

Extended Family Strives to Get Ahead

U.S.
Financial
Diaries

The Rodriguez Family : California

The Rodriguez family is a multigenerational household living in a small town near San Jose, California. Maria Rodriguez, 60 years old, lives with her husband Dean, 75; her mother, Regina, 83; and her two sons, Martin, 36, and Daniel, 34. (Names and details have been changed to protect the participants.) The Rodriguez' enjoy a measure of financial health and security. Maria and her husband, Dean, will soon have the first mortgage paid off on their four-bedroom, two-bathroom house. Buttressed by regular payments from Social Security and other federal benefits, the five members of the household bring in multiple sources of income that exceed their day-to-day expenses – and are also enough to pay off debts accumulated from credit card spending and a large home equity line of credit. Maria has put aside a modest amount of savings for her retirement; and she also holds two life insurance policies valued at \$250,000 each. Meanwhile, Daniel is saving for the down payment for a house of his own.

In contrast to their reasonably stable financial health, the Rodriguez family faces a series of serious health issues. Maria suffers from diabetes, depression, arthritis and gastrointestinal problems. Dean has cancer, heart disease, high blood pressure and chronic pain, among other ailments. Regina's health troubles include chronic pain, arthritis and memory loss. Even Martin, who is in his mid-30s, suffers from similar concerns, as well as alcohol abuse. Fortunately, most members of the family have health insurance, so medical costs do not feature prominently in their expenses.

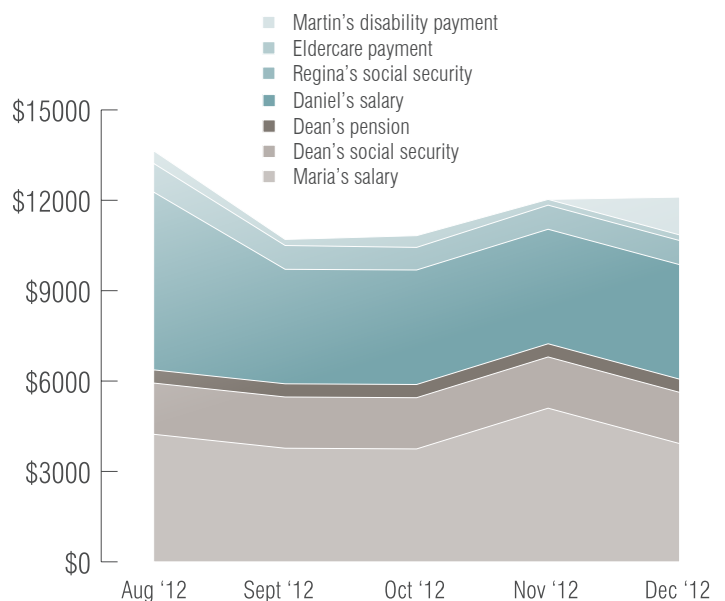
The Rodriguez' household and financial structure are potentially in flux. Regina plans to leave the house to live on her own. Daniel is engaged to be married and he aspires to buy a house of his own. Certainly, if Regina and Daniel move out, their departure would represent diminished income. At the same time, the household's largest two expense categories are variable – meals out and groceries – and these would decrease. In addition, even today, Maria and Dean maintain sole responsibility for the household's largest

fixed expenses, including their mortgage and home equity line of credit payments. Thus, it is unclear what the family's financial picture, as a whole, would look like if these shifts occur.

Income

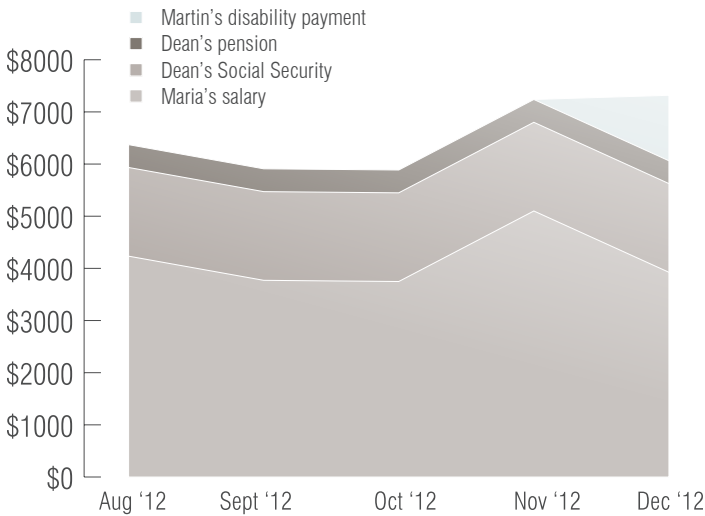
Maria Rodriguez works full-time as a social services advocate, earning around \$3,500 per month. She was named the Employee of the Year in 2012 after being nominated by her boss, though her relationship with her boss is occasionally strained. Daniel also has a full-time job, as the office manager for a construction company. His income is around \$4,000 per month. Dean collects \$1,700 per month from Social Security and Regina's Social Security nets the household around \$800 per month. Maria

