

Financial Concerns of Low-Income Families

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One of the primary concerns among low-income individuals is how to manage their financial resources when they often lack money to pay their bills. Low-income families are often overwhelmed by unemployment and underemployment, unexpected and expected expenses, little knowledge about finances, and predatory lending.

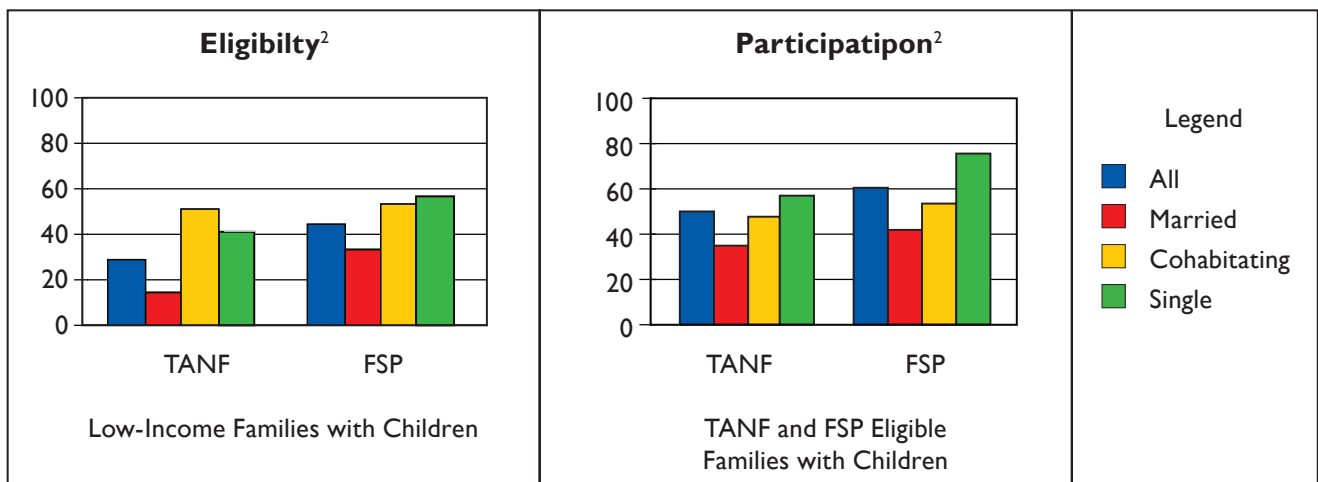
In 2005, 63.2% of people in poverty were unemployed. Poverty rates were lower for those employed part-time or for part of the year, and were lowest for those employed full-time, year-round. Among working low-income families earning within 200% of the federal poverty level (FPL):

- The average hourly wage is \$9/hour.³

- 58% are high-work families (averaging over 35 hrs/wk), 12% are moderate-work families (averaging 20-35 hrs/wk), and 30% are low-work families (averaging under 20 hrs/wk).
- Low-work families rely more on government assistance, as employment income makes up approximately 45% of low-work families' total income, compared to 89% of high-work families' total income.³

Both eligibility and participation rates for public assistance programs, such as the Temporary Assistance for Needy Families (TANF) and Food Stamp Programs (FSP), have declined in the last decade.

- The majority of low-income families do not receive public benefits, due to ineligibility, lack of awareness, and family structure (e.g., number of earners, children in household).²
- Married or cohabiting families, compared to single-parent families, may be less likely to use public assistance because of sensitivity to stigma associated with collecting public assistance or greater optimism about employment opportunities.²
- Low-income families spend from 28% (for high-work families) to 41% (low-work families) of their income (without government assistance) on housing.³



- Healthcare costs are a major concern among low-income families because they are likely to be raising children and are more likely to be uninsured (over 24% uninsured) than any other income group.¹
 - Low-income families with children spend a greater proportion of income on out-of-pocket (OOP) health care costs than do families with higher incomes. Yearly, families below the FPL spend about \$120 per \$1000 of income on OOP health care expenditures, compared to about \$56 per \$1000 of income spent by families within 100-200% above the FPL.⁴
 - The majority of low-income families with health insurance coverage use public health insurance (e.g., Medicaid, SCHIP), and families with public health insurance spend significantly less on OOP health care expenses than do low-income families with private health insurance.^{3,4}
- Roughly 33% of low-income families with children under 15 pay for childcare without government assistance.³

