Relying on Erratic Income Sources

U.S. Financial Diaries

Tim and Clara Adrian : Mississippi

Tim and Clara Adrian are in their early 30's and live in Mississippi in a four-bedroom house that they own. (Names and details have been changed to protect the participants.) They do not have any children of their own, but they regularly care for foster children, including two teenage sisters with their five-year-old brother living with them today. Caring for foster children takes an emotional toll on the Adrians. They become attached to the children that stay with them, and when they leave, the Adrians feel their absence. Their lives are full of social and family connections, and they give both time and money generously to their church and the broader community. They hosted a recent potluck dinner for new members at their Church. They worked with the Chamber of Commerce to produce a series of talks about local issues, including a recent workshop about building job skills. Clara helped to produce a community talent show, which she and a friend "mc'd". Financially, the Adrians and their family members help each other out when they can. In addition to borrowing from family to help pay bills, Tim has occasionally lent money to others in his family.

Looking at the most basic measure of financial stability, the difference between income and expenses, Tim and Clara Adrian, appear to be on fairly solid ground. Tim has a full-time job at a hotel, and Clara works part-time for a local preschool. While Tim and Clara both earn regular incomes, however, the linchpin in their budget is the income they earn from caring for foster children – income that is erratic and, in many ways, beyond their control. The payments often come after the due dates for various bills, including expenses connected with the foster children. Clara took one of their foster children for an ear exam, for example, but she did not get reimbursed for her payment to the medical clinic until several weeks later. As a result, the Adrians regularly miss payments for their recurring bills such as utilities, and it is not uncommon for them to pay a few months' worth of payments at once, along with associated late fees or penalties. They have also borrowed money from Clara's brother and cousin to make ends meet, such as when the electricity was cut off and had to be reconnected.

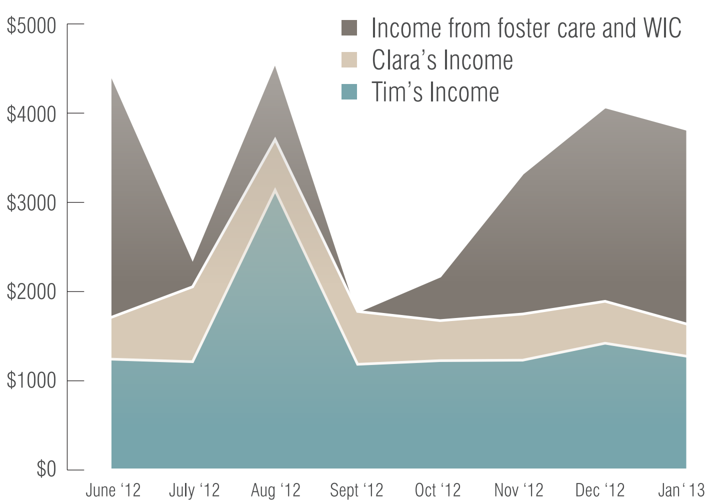
Although they sometimes pay bills late because money is tight or because the family's divided attention makes it difficult to stay on top of due dates, Clara is also strategic about when and how she pays for different services. She knows that the mortgage is due on the first of the month, but that she has until the 18th to pay it without incurring a penalty. If she needs to pay the electric bill late, she knows that if she brings her payment directly to the electric company, no late fee will be assessed. She has some leeway on how and when she pays off a credit balance of about $500 at a furniture store, because she knows the owner of the store. The family sometimes faces sudden and unexpected expenditures, however, such as a $200 traffic ticket in July. That month, Clara also postponed visiting a doctor for an upper respiratory infection for a week because she had no medical insurance or funds on hand at the time.

The principal investigators on the US Financial Diaries Project are:
Jonathan Morduch, Rachel Schneider and Daryl Collins

Income

Clara, 32, works part-time at a preschool. She typically earns around $500 per month, although her monthly income ranges from $300-850. Clara also earns $10-20 a session for babysitting children in her home a few times a month. Tim, 35, works full-time and typically earns around $1,200 per month. The payments the Adrians receive from Family Services create significant volatility in their income. On average, they receive around $1,400 per month for the care of foster children, but there have been months when they received less than $500; in other months, they have earned more than $2,000. When they are not fostering children, as in September, the lack of income leaves a big hole in their monthly budget. Recently, the youngest child they support qualified for WIC (supplemental nutritional support for Women, Infants and Children), which nets the family an additional $80-100 in some months. Their total monthly income ranged from a low of $1780 to a high of $4590 in an eight-month period from June to January *(see Graph 1)*.

