Getting Through a Tough Year

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Elena Navarro is a single, 27-year-old woman living outside of San Jose, CA. Elena is bright and engaging. She has a bachelor's degree and ambitions to attend law school. When the U.S. Financial Diaries (USFD) study began in July 2012, she held a job at a mental health services agency working with clients.

While Elena's degree and experience qualify her for jobs that pay well above the poverty line, she has nonetheless experienced many setbacks and lives close to the margin. Without her resourcefulness and considerable help from her sister, it is easy to see how these challenges might have derailed her significantly, perhaps permanently. She lived in seven different homes in the five years leading up to her participation in the study. She separated from her then-husband in late 2011, and moved in with her sister and her mother. The three continue to share her sister's one-bedroom apartment.

Elena's financial life is deeply intertwined with those of her mother and sister. For several months after she moved in, Elena did not pay rent. Around the time the study started in June 2012, she began contributing to rent but not toward utilities. Her mother often cooks meals for the three of them, which allows Elena to keep her in-home food costs low. Elena also occasionally uses her mother's credit card when she is bumping up against the limits on her own accounts.

In the past, Elena repeatedly borrowed money from her sister, receiving five loans in three years for expenses ranging from her law school admissions test fee to basic living costs. Elena perceives these as loans (not gifts), and plans to repay them, though there is no set schedule or plan for repayment. During the study, she did not make any payments on the previous loans from her sister, but she did borrow several hundred more dollars from her sister on multiple occasions, repaying these loans within a few weeks. At the same time, Elena helps to provide for her mother. During the study, Elena transferred more than $3000 to her; for instance, she sent $400 on two occasions when her mother was visiting family in Mexico.[1]

In addition to relying on her family, Elena uses her checking account and credit cards to bridge gaps in her finances. She monitors her bank and credit accounts using her cellphone. Still, she sometimes pays bills by check when her account balance is low or hovering near zero—expecting to deposit funds in the account before the check clears. Sometimes this strategy backfires—she overdrafted her checking account at least three times during the year, paying fees of $25–$35 each time.

Elena conducts much of her spending with her checking account, debit card, and credit cards. At the beginning of the study, she had two credit cards: one for general spending (issued by Capital One) which she tries to pay in full every month, and a department store credit card that she uses occasionally, primarily when there is a reward or incentive scheme on offer. She often carries a balance on this card. During the year, she opened two new credit accounts. In October, after delaying needed dental work for six months, she opened a credit account with a temporary 0% promotional rate specifically to finance the approximately $2000 cost. She pays the minimum payment or just a bit more each month on this account. She opened a second general purpose card

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in the spring as she became concerned about her use of and balances on her Capital One card. Near the end of the study, she was approaching her credit limit and carried balances on both general purpose cards but was trying to pay them down.

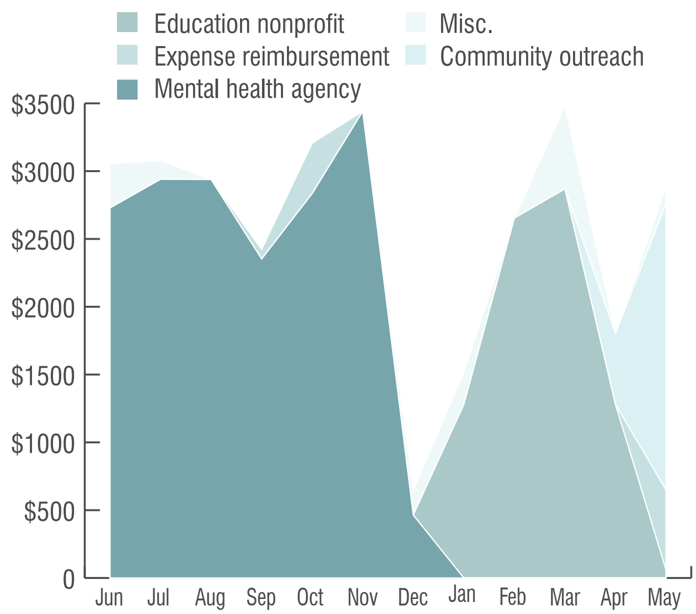
Elena advocates for herself within the financial system when challenges arrive. She called one of her credit card issuers and was able to secure a few days' grace period without penalty for a late payment. She took on $11,000 in student loans to cover living expenses while pursuing her bachelor's degree, and in February 2013, she received a bill for a payment of $500, which she wasn't expecting. It turned out that the financial institution holding the loan had the wrong address on file and she had a past-due balance. She called the financial institution and negotiated to pay $127 a month beginning in April, in addition to receiving assurance that her credit score would not be affected. At the same time, there are parts of her financial life she pays little attention to: she does not know the interest rate on her credit cards, and is unsure of the actual cost of her dental work versus the fees and interest she pays on that credit account.

