Getting By with Limited Resources

U.S. Financial Diaries

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Lauren Walker, 29, is a single mother living with her four-year-old son Riley in a rented townhome in a small town in eastern Mississippi. Lauren works full time as an administrative assistant for a local construction and engineering firm, and she covers her frugal needs with her annual income. But the annual perspective hides months lived very close to the financial edge. She carefully manages her spending, all the more necessary because a prior bankruptcy limits her credit access and she does not receive child support from her ex-boyfriend, who is Riley's father. Perhaps Lauren's greatest asset is a reliable and steady income. Even so, Lauren needs to borrow from her mother to pay for childcare so that she can work full-time. The combination of careful management, a steady income, help from family, the Earned Income Tax Credit—which she relies on to pay off her debt to her mother—and the prospect of near-term job advancement yields a hopeful financial picture.

Steadied by her predictable income, Lauren employs several financial management tactics to get by. First, Lauren is disciplined when it comes to day-to-day spending, limiting her consumption primarily to basic living expenses. For recurring bills, she times her payments throughout the month so she can pay them one-by-one in alignment with her income. She pays for larger, periodic expenses by paying gradually and planning ahead. For example, she negotiated with her landlord to pay her security deposit in installments over the course of a few months. And she began purchasing items in February for her son's June birthday. Finally, she relies on loans from her mother to pay for Riley's childcare and to help cover other unexpected expenses that occasionally arise. Most of this debt is repaid in one lump sum when she receives her annual tax refund. Lauren qualifies for the earned income tax credit (EITC). In 2013, the maximum credit for a single parent with one child was $3,250. Based on her income level, Lauren would likely have received the maximum amount, which would represent about 65 percent of her $4,713 refund.[1]

Since filing for personal bankruptcy in the wake of a divorce (prior to Riley's birth), Lauren has kept her financial life simple: most of her income and expenses are run through her checking account. She has few assets and no formal bank debt. She has not applied for any type of credit or loan in the past three years; she considered applying for credit, but did not do so for fear that she would be turned down. On a scale of one to five (with one the worst and five the best), she rates her credit score as a two. When asked how she feels about borrowing from her mother, she says she does not really like to but, "it works when I need it."

Lauren does not save regularly, nor does she borrow from anyone other than her mother. She manages fairly well considering her income level, but without any savings to fall back on, Lauren is vulnerable to unexpected expense shocks. However, Lauren is conscious of the precariousness of living paycheck-to-paycheck, and her main financial goal over the next five years is to break free from that pattern. She believes she is very likely to achieve that goal, in part because she expects she will have an opportunity to move up in her company when the office manager retires in a few years.

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More about the Walkers

Lauren and Riley rent a 3-bedroom, 1-bathroom townhouse. They have lived in seven different homes in the past five years, but Lauren feels more stable now and does not plan to move again soon. Just before the USFD study began, Lauren worked in a seasonal job for two years, and received unemployment benefits in the off-season. When she got her job at the construction and engineering firm that she held for the duration of the study, she was glad for the stable income, better hours, and flexibility that enabled her to leave work when needed to take care of her son.

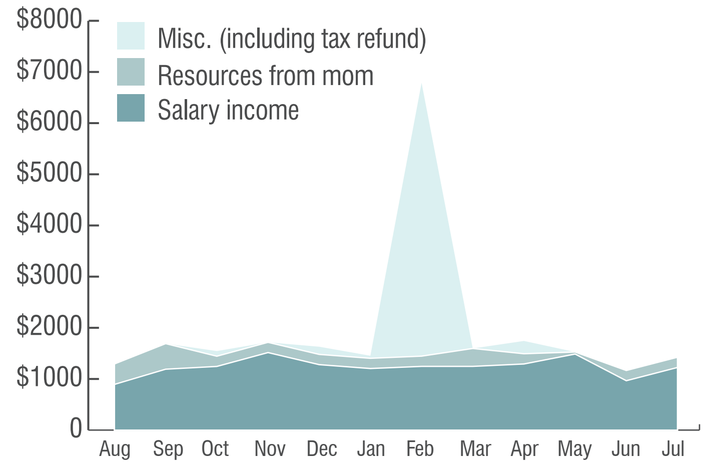
Lauren has completed some post-secondary education. She says she would like to go back to finish her college degree once Riley is in school. She gives herself a "B" grade for her financial knowledge, and she is fairly savvy when it comes to concepts related to personal finance. For example, she knows what's included in a credit report, knows the implications of making only the minimum payment on a credit card, and knows she has the right to check her credit report once a year for free. Her understanding of basic financial math is good, but her grasp of more complex concepts such as compound interest and the impact of inflation on savings is not as strong.

