

ATTITUDES TO SAVINGS AND FINANCIAL EDUCATION AMONG LOW-INCOME POPULATIONS: FINDINGS FROM THE FINANCIAL LITERACY FOCUS GROUPS

By Jennifer Turnham

The University of Wisconsin-Madison Center for Financial Security and Abt Associates Inc. conducted 18 focus groups with mostly low-income individuals to explore how community-based organizations might encourage better financial practices, including higher savings rates, among low-income and vulnerable populations. The focus groups gathered information on savings motives, practices, and attitudes, as well as opinions about the timing, content, and form of financial education efforts. Findings suggest that educating low-income and vulnerable populations about financial concepts is important. However, efforts focused on behavioral changes, particularly strengthening discipline around savings and spending, may be more effective for promoting long-term financial well-being.

Between June and August 2010, eighteen focus groups were conducted with primarily low-income individuals to explore how community-based organizations (CBOs) might encourage better financial practices among low-income and vulnerable populations. Twelve groups included individuals participating in CBOs that offer a financial literacy component, while six comparison groups included mostly low-income individuals not affiliated with a CBO.

The main goal of the study was to explore how low-income populations understand savings, money management, and financial education, in order to enhance efforts to provide financial education via federal programs targeted at low-income households as well as employer-based programs.

The host CBOs were: Community Tax Preparation, a nonprofit organization that offers tax preparation services and financial counseling; the One-Stop Job Center, a program that provides job training, readiness, and placement services; Midwest Suburban Housing Services, a nonprofit group that provides housing counseling

services; and Savings Match Alliance, a program that provides financial products such as matched savings accounts to low-wage workers. In addition, focus groups were conducted with low to moderate-income employees at the logistic center of a large national retail chain and with members of the Hispanic Business Organization, a group that provides professional development services to organizations and communities. Focus groups varied substantially in terms of the age, race, and ethnicity of participants.

Savings Practices, Motives, Impediments, and Techniques

Many participants reported difficulty saving. For a large portion, insufficient or irregular income was a major barrier; lack of access to savings programs like 401(k) plans was also an impediment for some.

Well, the problem now is lack of work... right now, it's more survival than savings.

I would love to be able to put something away right now, but...you got to try and stun the red ink flow first.

A lack of knowledge about personal finance was another barrier to saving, resulting in missed opportunities and/or poor consumer choices. Behavior was also an issue; many participants, even those who reported that they knew how to save, indicated that they spent beyond their means.

I have tried in the past to follow a written budget; however I am horrible at it. I get easily discouraged and unfortunately, if I do see something that attracts my attention financially and it's like "ooh, shiny!" I am going to go get it.

Respondents also reported feelings of hopelessness about saving which discouraged some from trying to save (or trying again after savings disruption). In addition, distrust of institutions hindered some participants from accruing formal savings.

Finally, Finally, Spanish-speaking participants raised concerns about the availability of financial resources in their language as well as the trustworthiness of translations.

Participants who saved successfully had opportunities to participate in formal programs like 401(k)s and Independent Development Accounts or had accounts with banks or credit unions, had savings goals, were able to resist withdrawing from savings accounts and exercise discipline with their budgets, and perhaps were fortunate to have avoided unemployment and other negative events affecting their finances. Many

participants were informal savers; their understanding of the power of accumulating change might be a starting point for those who wish to draw these individuals into more formal savings programs.

Opinions about Specific Savings Opportunities

Many focus group participants recognized the need to save for retirement and did so, most commonly through 401(k) programs and IRAs, although younger individuals and those more focused on current concerns were less likely to address saving for retirement. Although many employed participants had access to 401(k) accounts, some indicated confusion about how these accounts work. With the exception of those employed by the Logistics Center, many expressed distrust of their employers' involvement in any aspect of personal finances.

I view [a 401k] as [my employer's] money because in the end there's always some kind of catch. I guess it's just not trusting.

I went in to try to find [out about retirement savings], and I'm like, oh my. It just, it was a lot of information...do they have a book...do they have like financial stuff for dummies?

While most participants were aware of their Social Security eligibility, participants expressed doubt about the future of the program, and there was some confusion about payroll deductions and future benefits.