GRAPH 1: Each of the household members earns some income



The principal investigators on the US Financial Diaries Project are:
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GRAPH 2: Removing income earned by Daniel and Regina presents a different picture of the household finances



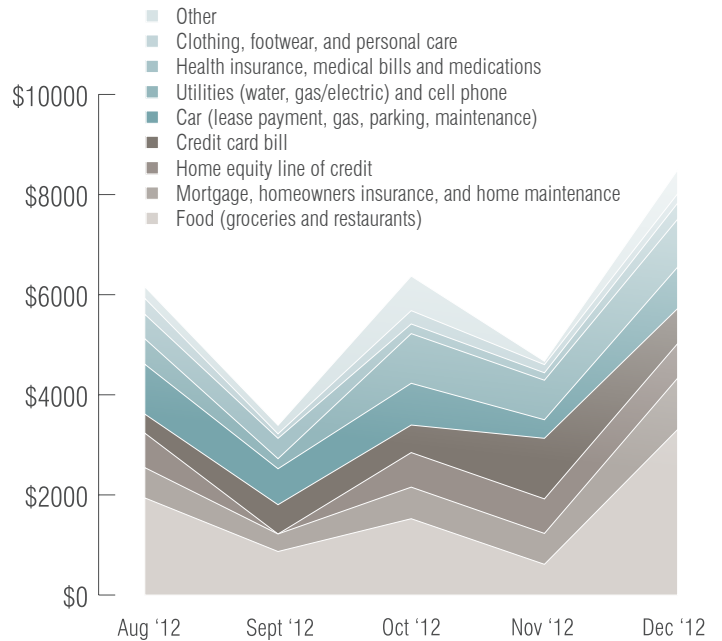
receives additional income – typically \$200-\$400 – from the government for the care of her mother. Finally, Dean has a pension that pays between \$400-\$500. In total, the family brings in \$10,000-\$12,000 each month, a sum that well exceeds average monthly expenses of \$6,500. Excluding Daniel and Regina’s contributions of \$4,800 – assuming they were, in fact, to move out of the house – and adding \$625 per month because Martin has recently qualified for disability coverage – total monthly income has the risk of declining by \$4,165 per month, resulting in a total of approximately \$5,800-\$7,800 in income (see *Graphs 1 & 2*).

Expenses

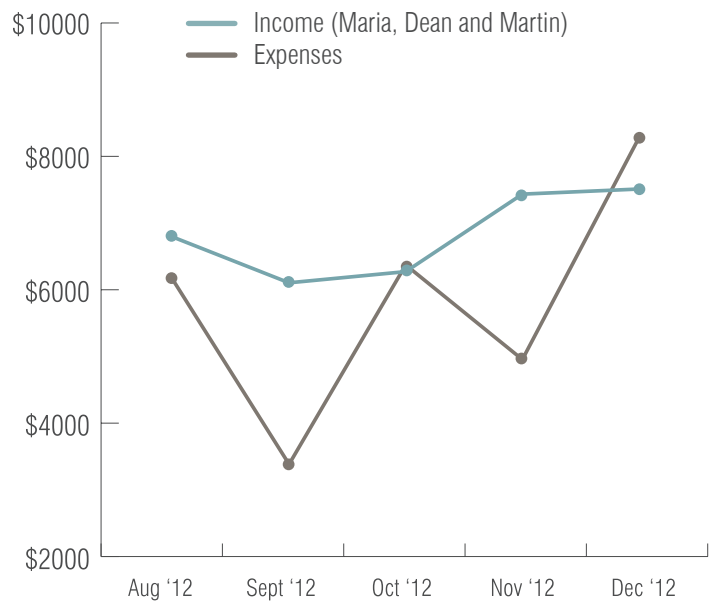
The mortgage on the home is in Maria’s and Dean’s names, and they are primarily responsible for paying all of the household’s expenses and bills. For special projects, like a major home repair, the five members of the household occasionally pool money together. The family’s largest monthly expenses are groceries and meals out – together, these typically add up to around \$1,000-2,000 each month. Credit card payments, payments toward the home equity line of credit, and mortgage payments round out the top five expense categories. Other larger categories of expenses include gas for the car, car lease payments, cell phone payments, and health insurance premiums.

Because the household does not currently pool their funds, Maria does not seem concerned about the possibility of her son or her mother departing from their household. The “excess income” in the household’s financial life today is mostly income that her son saves toward the down payment for his future house. She thinks they will be able to manage their finances and continue paying down debt without that income stream (see *Graphs 3 & 4*).

