Financial Profile of Low Income Households: An In-Depth Look

LIFT-Los Angeles Financial Coaching Program

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Abstract

Financial coaching clients at LIFT are "Income Poor" and "Asset Poor". Paucity of assets is the direct result of low savings rates. A key barometer of success for the financial coaching program at LIFT is the ability to increase savings rates and household assets by focusing on opportunities to increase income through self-employment, complementing financial coaching with targeted financial education workshops and designing a meaningful incentivized savings program that better fits the needs of low-income clients.

Executive Summary

Opportunity to Assets (OPTA) is a social microenterprise based in Los Angeles. In 2015, OPTA partnered with LIFT-Los Angeles (LIFT) to offer training on its data-assisted financial coaching platform. The following report summarizes some of the key findings from data analysis based on a sample of 51 LIFT clients who were enrolled in the program before 12/31/2015.

Demographic data obtained from the participants indicates that the representative client is female, Hispanic, and in her forties. Clients tend to live in smaller households with an average size of 2.25 persons per household. The relatively small household size is largely due to the fact that most of LIFT clients are single parents with one or more children in the household. In fact, minors constitute more than 57% of the size of a typical household in LIFT's coaching program.

On average, one person per household is employed in a part time or full time position and the typical household monthly income is within the range of $1,650 to $2,267. Data suggests that most participants are either employed in part-time positions or otherwise receive minimum wages and work in low-skill jobs.

Clients at LIFT are heavily reliant upon income supports from public benefits programs. In fact, 32.6% of the typical household's monthly income consists of support received through such programs, including tax refunds. Overall, families are managing to get by on their monthly income as their total expenses are almost equal to their total monthly income. However, indicators of assets and liabilities reveal that the LIFT households remain financially stagnant and are stuck on the bottom rungs of the financial stability ladder. Less than 1% of their budget is allocated to saving and total net assets are negative, officially putting them in the "Asset Poor" category.

LIFT clients share most of the common markers of financially vulnerable households and their prospects for getting better jobs or making a higher income are often compromised as a result of the numerous challenges they face in their financial lives. Nevertheless, findings from our data analysis offer some recommendations to help improve their financial wellbeing over time.

In terms of employment and income, it is argued that clients may benefit from self-employment opportunities. LIFT can invest in relevant programming to offer classes to clients who are interested to explore self-employment opportunities. LIFT should consider offering additional support, for example, childcare service during training workshops and business mentoring to help clients stay on track. LIFT can also consider applying for grant opportunities such as the Individual Development Account (IDA) to offer sizable financial incentives to clients who complete entrepreneurship training and develop a plan to start their own business. In addition, LIFT's strategic partnership with the Jewish Free Loan Association means that they can also leverage additional resources to help clients with their financing needs.

Household budget figures suggest that the typical client at LIFT spends disproportionately high amounts on food and other household expenses, such as clothing and home supplies. Financial coaches can help clients trim their monthly budgets by focusing primarily on these two areas of household expenses.

Existing data on client savings suggest that families are doing poorly in this area even when compared to their peers in other programs. Evidence obtained from our data also suggests that helping families to increase their level of access to proper financial products can help families increase their savings.

In fact, even a one percent increase in the financial access score results in almost a $7 increase in monthly discretionary income (MDI). But in order to help clients take the next step in channeling their discretionary income into savings it is recommended that LIFT offers financial education workshops in addition to one-on-one coaching. To create an environment conducive to saving, LIFT should assess the appropriateness of the existing savings incentives that it currently offers to interested clients, both in terms of the amount of incentive as well as how the incentives are timed and offered to successful savers.

Introduction

Opportunity to Assets (OPTA) is a social microenterprise based in Los Angeles. The company develops technology, designs turn-key programs, and offers services to enhance the capacity and quality of existing wealth building projects and services that are offered by a variety of community based organizations in Los Angeles and neighboring regions.