Lauren did not have health insurance during the study period; she felt they could not afford it. She says the lack of coverage has not hurt them—she and Riley are in good health. Lauren only visits the doctor once a year and plans ahead financially for those visits.

Income Statement

Lauren typically earns $297.66 per week from her hourly job as an administrative assistant and she is paid every Friday. She makes a little more in weeks when she works overtime, and a little less when the office is closed for holidays or she has to leave early or miss work because Riley is sick. Her total income from her job is typically around $1,200-$1,300 per month. Lauren receives an additional $200 each month from her mother to pay for Riley's childcare. Her mother also helps out with other expenses, such as unexpected medical bills. The money that Lauren's mother provides for childcare expenses is a loan, though the terms are quite loose.

FIGURE 1: **Lauren's Reliable Income**



Lauren's largest monthly expense is her rent, which is $450, followed by childcare expenses of $200, groceries (average close to $200/month), and gas for her car (average $130/month). In total, her expenses average around $1,500 per month. Lauren stays current on all recurring bills, and her payment pattern is consistent from month to month. She almost always pays her rent on or before the first of the month. On the first of the month, she receives $200 from her mother and immediately uses it to pays for Riley's childcare. She pays her electric bill during the first week of the month, and her gas bill during the last 10 days of the month. Checks are Lauren's preferred mode of payment for bills. She occasionally uses cash for childcare and meals out; however, for the majority of her spending—on groceries, gas for her car, etc.—she uses her debit card.

FIGURE 2: **Lauren's Expenses**

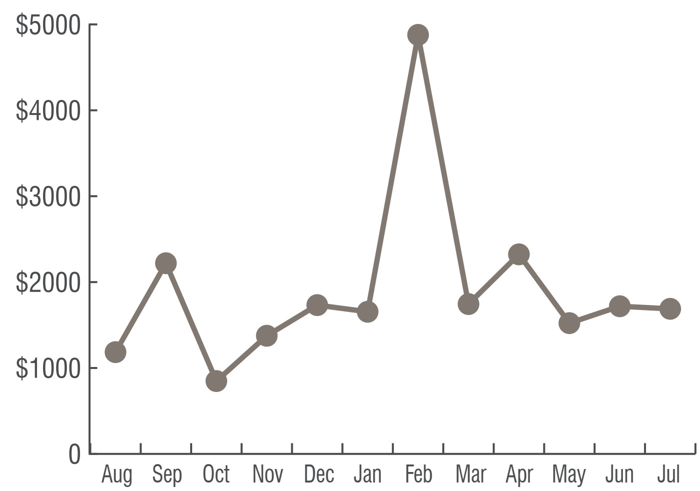
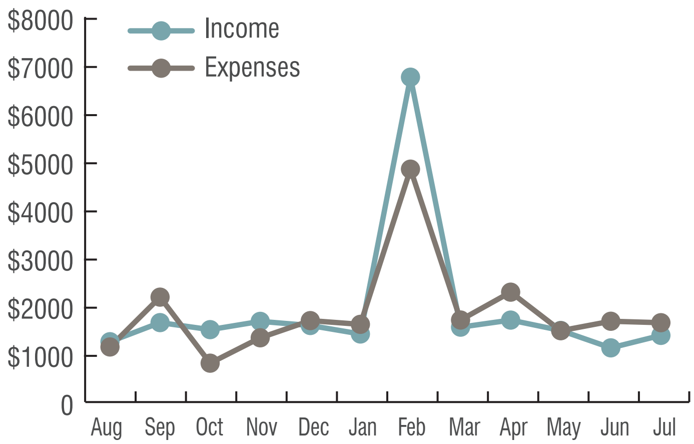


FIGURE 3: **Lauren Has Little to No Slack in her Monthly Budget**



Balance Sheet

Lauren has few assets. She owns her car, which she bought used with cash from her 2012 tax refund. She also owns Apple, Inc. stock, a gift her parents gave her in the 1990s. She knows she owns a small number of shares but does not know the value of the stock, though she believes it is likely to increase due to the popularity of Apple products. Lauren has had the stock for so long she does not think of it as an asset or as a source of money that she could access in the future. She is savvy enough to figure out how to sell the stock, but she does not seem to be interested in doing so.

