Savings and Financial Education Among Low-Income Households: Focus Group Findings

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Study Overview

• Funded by Social Security Administration, UW-FLRC and Abt Associates conducted 18 focus groups with low-income people across the country

• Goal of the groups:
  – Explore attitudes toward saving, money management, and financial education
  – Understand how community-based organizations and employers could enhance efforts to provide financial education to low-income and vulnerable populations
Study Methods

• 18 focus groups, 162 people
• 12 groups affiliated with community-based organizations:
  – Community Tax Preparation (tax preparation services)
  – One-Stop Job Center (employment services)
  – Suburban Housing Services (foreclosure counseling)
  – Savings Match Alliance (IDA program)
• 3 groups with employees of a logistics center of a large national retail chain
• 3 groups with Spanish speakers: workers and small business owners
• Interviews with staff of the 4 community-based organizations
# Focus Group Demographics

<table>
<thead>
<tr>
<th>Group</th>
<th>Age</th>
<th>Race / Ethnicity</th>
<th>Income</th>
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</thead>
<tbody>
<tr>
<td>Community Tax Preparation (CTP)</td>
<td>Under 35; 35-50; 50 and over</td>
<td>Mostly African-American</td>
<td>Low</td>
</tr>
<tr>
<td>One-Stop Job Center (OSJ)</td>
<td>20s to 30s</td>
<td>Mostly African-American</td>
<td>Low</td>
</tr>
<tr>
<td>Suburban Housing Services (SHS)</td>
<td>30s to 50s</td>
<td>Mostly white</td>
<td>Range</td>
</tr>
<tr>
<td>Savings Match Alliance (SMA)</td>
<td>30s to 50s</td>
<td>Mixed race; one Hispanic group</td>
<td>Low</td>
</tr>
<tr>
<td>Logistic Center (LC)</td>
<td>Under 35; 35-50; 50+</td>
<td>Mostly white</td>
<td>Low-Mod</td>
</tr>
<tr>
<td>Hispanic Business Organization (HBO)</td>
<td>20s to 40s; nearing retirement</td>
<td>Hispanic</td>
<td>Range</td>
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Discussion Topics

• Savings Practices and Motives
  – How and why do people save?
  – What obstacles do they face in saving?
  – How do they view retirement savings, tax refunds, and IDAs?

• Financial Education and Information
  – Where do people obtain financial information?
  – What forms of financial education do people prefer?
  – When is financial education most effective?
# Who is Saving?

<table>
<thead>
<tr>
<th>Organization</th>
<th>Saving Information</th>
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| Community Tax Preparation (CTP)                  | ✓ Most not currently saving  
✓ Youngest group least likely to save |
| One-Stop Job Center (OSJ)                        | ✓ About half saving in bank, credit union, 401(k), IRA  
✓ Least likely to be saving for retirement |
| Suburban Housing Services (SHS)                  | ✓ More than half have some savings  
✓ All in financial crisis |
| Savings Match Alliance (SMA)                     | ✓ All saving through IDAs  
✓ Few saving for retirement |
| Logistic Center (LC)                             | ✓ Most saving through company’s 401(k) plan  
✓ Most have savings accounts |
| Hispanic Business Organization (HBO)             | ✓ Most not currently savings  
✓ Few have bank accounts other than business owners  
✓ Few saving for retirement |
Factors Affecting Ability to Save

• Ability to set goals
• Opportunities to save
• Knowledge of personal finance
• Willpower and persistence over time
• Attitude toward savings institutions
Savings Goals

• In general, little mention of savings goals
  
  I’ve never set a goal in my life. It’s like this is where I am now. What lily pad do I jump to now?

• Sense that some savings required before setting goals
  
  I don’t really have the money to set the goal.

• When expressed, goals typically lacked specificity and were short-term
  
  I can set a goal but once it’s accomplished, where do I go from here?

• Exception is SMA participants: very focused on goals and making regular contributions to savings accounts
Savings Opportunities

• Many felt they had insufficient income to save
  It’s hard and it does take a lot of discipline, but when you don’t have any money to save, you don’t have any money to save.

  By the time we pay bills and we eat there is not really anything left over.

• Lack of financial cushion means savings don’t last
  I had a lot of savings actually and I put a lot down on a house and then my first son lost his job again, he has serious health issues, he lost his insurance...After that, I had very few savings left and then...I have just had to use it to stay alive.

  I keep having to start over. It’s just always something.