In 2015, OPTA partnered with LIFT-Los Angeles (LIFT) to offer training on its data-assisted financial coaching program. Staff and volunteers at LIFT received more than 10 hours of training on key indicators of household financial wellbeing. They also received hands on training on an accompanying client management and data tracking platform called OPTA*Metrcis*. Five months after the implementation of data assisted financial coaching, LIFT had collected sample data for 51 households in its financial coaching program. The following report summarizes some of the key findings from data analysis based on this sample.[1] In an earlier report, OPTA provided results from a larger sample of 238 participants in financial coaching programs across Los Angeles. Temporal and geographic proximity of the collected data in the two samples provide a unique opportunity to compare findings from these samples and solidify conclusions, where possible.

Nature of the Collected Data

To understand the nature and scope of data collection in LIFT-Los Angeles financial coaching program, the following items summarize some of the key categories of data.

General Household Information

Data collected in this section are primarily related to identifying characteristics of the household, including marital status, household size, number of minors in the household, and other key demographic information, such as age and education levels.

Household Budget (Monthly Expenses)

This section collects an itemized list of all household expenses under eight separate categories including housing, utilities, food, transportation, debt payments, other household expenses, savings contributions, and miscellaneous expenditures.

[1] The data pull was made on 12/31/2015. As of March 2016, total number of households receiving financial coaching services at LIFT had already increased to almost 100 families.

Household Budget (Monthly Income)

Household income data is collected on a pre-tax basis and organized under three categories of earned income, income supports, and other income. Income supports includes amounts received from public and private benefits programs. Tax refunds received by the household are also captured under this category. Other income includes funds received from friends and family or other sources of passive income, such as investment income, etc.

Household Assets

Household assets are measured with respect to their degree of liquidity. Four categories of assets are defined, including liquid assets such as cash and money in the bank; near liquid assets, including money in restricted accounts such as retirement accounts, etc.; use assets, including personal vehicles or any other assets that are used in income generating activities (such as computers used for business); and tangible assets, such as a personal property used as a primary residence.

Household Liabilities

Under this category, revolving and installment liabilities are recorded separately. Information collected for every liability item includes amount of liability, monthly payments, past due amounts, first and last payment dates, and interest rate on the loan.

Measures of Financial Behavior

In addition to specific household financial information, financial coaches at LIFT use a variety of survey instruments to analyze information in the behavioral domain. These instruments provide numeric scales for behavioral constructs that can influence household financial wellbeing.[2] "Financial Access" survey was one such instrument that was used by financial coaches at LIFT. This survey, measures (on a scale of 0 to 100) the level of access to common financial products, including, checking and savings account, etc. In calculating a score, the survey also factors-in the degree of utilization of such financial products.

In addition to Financial Access, a survey of Financial Vulnerability was also administered to measure the degree to which outside influences (factors that remain outside of the control of the household, including loss of job or financial stress,) impact the household financial

[2] For example, see Joo, Sohyun, (2008) "Financial Wellness" in the Handbook of Consumer Finance Research (2008), Xiao, Jing J. (ed), Springer.

stability. Similar to Financial Access, the survey of Financial Vulnerability is calculated on a scale of 0 to 100, with larger values indicating more stable financial conditions for the household.

Demographic Profile of Financial Coaching Participants

Clients at the LIFT financial coaching program represent their entire household units. Still, it is helpful to look at some of the key characteristics of the household representative member, in terms of age, gender, and other demographic characteristics.

Close to 67% of the participants in the program are female. The average age of participants is 44.5 years (with a median of 45.5). This is slightly higher than the average age of 43 years reported for the larger sample of providers. However, the age distribution in the LIFT program appears to be more concentrated than the larger sample (see Figure 1).