How Should the EITC Be Paid?[2]

There has been past debate over the best way to distribute the EITC to maximize the benefits for those who qualify. One argument is that EITC payments would be more useful if spread over the year rather than delivered in a lump sum. In practice, the EITC advance payment option was canceled largely due to low take-up. A large lump sum payment can be beneficial because many low- and moderate-households find it difficult to accumulate savings otherwise. Another experiment of a matched savings program called SaveUSA, which was designed to encourage saving of EITC payments, produced mixed results. Lauren's story offers support for both perspectives and it's unclear which would benefit her more. She must borrow all year in anticipation of her tax refund to meet her child care expenses. However, while she does not save during the year, she is able to set aside a portion of her EITC as a cushion she would not have otherwise.

Lauren also has no formal debts from any financial institution. Her borrowing activity is limited to the help she gets from her mother for childcare and other expenses. Lauren also has borrowed from her mother by spending on her mother's Walmart credit card, which Lauren repays bit-by-bit as she is able. When she moved into a new apartment in the summer of 2012, she also received a form of credit from her landlord, who allowed her to pay the security deposit on her apartment in installments of $100 and $125 over the course of a couple of months.

Net Income over Time

The following pages offer a more detailed picture of Lauren's cash flows during the study period. In August and September, she spent money as she made it, so her cumulative net income remained near $0. In October and November, her expenses were a bit lower than usual, and in November, she received five paychecks instead of four due to the calendar; as a result, she gained some ground. She remained steady through the winter months until she received a large influx of cash in the form of her tax refund in February 2013. While she immediately paid off her largest debt (to repay her mother for her contribution toward Riley's childcare expense) with about half of her refund, she held on to the other half, chipping away gradually at the money that remained over the several months that followed.

It is important to note that the household data that was collected as part of the U.S. Financial Diaries Study is self-reported and thus subject to error and omissions. It is likely that some periods of time are more fully reported than others. In addition, because income generally represents fewer cash flows than expenses, income is more likely to be fully reported than expenses. Expenses likely do not reflect the true extent of the household's spending. Finally, the weekly sums do not reflect actual account balances, but rather the net of the household's reported income and expenses in each week and month.

December 2012[3]

December 2012 was a typical month for Lauren. Her salary of $1,280 was slightly higher than the average. Her total expenses of $1,680 for the calendar month were slightly above average.

FIGURE 4: **December Overview**

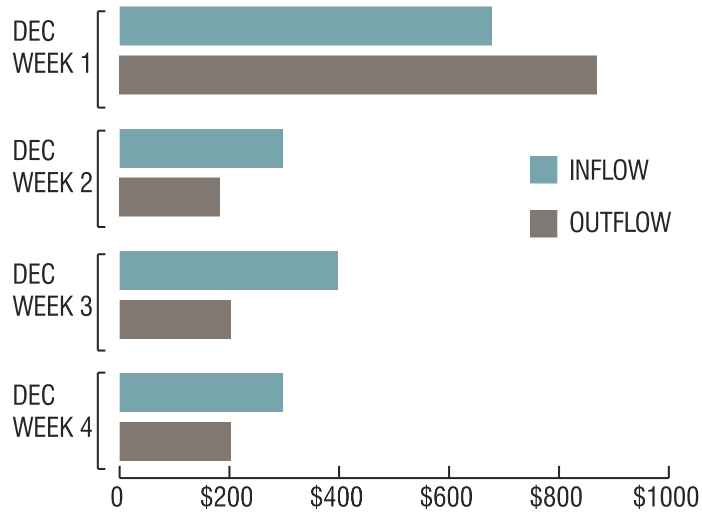


TABLE 1: **December Cash Flow Ledger**

WEEK	INFLOWS	OUTFLOWS	WEEKLY SUM	ACCUMU-LATION
DEC 1	+ $298 in salary + $200 from mom for childcare + $180 charged on mom's credit card	- $450 on rent - $200 on childcare - $65 on medical services - $47 on groceries - $33 on gifts - $31 on gas for car - $26 on gas/heating - $16 on meals eaten out	-$190	-$190
DEC 2	+ $298 in salary	- $80 on gas for car - $80 on electricity - $23 on diapers/child supplies	+$115	-$75
DEC 3	+ $298 in salary + $100 gift card	- $100 on cell phone bill - $50 toward mom's cc bill - $27 on gifts - $27 on diapers/child supplies	+$194	+$119
DEC 4	+ $298 in salary	- $100 on gifts - $41 on gas/heating - $38 on gas for car - $23 on diapers/child supplies	+$96	+$215