GRAPH 3: The family has many types of expenses. It is not clear how the totals will change if Daniel and Regina move



GRAPH 4: Without income from Daniel and Regina, the family may have trouble paying all its expenses



■ Budgeting

Maria is quite regimented in the way that she manages her finances. During the first week of every month, she makes payments for her home equity line of credit and her mortgage, increasing the mortgage payment by \$50 over the amount due in order to chip away at principal. She pays these automatically out of her primary checking account. She has a second checking account that she uses to pay for additional bills that come due during the first week of the month. Later in the month, she pays other bills, such as her gas, water and waste removal, from the primary checking account. Maria uses two separate checking accounts because she felt that the bank made errors in one of her accounts previously, and she feels this system gives her greater transparency and control. She is not willing to risk bouncing her mortgage check by having other payments come out of that same account during the same week.

■ Assets and Debts

Maria credits her father with teaching her the importance of saving, and she says her ability to manage her finances well is thanks to him. Indeed, looking at the family's balance sheet, the number and nature of assets the family holds paint a positive picture. Since 1995, Maria has been putting money into an annuity, which she expects to tap into at retirement. The balance of her annuity is around \$12,000. She also makes monthly contributions into two life insurance policies. One is worth an estimated \$250,000, and the other, \$130,000. Dean has another policy of unknown value. The family has several checking accounts and a savings account, which together hold balances totaling approximately \$5,000. The most favorable asset is the family's home. Maria and Dean are within five years of paying off their primary mortgage. Having purchased it in 1985 for \$91,600, they have most likely benefited from substantial appreciation in its value; according to online sources, the median sales price of homes sold in their town today is over \$400,000.

However, a significant offset to their net worth is a \$216,000 home equity line of credit (HELOC) that the Rodriguez' took out in 2004 for home improvements. Maria refers to the HELOC as "The Monster," and when asked when it will be paid off, she says "never." The monthly payment of \$690 makes up, on average, 30% of the family's total debt payments. A similar percentage, on average, goes toward the family's credit card debt, which is spread over seven cards. An additional \$490 goes toward the first mortgage. Finally, the family pays \$370 each month for a vehicle lease. On average, debt payments make up around 40% of the family's total monthly expenditures. Maria does not know the interest rates for each of these debts off the top of her head, though she is aware of the payment amounts.

■ Conclusion

The Rodriguez household's financial health reflects a series of fortuitous circumstances and good but imperfect choices – many of which represent themes that are echoed throughout the US Financial Diaries. First, **the social and financial interconnection** of this family provides all five household members with a stable financial foundation. The oldest generation is being taken care of and contributing supplemental income to help cover large expenses on occasion. The youngest generation has a platform from which to earn income and save for their futures, while still being partially supported by their parents. They also contribute some financial cushion for their parents to cover large or unexpected expenses, as necessary. So far, this has only fully worked out for one of the sons in the household. Financial interconnectedness has not been strong enough to counterbalance physical and mental health challenges for the other. Nonetheless, the three generations in this household are intertwined in ways that contribute to all of their financial wellbeing.

In addition, the household is **disciplined about savings and investment**, uses a full **range of traditional financial instruments** in order to manage their finances, and seems to have benefitted from rising home prices in their region over the long term. Because they are paying off their mortgage (and if they follow that with paying off their HELOC and credit cards), this family may ultimately achieve a high degree of financial stability.

At the same time, **some of their choices are flawed**. If they redirected their debt repayments of \$50 each month to their highest cost debt versus paying off their mortgage, for example, they could pay off all of their debt more quickly and for a lower total payment. **Saving and borrowing simultaneously** is also a complicated decision. Depending on the structure of their insurance policies, for example, the Rodriguez' may be better off paying down debt before investing in annuities and insurance policies. Furthermore, it is easy to see how one wrong decision or one unlucky event could derail this family from its upward trajectory: For example, if they misjudge the financial consequence of Regina and Daniel moving out, they could find themselves painfully overextended. These are **complicated trade-offs** faced by households of every income level. Financial product design and supportive financial services policies, as well as creative approaches to disclosure, have the potential to improve the ability of households to manage these trade-offs in ways that maximize their financial health.

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New York University's Financial Access Initiative (FAI), the Center for Financial Services Innovation (CFSI), and Bankable Frontier Associates (BFA) will collect and analyze detailed cash flow and financial data from more than 200 families in the US over the course of a year. The study will provide an unprecedented look at how low and moderate-income families—in four regions and 10 distinct demographic profiles—manage their financial lives. The landmark study will greatly improve the ability of policymakers, nonprofits, and the financial industry to understand the needs of these households and increase the quality and accessibility of financial services. Leadership support for the US Financial Diaries Project is provided by the Ford Foundation and the Citi Foundation, with additional support and guidance from the Omidyar Network. For more information, please visit usfinancialdiaries.com.



The Financial Access Initiative (FAI) is a research center focused on exploring how financial services can better meet the needs and improve the lives of poor households. At FAI, we systematize evidence and communicate lessons, generate new evidence, and frame policy and regulatory issues. FAI is housed at NYU's Robert F. Wagner Graduate School of Public Service. Visit www.financialaccess.org; learn more about the Big Questions in financial access at www.financialaccess.org/big-questions; follow us [@financialaccess](https://twitter.com/financialaccess).



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