• Lack of access to 401(k) plans or other financial tools
Gaps in Financial Knowledge

• Weak financial education as children and young adults means hard lessons learned through experience
  
  When I was younger, I didn’t understand... saving over a continual basis and not to touch the money. I have [had] a savings account since I was probably three years old and if I would not have touched or my parents would not have touched that money, I’d be a millionaire by now.

  I wish I had never gotten the eight credit cards I had by the time I was 21...oh, it was awful. And I wish my parent, my father would have taught me more about that.

• Uncertainty about future of Social Security and how much to save for retirement

• Confusion about how 401(k) programs work and penalties of cashing out
Language Barriers

• Lack of access to financial information in Spanish / issues with translation

*People just do not know where to get the information in our language.*

*I don’t understand the translation from my children, because they might use terms in Spanish that might not be understandable, or they don’t understand certain English terms. I just prefer to go to a professional so that I can fully understand what is being said because one word will change the meaning or the translation of the entire page.*

*It’s not that I don’t understand the material. It’s the translation that does not make sense... The words are not translated appropriately.*
Willpower

- Lack of willpower a major theme in all focus groups
- Many admitted overspending, especially on children
  
  *I have tried in the past to follow a written budget, however I am horrible at it. I get easily discouraged and unfortunately if I do see something that attracts my attention financially and it’s ‘ooh shiny!’ I am going to get it.*
  
  *When I had my child that’s when it got harder because it’s like I give him what I didn’t have... It’s not about me, it’s about my son. That’s where my money goes.*

- Many reported spending tax refunds on vacations or technology
  
  *I’ve gotta admit, I kind of blew it. I bought one thing I can say I need which is the iPod Touch because it kind of makes my life more convenient.*
Attitudes Toward Savings Institutions

• Frustration with traditional savings institutions: fees, penalties, poor customer service, low interest rates
  – Credit unions perceived to be more customer-friendly

• Mistrust and confusion around 401(k) plans
  
  *I view a [401(k)] as [my employer’s] money because in the end there’s always some kind of catch. I guess it’s just not trusting.*

• Some groups very concerned with privacy, perhaps linked to fear of losing public benefits
  
  *I really don’t like people to hold my money.*

  *I am not in the system. I’m not a system girl. I don’t need to put my stuff in the system.*

• Strong mistrust among Spanish-speaking groups: participants reported investing in property rather than saving in banks
What Works for Saving

• Many participants using practical techniques
  – Collecting loose change in “penny jar”
  – Bargain shopping (though not clear extra $ going to savings)
  – Making money inaccessible to themselves

• 401(k) an effective tool for participants with trust in their employers (Logistic Center groups)

• IDA program participants highly motivated
  – Participants value coaching component of financial education
  – Said were likely to save after the match ends

• Life events (negative or positive income shock, birth of child, aging) can change attitudes and motivate greater savings
Sources of Financial Information

- Most commonly cited source is family and friends
  - Friends in financial industry, proven financial ‘winners’
  - Family role models, e.g., grandmother who lived through Depression

- Television and radio
  - Segments on national and local news
  - Talk shows (e.g., Oprah)
  - Financial programs on cable TV

- Internet
  - Most have access in own homes or through libraries or friends
  - Most browse financial information on news sites (CNN, MSNBC, Univision)
  - Some skepticism of information found online and reluctance to share personal information online
Sources of Financial Information (cont.)

• Community-based and nonprofit organizations
  – High level of trust in these organizations

• Employers
  – Potentially strong source of financial information if employer is trusted

• Banks and other financial institutions
  – Frequently used, but some mistrust of banks’ motives
  – Credit unions viewed more favorably

• Churches and other places of worship
  – An important source for participants in tax preparation and foreclosure counseling groups

• Experience and ‘school of hard knocks’
Financial Education

• Participants eager for financial education:
  – General saving and budgeting
  – Retirement planning and 401(k)
  – Investments and mutual funds
  – Student loans

• Interest in both group settings and one-on-one

• Strong interest in coaching and peer support groups because of long-term engagement and focus on behavior change

• Mixed support for financial education packaged with other services (foreclosure counseling and tax prep) and for employer-based education

• Little interest in online education, but also little experience
Study Implications

• For basic saving, behavior appears to be a greater impediment than lack of knowledge
  – Many people know how to save but don’t act on their knowledge
  – Strong support for financial education methods focused on behavior

• Gaps in knowledge regarding 401(k) and saving for retirement suggest continuing need for content-based education

• Mistrust of financial institutions (and employers) a major concern for some groups
  – Opportunity for community-based organizations to partner with banks and employers for financial education

• Language barriers persist for Spanish speakers

• Ambivalence toward online education warrants further exploration
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