January 2013

Lauren's January income of $1,200 was near the average, and she also received her usual $200 from her mother. The last paycheck she received for 2012 was lower than usual because she did not work on the Christmas holiday, but that lower sum was offset by a $200 bonus given to her by the company.

FIGURE 5: **January Overview**

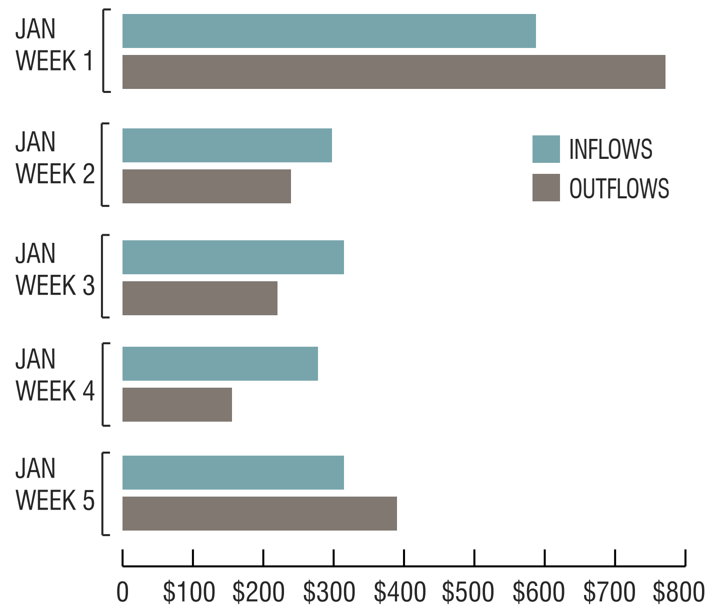


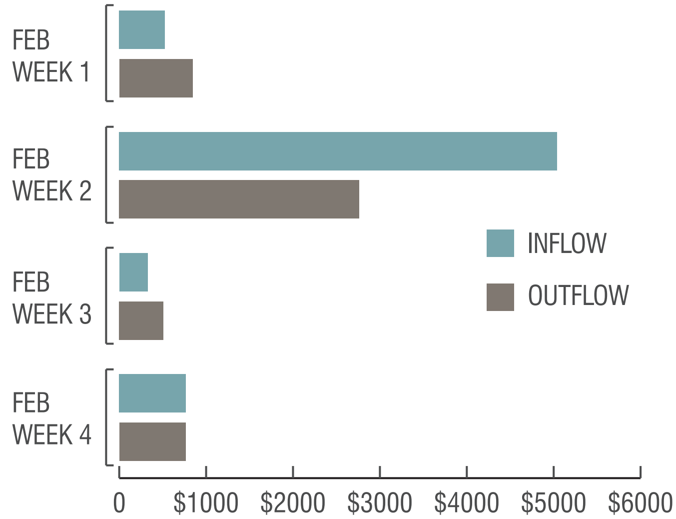
TABLE 2: **January Cash Flow Ledger**

WEEK	INFLOWS	OUTFLOWS	WEEKLY SUM	ACCUMU-LATION
JAN 1	+ $387 in salary + $200 from mom for childcare	- $450 on rent - $200 on childcare - $35 on groceries - $86 on clothing for Lauren	-$184	-$184
JAN 2	+ $298 in salary	- $64 on groceries - $79 on electric bill - $60 on housekeeping supplies - $13 on meals eaten out - $24 on other shelter/utilities	+$58	-$126
JAN 3	+ $314 in salary	- $183 on groceries - $14 on small toys/games - $23 on diapers/child supplies	+$94	-$32
JAN 4	+ $278 in salary	- $132 on groceries - $24 on pet supplies	+$122	+$90
JAN 5	+ $314 in salary	- $50 toward mom's cc bill - $43 on groceries - $41 on gas for car - $90 on cell phone bill - $58 on housekeeping supplies - $65 on gas/heating bill - $43 on water bill	-$76	+14