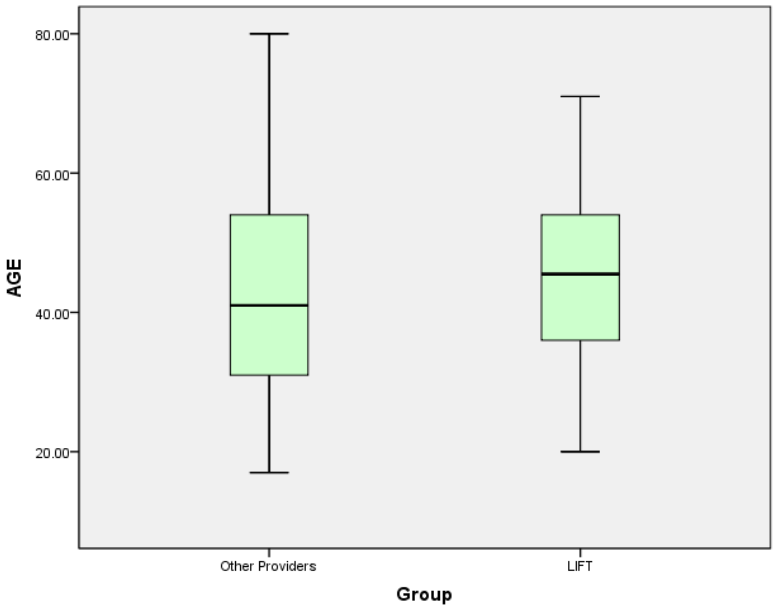


Figure 1- Age Distribution of the Samples.

A closer look at the data however reveals additional differences in the age composition of participants across the two samples. For example, married participants in the LIFT program generally tend to be younger than other providers, whereas the opposite is true for single head of household families who are divorced, separated or widowed (Figure 3).

Household marital status is another area where noticeable differences can be observed between the LIFT program and other providers. The largest share of participants in the LIFT program is 31%, and belongs to families that are divorced, separated, or widowed. In the larger sample (other providers), this group only composes 11% of the total. Instead, 38.4% of the households are married in the larger sample, whereas that number is only about 26% in the LIFT program (Figure 2).

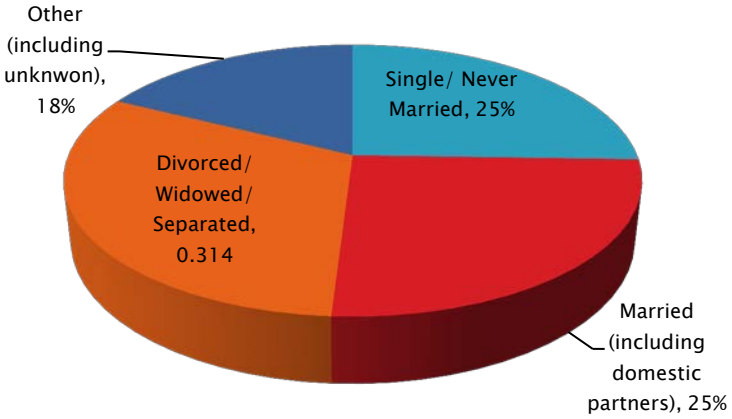


Figure 2- Distribution of Household Types in the LIFT Sample.

In terms of race, a decisive majority, 72.5%, is Latino/Hispanic and only 5.9% African American. Racial background of 21.6% of participants is unknown. Compared to the larger sample, there are also differences in the racial breakdown of program participants with Latinos/Hispanics significantly outnumbering other races in the LIFT program.

In addition to race, major differences are observed in levels of education across the two samples. 45% of participants in the LIFT program do not have a high school degree, whereas that number is only 12% for the larger sample (Figure 4).