Managing Life & Employment

Elena's job at the mental health agency paid well, averaging $3100 a month, but it came with a significant downside. She had to pay certain expenses out-of-pocket, averaging $500—or 15% of her monthly income—and wait for three to four weeks to be reimbursed. This added a great deal of stress to Elena's cash flow management. When she asked her boss if there was some way around this, Elena reports that her boss told her it was a requirement of the job and that "she was replaceable." After incurring the expenses for dental work in October, Elena asked for and received five more hours of work per week beginning in November. Still, it was too difficult for her to deal with the out-of-pocket expenses so she quit the job at the beginning of December.

Elena was out of work for six weeks. During this time, she earned a few hundred dollars doing odd jobs—tutoring Spanish and helping her mother clean houses. At the end of January, Elena landed a full-time job at another social service agency that paid only slightly less and did not require out-of-pocket expenses.

FIGURE 1: **Elena's Start-Stop Income**



However, the job had a different source of stress—a long commute and more work than she could keep up with during the workday. By April, she decided to leave this job for a third one. The third job, at a community outreach center, was closer to home and much less stressful, but the transition led to roughly two weeks when she was not earning anything, and the new job paid less as well. By the end of the study Elena's monthly average income had fallen to $2400.

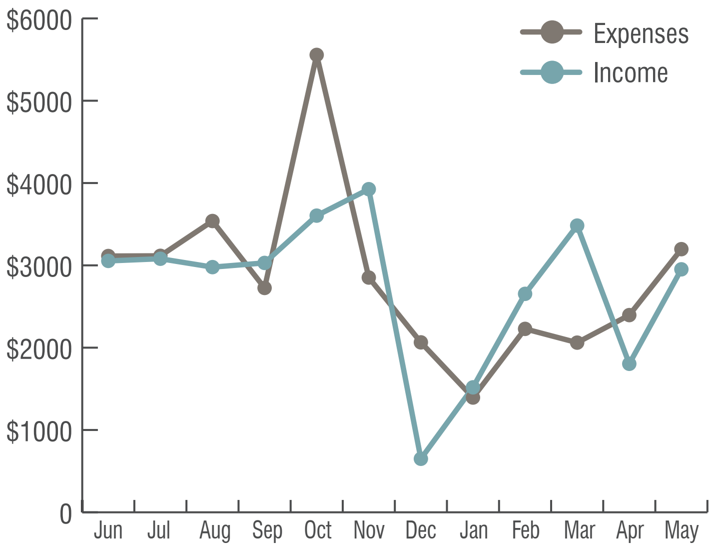
Expenses

Elena's largest regular monthly expense is her rent. Her rent payments change depending on her financial situation. For example, starting in June, she contributed $900 per month for rent. In October, when she had her dental work, she paid nothing; in November and December she paid $500. In January, when she was between jobs, she again did not pay any rent, but paid $500 a month in February, reflecting the lower earnings from her new job.

On average, Elena spends $215 per month for meals out and groceries. Most months, Elena spends $180 on her cell phone bill and averages $175 on personal care products and services, clothing, and related items (this ranges from $0 to more than $450 per month). Finally, she spends a monthly average of $170 on gas for her car. Elena owns her car and spent more than $600 over the course of the study on repairs, including nearly $400 in December when she was between jobs.

Elena does not contribute to any household bills such as utility payments, internet, or cable television. Therefore, her only fixed monthly costs are her cell phone bill, vehicle insurance of $30-$40 per month, and monthly student loan payments of $130 beginning in April. Elena primarily uses her credit cards and debit card to pay for day-to-day expenses. About 50% of her expenses are paid by debit and 30% by credit.