GRAPH 1: **The Adrian's rely on three sources of income**



Expenses

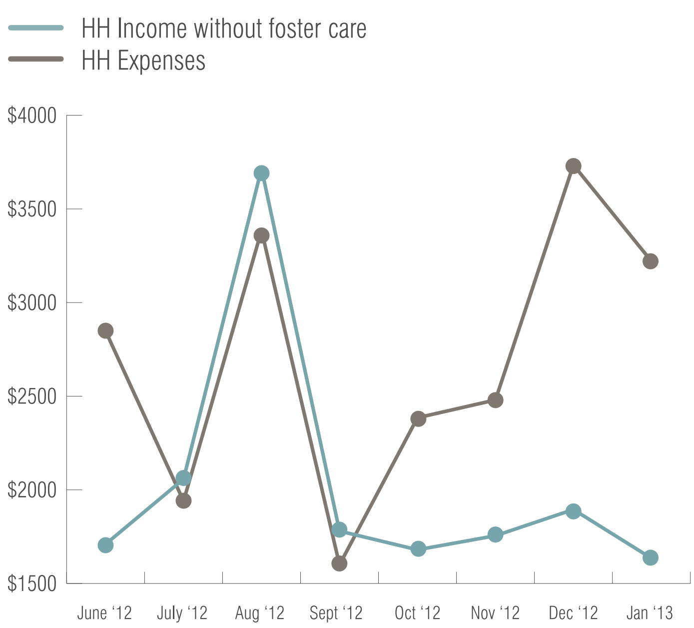
The Adrians' monthly expenses are fairly consistent from month to month. They own a house and a car, for which they make monthly payments *(see Table 1)*. They pay for cable and high-speed Internet service, cell phones, utilities, groceries and gas for their car. They make regular donations of between $100 and $300 to their church. In August, the couple spent about $800 on a trip to Panama City, Florida; they paid for this with a "personal leave check" from Tim's employer through which he was paid out for personal leave time he had accumulated. They traveled with Clara's brother and his family, and they stayed in a condo by the ocean.

TABLE 1: **Largest monthly expenses**

Mortgage	$400
Vehicle Loan	$400
Groceries	$100-$500
Cable	$200-$300
Gasoline and Motor Oil	$150-$300
Donations to Church	$100-$300
Gas/Heating	$150-$200
Electricity	$150-$200
Cell Phone Bill	$150
Vehicle Insurance	$150
Medical Expenses	$5-$175

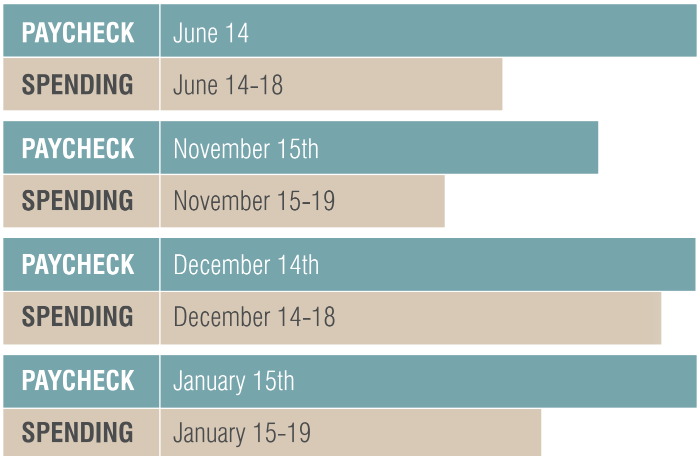
■ Expenses that vary when there are foster children in the home

GRAPH 2: **Without Income from Foster Care, Household Expenses Would Exceed Income Most Months**



In total, the Adrians' income typically exceeds their expenses. When income from foster care is excluded, however, the income/expense dynamic deteriorates and their expenses exceed their income *(see Graph 2)*. Furthermore, the receipt of a foster care payment often precipitates a flurry of catch-up spending on recurring, largely fixed expenses *(see Graph 3)*.