Some respondents took advantage of tax refunds, putting the money in savings accounts or saving it for specific expenses. Others, however, viewed refunds as gifts to

be spent on luxuries.

Current Sources of Financial Information

Focus group participants described finding financial information from a variety of sources. CBOs and others seeking to improve financial literacy among low-income populations should pay particular attention to reaching people where they are—at their jobs, in the library, at churches—recognizing that different approaches will work for different populations.

Aside from family and friends, television (and, to a lesser extent, radio) was a major source of financial information for focus group participants. The Internet is another promising source of information. However, barriers include a potential lack of skill in using the Internet among older individuals and an inability to evaluate the trustworthiness of information found via the Internet.

Opinions about Financial Education

The focus group discussions revealed that people are generally eager for financial education and information, particularly if it will help them build assets and save for retirement, and they are willing to engage in financial education in different formats.

I would be more interested in the one-on-one financial counseling, just because it seems like it would be a shorter period of time and more focused on my particular situation and my needs.

While the majority of participants preferred one-on-one counseling because of its focus on an individual's specific needs, many valued group settings because of the exchange of ideas and the mutual support available. Respondents were particularly

interested in financial coaching and peer support groups, perhaps because these focused on behavior change more than knowledge transfer.

When I pick...a coach, I think it would personally give you discipline to be able to do whatever you have to do, so, I think that would be the most effective way to start saving money—and start building financial power.

Most focus group participants asserted that financial education should be offered in high school or earlier. They identified the college years as a time when people often make misinformed decisions about loans and credit cards that lead to financial problems.

[Financial education] should be taught at the school level. I mean, because let's face it...you look at the colleges, and that's where it starts. That's where bad credit starts.

Participants in select groups also discussed whether financial education should be provided alongside other services, such as tax preparation services or foreclosure counseling, and whether they would like to receive financial education from an employer. The responses to these questions were mixed, but generally suggest that counseling or services provided for issues related to household finances, such as foreclosure, offer a good opportunity to provide financial education, and that when people trust their employers, they will turn to them for financial information and education.

Implications

The focus group findings reveal several lessons for CBOs and other entities interested in improving financial literacy among low-income and vulnerable populations. Limited knowledge of, or misperceptions about, financial tools and practices (and sometimes a lack of recognition of what they did not know) often hampered positive financial behavior among participants, and knowledge can be particularly important at key points (such as foreclosure or upon employment). However, the primary need is motivation and support for people seeking to alter their savings behavior, and financial literacy interventions would do well to focus on how to help people translate knowledge into practice.

Acknowledgments

The authors are grateful for feedback from discussants and participants at the CFS FLRC Workshop held on August 24, 2010, in Madison, Wisconsin. We also wish to acknowledge the reviews provided by Christopher Herbert of Harvard University and Jonathan Spader and Meryl Findel of Abt Associates. Hanif Nu'Man of the University of Wisconsin-Madison assisted with the literature review. Katherine Dahlem served as facilitator for most of the focus groups. Finally, we thank the community-based organizations that partnered with the UW CFS and Abt Associates for this study and the 150 focus group participants who so generously shared their time and insights.

The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Financial Literacy Research Consortium. The opinions and conclusions expressed are solely those of the author(s) and do not represent the opinions or policy of SSA, any agency of the Federal Government, or the Center for Financial Security at the University of Wisconsin-Madison.

The Financial Literacy Research Consortium

The Financial Literacy Research Consortium (FLRC) consists of three multidisciplinary research centers nationally supported by the Social Security Administration. The goal of this research is to develop innovative programs to help Americans plan for a secure retirement. The Center for Financial Security is one of three FLRC centers and focused on saving and credit management strategies at all stages of the life cycle, especially helping low and moderate income populations successfully plan and save for retirement and other life events, including the use of Social Security's programs.

The Center for Financial Security

The Center for Financial Security at the University of Wisconsin-Madison conducts applied research, develops programs and evaluates strategies that help policymakers and practitioners to engage vulnerable populations in efforts which build financial capacity. The CFS engages researchers and graduate students through inter-disciplinary partnerships with the goal of identifying the role of products, policies, advice and information on overcoming personal financial challenges.

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