FIGURE 2: **Elena's Income vs. Expenses**



Assets & Debt

Elena has few assets other than her vehicle. She does not have any emergency savings, though she says if an unexpected expense of $150 came up, she could cover it out of her checking account. If she needed $500 in a week, she would turn to her credit card; if the amount were $2000, she would go to family or friends to borrow the money. Her student loans of $11,000 are her largest debt, followed by the balance carried on her CARE credit card for dental work. Most months, she makes payments of $400-$1000 and incurs charges of $400-$800 on her general use credit cards. She also occasionally uses her mother's credit card and repays her at the end of the month. Elena owes her sister $1300 borrowed during 2011 to help pay for her law school admissions test and a few other miscellaneous expenses, but this balance does not include the implicit loan Elena received to cover rent in months when she could not.

TABLE 1: **Elena's Credit Cards**

Credit Card	Reason for opening	Balance (7/2013)	Limit
Capital One	General spending	$604	$750
Citi	Overdraft protection & general spending	$765	$1000
Kohl's	Clothes purchases and discounts	$87	Unsure
CARE	Dental work	Unsure	Unsure

Cash Flows Over Time

The sections that follow provide additional detail on Elena's cash flow activity. The household data collected as part of the USFD study are self-reported and subject to error and omissions. For this household, as with many others, 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 changes in actual account balances, but rather the net of the household's reported income and expenses in each week and month. For clarity's sake, we have excluded Elena's payments on her revolving credit lines which can create a misleading impression of her actual current spending.

The detailed review of Elena's income and expenses in the following pages gives a sense of her finances from week to week. USFD tracked Elena's cash flows for more than a year, but three particular months are highlighted here: November 2012, when she asked for extra hours and made more money; December 2012, when her income dropped because she quit her job without having another lined up; and April 2013, when she transitioned to a lower-paying job. On a few occasions, we have moved income or expenses (salary, rent payments, car repairs) one day backwards or forward in order to give a more complete picture of Elena's income and expenses during each highlighted month.

November 2012

Because of a quirk of the calendar and working extra hours, Elena's income in November was the highest of any month in the study. As a result she had a considerable surplus for the month. She was able to contribute to rent again, after not doing so in October, and provided $500 to her mother.

FIGURE 3: **November Overview**

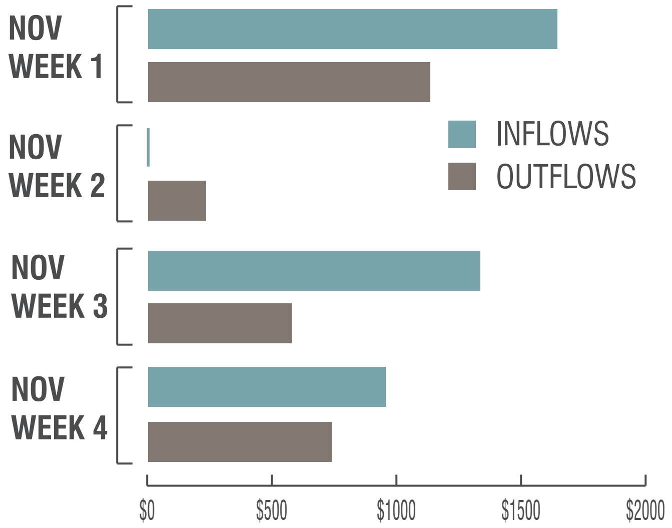


TABLE 2: **November Cash Flow Ledger**

WEEK	INFLOWS	OUTFLOWS		WEEKLY SUM	ACCUMU-LATION
1	$1184 salary from mental health center $457 expense reimbursements	$500 rent $295 meals out $90 personal care $61 misc $52 gasoline	$45 medical $38 groceries $32 vehicle insurance $19 movies	+$509	+$509
2	$0	$71 meals out $57 vehicle mainte-nance	$55 groceries $49 clothing	-$232	+$277
3	$1305 salary from mental health center $27 expense reimbursements	$180 cell phone $78 gifts $64 meals out $61 CARE card $60 groceries	$53 gasoline $47 gym fees $23 medical $10 movies	+$756	+$1033
4	$953 salary from mental health center	$500 in resources provided to mother $109 groceries	$100 repaid to co-worker $26 meals out	+$218	+$1251

December 2012

Elena's income dropped precipitously in December after she resigned from her job at the mental health agency. She picked up some odd jobs but these did not come close to replacing the lost income from her job. Additionally, Elena had a major expense in December, spending nearly $400 on car repairs.