February 2013

In February, Lauren received her tax refund. Otherwise, her income was slightly above average at $1,246. The largest outflow in February was $2,500 that Lauren repaid her mother for Riley's childcare. Other expenses were also higher than average, including groceries ($416), and gas for the car ($197). Lauren also spent extra on clothing ($140) and miscellaneous categories like gifts and personal care.

FIGURE 6: **February Overview**

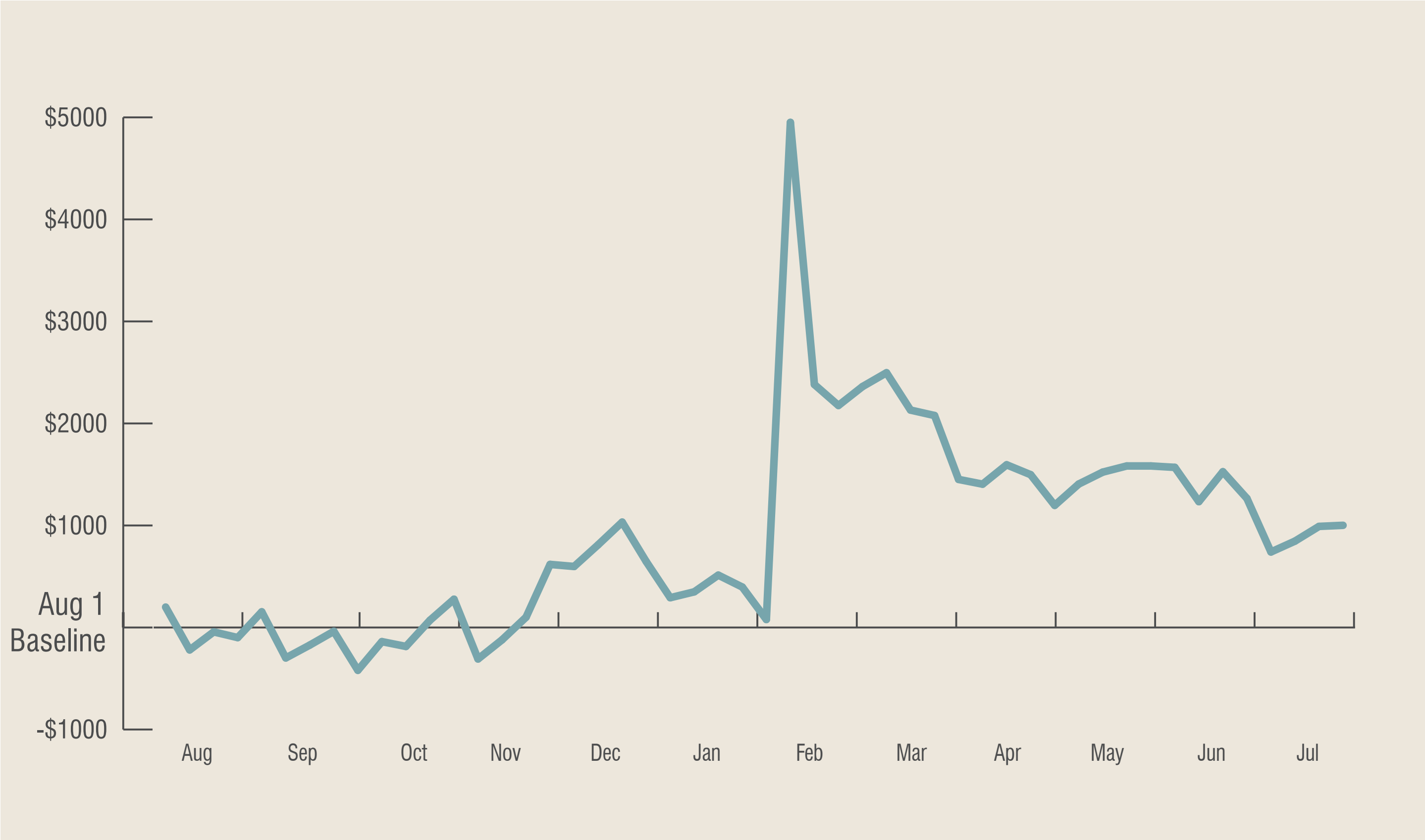


Note: The scale of Figure 6 is in thousands, not hundreds, due to Lauren's receipt of her income tax return.

