opened an additional savings account at another bank, thanks to the inspiration and confidence she got from using her STW account. This savings account is more liquid than the STW account, and Silvia wants to test her ability to save in such an account without draining her funds. Furthermore, during the study she opened another savings account (at a different credit union) that automatically saves the change on her purchases. With new savings, Silvia can build up savings to help prepare for retirement.

Despite multiple and varied financial circumstances and barriers, most of the consumers interviewed in this study were very happy to have a STW account. The accounts do not change the fact that these consumers are financially vulnerable, but they serve as a tool that works well for some to improve how they think about and manage their money. D2D hopes to gain insight, through further research on a larger scale, and with quantitative data, into how consumers' savings habits change with PLS accounts. With that information and further investigation into the rich data set from Greensboro, D2D hopes to uncover additional opportunities for innovation to address the various challenges that comprise financial vulnerability.

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Doorways to Dreams (D2D) Fund

Doorways to Dreams Fund envisions a world where the financial system promotes lasting social and economic prosperity for every family and addresses this vision through innovation, incubation, and stimulation of new financial products and policies. D2D Fund strengthens the financial opportunities and security of low and moderate income consumers by working with the financial services industry, national non-profit groups, grassroots community agencies, and public policy organizations to generate promising ideas, pilot test systems and programs, build awareness of the needs and potential of low-income communities, and advocate progressive social and economic policies.

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