FIGURE 4: **December Overview**

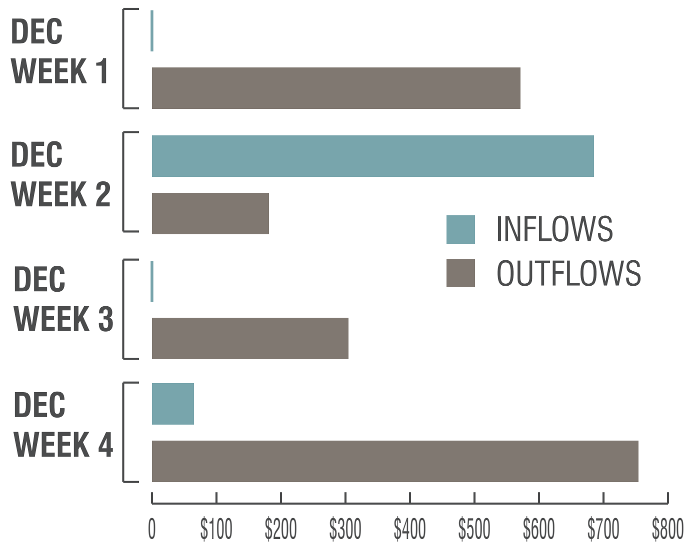


TABLE 3: **December Cash Flow Ledger**

WEEK	INFLOWS	OUTFLOWS		WEEKLY SUM	ACCUMU-LATION
1	$0	$500 rent $37 gasoline	$31 vehicle insurance $3 meals out	-$571	-$571
2	$465 salary from mental health center $120 babysitting $100 USFD gift card	$98 meals out $28 groceries $32 gasoline	$5 misc $18 on public transport	+$504	-$67
3	$0	$96 CARE card $54 groceries $47 gym fees $41 gasoline	$37 meals out $20 misc $9 alcohol at a bar	-$304	-$371
4	$65 from tutoring	$359 vehicle repair $180 cell phone $70 personal care services & products	$69 groceries $47 meals out $19 movies $10 misc	-$689	-$1060

April 2013

Elena changed jobs again in April, with a resulting dip in income as she was not working for roughly two weeks. The new job paid substantially less than her earlier jobs. Elena had a new monthly expense beginning in April: a student loan payment of approximately $130. She also spent a large amount on gifts in April.