TABLE 3: **February Cash Flow Ledger**

WEEK	INFLOWS	OUTFLOWS	WEEKLY SUM	ACCUMULATION
FEB 1	+ $326 in salary + $200 from mom for childcare	- $450 on rent - $200 on childcare - $72 on personal care - $65 on groceries - $41 on gas for car - $16 on small toys/games	-$318	-$318
FEB 2	+ $326 in salary + $4713 federal tax refund	- $2500 to repay mom - $97 on electricity - $50 on groceries - $43 on diapers/baby supplies - $41 on gas for car - $32 on gifts	+$2276	+$1958
FEB 3	+ $326 in salary	- $155 on water bill - $130 payment toward mom's cc - $87 on groceries - $54 on gas/heating - $40 on clothing for Lauren - $28 on misc fees - $14 on gas for car	-$182	+$1776
FEB 4	+ $268 in salary + $499 state tax refund	- $214 on groceries - $139 on cable bill - $101 on gas for car - $100 on clothing - $93 on cell phone bill - $67 on meals eaten out - $50 on amusement parks	+$3	+$1779

FIGURE 7: **Lauren's Cumulative Net Income**



Conclusion

Figure 4 shows a summary picture of Lauren's cumulative net income from August 2012 through July 2013. The image helps illustrate the fact that though Lauren's income is modest, it is consistent. Lauren is able to stay on top of her bills by employing several financial management tactics: keeping expenses low, timing the payment of recurring bills to align with her income, paying for larger expenses gradually, and getting financial assistance from her mother for childcare and other occasional expenses. While her organizational skills and discipline are foremost in her ability to manage her finances, her access to a supportive social network—in the form of her mother—for credit is indispensable as well. Even with Lauren's extreme discipline and steady income, she experiences meaningful ups and downs. Without financial help from her mother, it would be quite difficult, if not impossible, for Lauren to smooth out the ups and downs that she experiences over time.

Notes:

1. Survey data provides only the dollar amount of Lauren's total refund, not the breakdown of her refund into components, so we are estimating the contribution from the EITC using online calculators such as this: http://www.irs.gov/Individuals/EITC-Income-Limits,-Maximum-Credit--Amounts-and-Tax-Law-Updates.

2. See Holt, Steve, "Beyond Lump Sum: Periodic Payment of the Earned Income Tax Credit," available at: http://www.frbsf.org/community-development/files/Holt_Steve.pdf and *Azuria, Gilda, Stephen Friedman, Gayle Hamilton and Caroline Schultz, "Encouraging Low and Moderate Income Tax Filers to Save," MDRC, April 2014, Available at: http://www.mdrc.org/sites/default/files/SaveUSA_report_1.pdf.*

3. The household data collected for the U.S. Financial Diaries Study is self-reported and thus subject to human error, including omissions or inaccuracies. Lauren's income and expense ledgers have been adjusted where data may have been recorded incorrectly. Specifically, there was an adjustment to the timing of her rent payment in December, and a missing rent payment added in January.

The U.S. Financial Diaries Project collected detailed cash flow and financial data from more than 200 families over the course of a year. The data provide an unprecedented look at how low- and moderate-income families—in four regions and 10 distinct demographic profiles—manage their financial lives. USFD was designed and implemented by Jonathan Morduch of NYU Wagner's Financial Access Initiative, Rachel Schneider of the Center for Financial Services Innovation, and Daryl Collins of Bankable Frontier Associates. Morduch and Schneider are the Principal Investigators for the ongoing analysis of the data. For more information, please visit **www.usfinancialdiaries.org**.

The Financial Access Initiative is a research center housed at NYU Wagner focused on exploring how financial services can better meet the needs and improve the lives of poor households. **www.financialaccess.org**

CFSI is the nation's authority on consumer financial health. CFSI leads a network of financial services innovators committed to building a more robust financial services marketplace with higher quality products and services. **www.cfsinnovation.com.**

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