In the face of a financial crisis, assets (e.g., a home, savings account, retirement plans, or investments) help people recover their

financial stability. Low-income people often live paycheck to paycheck and do not have assets. This affects current and future spending.⁶ Low-income families with little or no assets:

- Are less likely to own homes.⁵
- Have less than a few hundred dollars to access in financial crisis, and have a difficult time weathering short-term loss of income.⁵
- Have the majority of cash assets in low-interest accounts.⁶
- Have a vehicle as their main noncash asset.⁶
- Have shorter financial planning horizons, are less likely to save, and are more likely to quickly deplete assets in financial crisis.⁶

Debt management varies among low-income households. It is estimated, however, that 1/3 of low-income borrowers struggle to pay bills on time. Delinquency rates in bill paying among low-income communities rise as:

- Unemployment rates increase.⁵
- Proportion of borrowers without health insurance increases.⁵
- Cost of living decreases (possibly due to more disposable income to obtain

credit and initiate debt, such as down payments).⁵

Although low-income families are less likely to be in debt than are upper-income families, on average, within the last 20 years low-income families who do borrow tend to borrow more.⁵

- The number of low-income families experiencing debt hardship (total family debt greater than 40% of total family income) has roughly doubled in 20 years.¹
- Low-income families experienced little increase in their income from 1989 to 2001, but accumulated debt faster than any other income group.⁷

Increased credit opportunities often hurt more than help low-income families' financial burden. Although there have been improvements in technology (e.g., credit reporting) that have expanded lending to low-income markets, this has generally not been beneficial to low-income families.

- Companies from credit cards to home lenders have factored in risks associated with lending to low-income persons, resulting in higher interest rates for low-income families.^{5,6}

Predatory lenders target the low-income population. With households having little cash and needing basic necessities, some lenders engage in predatory

lending, which typically involves high interest rates, excessive fees, deceptive and aggressive marketing, and a general lack of concern for a borrower's ability to repay.⁸

- A common example is payday lending, a practice where lenders use borrowers' post-dated checks as collateral to make short-term (2 to 4 week) loans with high annual percentage rates (roughly 400%).⁹
- Payday lenders target low-income neighborhoods; traditional banks avoid them.¹⁰
- The typical payday loan borrower has low to moderate-income. At least 20% of payday loans are made to those with incomes under \$15,000 per year, and 40% are made to those with incomes between \$15,000 to \$25,000 per year.¹¹
- The costs of payday loans greatly increase as loans are continued (e.g., renewals, rollovers, additional advances), and most payday loan borrowers have multiple loans (both concurrently and throughout the year).¹¹

Low-income families may be further disadvantaged because of a lack of financial knowledge. Americans in general are not well educated on financial issues, and the low-income population is even less knowledgeable.¹²

- Areas of limited financial knowledge include (rank ordered, with least knowledgeable first):
 - Saving and investing.¹²
 - Awareness and utilization of public and work related benefits (e.g., health insurance, subsidized childcare, the Earned Income Tax Credit).¹²
 - Predatory lending practices.¹²
 - Credit use and interest rates.¹²
 - Banking practices (e.g., overestimating the costs of maintaining traditional bank accounts while underestimating the costs of check cashing exchanges).¹²

Little is known about low-income couples' money management strategies, but they are no more likely than higher-income couples to:

- Maintain joint or separate accounts.
- Employ gendered decision-making in household money management (e.g. the man pays the bills and gives, the woman an "allowance" for spending).¹⁵

Low-income couples may delay marriage due to financial concerns, including

financial stability, responsibility, and the acquisition of assets.¹⁶

Across income groups, financial tasks are most often shared tasks for cohabitating and married couples.

- Equal or joint household money management (equal financial decision making) is the most common style for first marriage, cohabiting, and remarried couples.¹⁵
- Cohabiting couples are much more likely than first marriage couples to use separateness (e.g., separate accounts and financial obligations) or division of labor money management styles.^{14, 15}
- For low-income couples with a new baby, those using separate income organization were more likely to divorce (at 1.5 yr follow-up) than were couples using pooled "common pot" income organization.¹³

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