FIGURE 5: **April Overview**

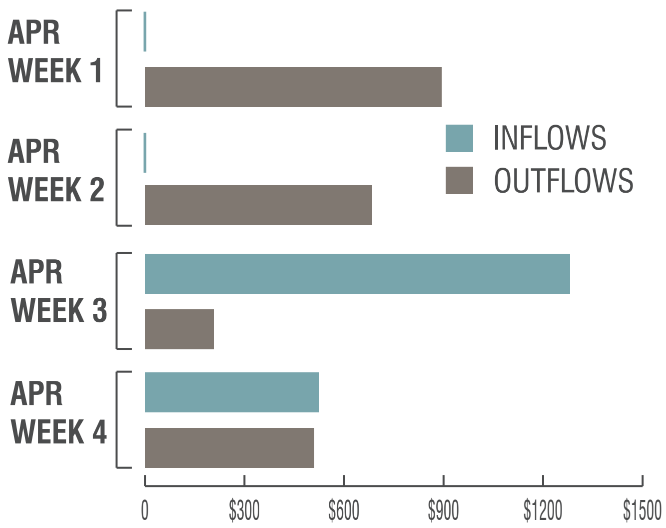


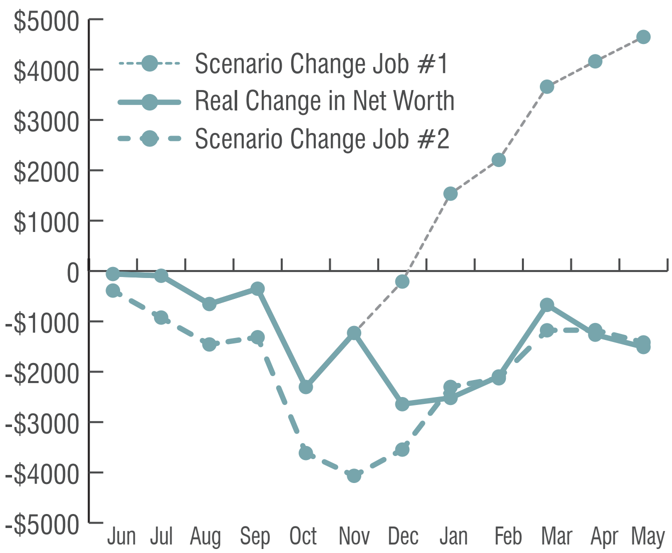
TABLE 4: **April Cash Flow Ledger**

WEEK	INFLOWS	OUTFLOWS		WEEKLY SUM	ACCUMULATION
1	$0	$500 rent $180 vehicle maintenance $60 meals out	$46 personal care services and products $41 vehicle insurance $39 misc $27 gasoline	-$893	-$893
2	$0	$318 gifts $130 meals out $127 student loan	$69 CARE Card $23 gasoline $18 misc	-$685	-$1578
3	$1280 salary from job with education nonprofit	$130 personal care services and products $40 meals out	$27 footwear $6 groceries $4 entertainment	+$1073	-$505
4	$524 salary from new job with community outreach center	$180 cell phone $125 medical $72 groceries $46 gasoline $27 personal care services and products	$22 alcohol $20 misc $17 meals out	+$15	-$490

Conclusion

Elena survived a challenging year thanks to the generosity of her sister and her ability to repeatedly find new employment. While she ended the year in a job that she feels is sustainable, she spent at least $1,000 more than she earned (See Figure 6). Three events are responsible for this gap: the cost of dental work in October and reduced earnings from changing jobs in both December and April. While Elena reduced spending as her income fell to prevent the deficit from getting out of hand, she will have to continue to reduce her spending given her lower income, her desire to pay down her credit card debt, and the need to repay student loans and other debt.

FIGURE 6: **Elena's Change in Net Worth**



As described in *Spikes and Dips*, a USFD Issue Brief examining the volatility and unpredictability of income in our sample, the level of income volatility that Elena experienced is common. People often experience gaps in pay between jobs, or need to change jobs due to other demands and circumstances in their lives.

Households need a variety of ways to manage this volatility. Relying on family and friends is a core strategy for many. Elena also uses formal services to help manage cash flow shortages. In some cases, Elena's ability to access revolving credit or take advantage of the processing period for checks is helpful. In other cases, these tools exacerbate the precariousness of Elena's situation as she incurs fees, penalties, and interest charges.

While Elena lacks financial stability and has made some costly financial choices, she also possesses considerable financial savvy. For example, she set up autopay for bills such as her cell phone bill and vehicle insurance payment, so that she doesn't incur late fees or penalties. She also creates limits for herself by not carrying much cash because she feels that she spends it too quickly. She has the confidence and competence to request extensions or restructured payments when she is unable to pay bills on time. Elena also regularly uses mobile financial services such as tracking expenses by looking at bank statements on her mobile device; making mobile transfers to pay her credit card bill; and using her mobile phone to transfer money to her mother's account. Additional tools that provide convenient, real-time budgeting information or that help her to limit her spending might work well for her.

Overall, Elena's story illustrates the challenges of people that live close to the margin. Elena clearly has the potential to climb the income ladder, particularly with a steady job and her interest in attending law school. However, the needs of the present—from the cost of maintaining her car, to supporting her mother, to paying for medical expenses—mean that she is losing ground. She relies on short-term credit card financing to smooth her consumption around the spikes and dips of her income, rather than saving. As a result, it is easy to picture Elena repeatedly frustrated as she tries to climb the ladder toward more security.

Elena's story poses a conundrum. Is it necessary to get one's present financial life in order before beginning to move up the ladder? Or is higher income and a better job the key to getting on top of current challenges? These questions in turn pose a challenge for policy and product innovators: How can people like Elena survive the precarious present without foregoing investment in the future?

Notes:

The USFD survey instrument allows respondents to separately report loans, gifts of cash or cash-like instruments, and gifts in-kind (such as free rides, providing a place to live, or free babysitting). Elena describes the funds from her sister as loans, but the money she sends to her mother as gifts.

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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