GRAPH 3: **The household spends income soon after it comes in, often using today's check to pay past due bills**



Assets and Debts

The Adrians manage their money mostly using cash and a checking account with an associated debit card, and they also occasionally use a prepaid debit card. They keep a small amount of savings in cash in a tin can in their home, which they consider to be for spending on "extras," like bowling and snacks. Tim has a retirement account through his employer, and the employer matches his contributions dollar-for-dollar. In 2010, Tim borrowed against his 401(k) when the family purchased their home. When the loan is paid off, he and Clara hope to borrow again to add on to their house. Debts the family holds include the mortgage, car loan, and credit due at a furniture store of about $500.

Conclusion

The Adrians' financial life illustrates particular challenges and coping strategies employed by millions of Americans. First, **income volatility** is a defining feature of the Adrians' financial lives: It creates a constant need to juggle which bills are paid, when and how, and it introduces a threat of late bill payment and penalty fees. Ups and downs in income are not always a problem, but if they are mistimed with ups and downs in expenses – or if they are large relative to the financial cushion that a family has built up – then they can become a big problem. For the Adrians, it is clear that foster care support is not a source of "supplementary" income; it is a core element of their financial management system, because without it, their recurring expenses often exceed their monthly income.

Second, **social network connections** are crucial in the Adrians' day-to-day life and they invest financially in those connections. Despite their volatile income, and pressing financial demands, each month the Adrians manage to set aside $100 to $300—significant savings that represents a sum similar to their monthly grocery bill—to give to their church. They also invest substantially in their community with both time and money, while regularly borrowing from and lending to family and friends. One can argue about whether the Adrians are wise to give away so much money, especially under financial stress. A very different question is how they are able to give away so much. Using a purely financial lens, the collection plate at church is a strikingly successful financial device. The mechanism facilitates a steady flow of regular savings, each of which is small enough to be fairly manageable but which together add up to a total amount that is benchmarked against an ambitious goal (giving 10% of income), and collection is supported by a community offering strong support and encouragement. These are the same features that make informal savings clubs works so well, where groups of friends pool their money to accumulate larger sums. These features could certainly be incorporated into other financial products and services.

Finally, the Adrians have a **financial management system** that requires significant time and cognitive investment to manage while involving considerable risk. They conduct short-term budgeting real-time, timing bill payments with cash flows and prioritizing among competing financial requirements. Some of their tactics, such as paying bills late, have adverse effects, such as higher fees or damage to their credit histories. In this sense, the utility and telecoms companies serve a similar role as a high-interest credit card, though without the temptations associated with a line-of-credit. At the same time, they have planned for the long-term, using their retirement savings to fund the purchase of a house. While we don't know how secure their financial life will be over time, for now they seem to be balancing both short-term and long-term financial demands.

The Adrians' financial life – like the rest of their life – is full, busy and complicated. They use a range of financial products to facilitate saving, spending and borrowing, including a checking account, prepaid card, mortgage, store credit, 401(k) plan and cash. These products are effective at facilitating particular types of transactions, but they don't fully leverage the strengths of this family – their connection to the community, their ongoing mental accounting and disciplined approach to giving – nor do they fully facilitate the development of a less volatile, more secure financial life. It is worth thinking about how innovative modifications to these products, or new financial vehicles entirely, could bolster the Adrians' ability to manage both their day-to-day and long-term financial needs, increasing their financial health over time.

The Principal Investigators would like to acknowledge the contributions of Joyce Roberson, Kate Marshall Dole, Anthony Hannagan, MP McQueen, Timothy Ogden and Laura Starita in generating this U.S. Financial Diaries household profile. In particular, this profile could not have been completed without Nancy Castillo's indefatigable management of the fieldwork.

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**.

The Center for Financial Services Innovation (CFSI) is the nation's leading authority on financial services for underserved consumers. Through insights gained by producing original research; promoting cross-sector collaboration; advising organizations and companies by offering specialized consulting services; shaping public policy; and investing in nonprofit organizations and start-ups, CFSI delivers a deeply interconnected suite of services benefiting underserved consumers. Since 2004, CFSI has worked with leaders and innovators in the business, government and nonprofit sectors to transform the financial services landscape. For more on CFSI, go to **www.cfsinnovation.com** and join the conversation on Twitter at **@CFSInnovation**.

Bankable Frontier Associates (BFA) is a niche consulting firm based in Boston, focused on a specific purpose – supporting our clients in their efforts to expand financial services to the poor. Our approach is to facilitate strategic thinking about emerging markets and products. We are committed to working in partnership with cutting edge development organizations which include policymakers, regulatory agencies, private foundations, banks and other providers of innovative financial services. For more information, please visit **www.bankablefrontier.com**.

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.