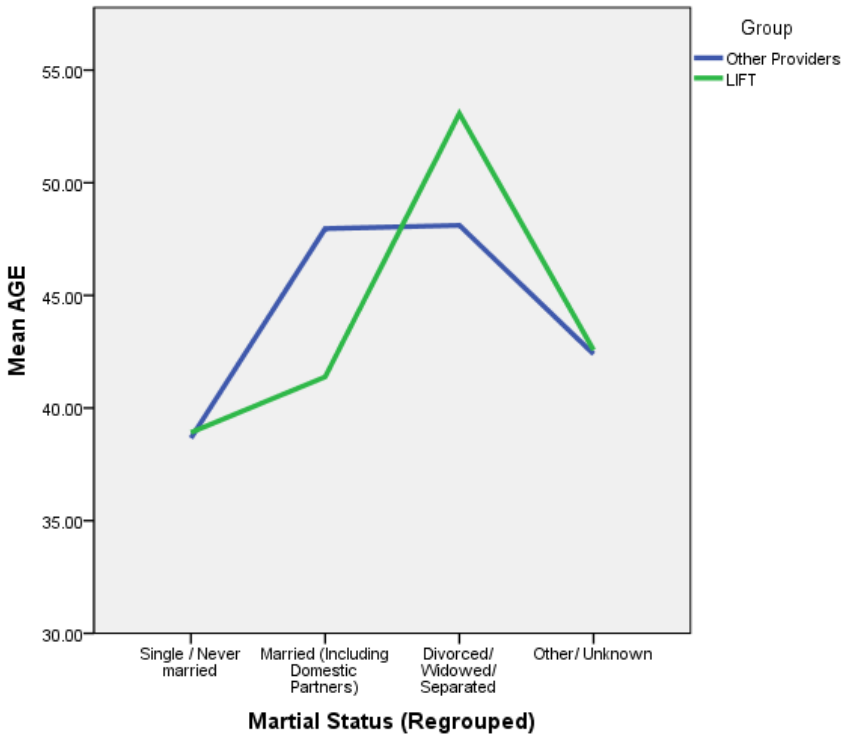


Figure 3- Average age of Participants Based on Marital Status.

Similar to observations in the larger sample, participants with a level of education below high school degree are the oldest age group in the LIFT sample with an average age of almost 48 years. In contrast, participants with some college education or those with a Bachelor's degree or higher have an average age of 37 and 39 years respectively.

Finally, one salient demographic characteristic of households in the LIFT sample is the prominence of minors, which make up over 57% of the total household size in the LIFT sample. In the larger sample of providers, share of minors on average was only 26.7%. Details regarding the breakdown of minors according to marital status appear in Table 1.

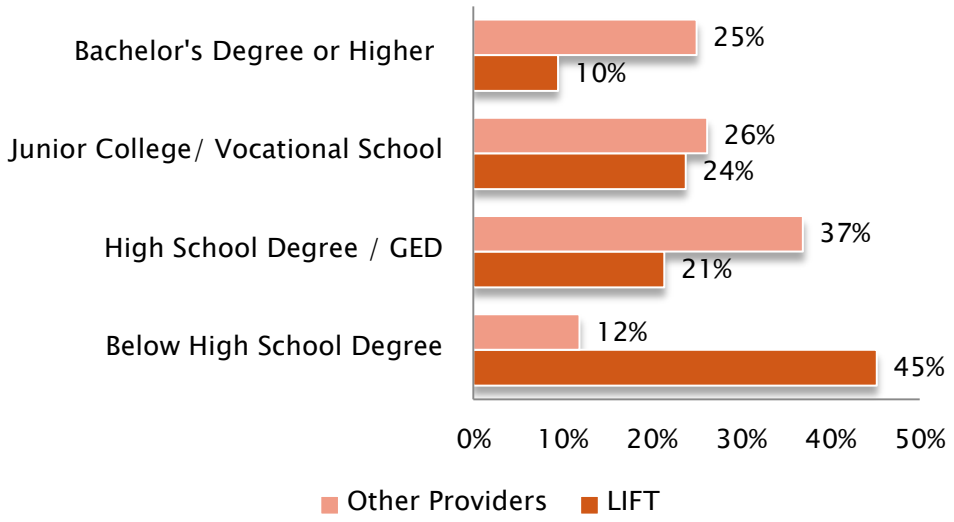


Figure 4- Highest level of Education.

In summary, participants enrolled in the LIFT financial coaching program appear to have the typical markers of financially vulnerable households. In comparison to participants in other financial coaching programs in Los Angeles, participants served through the LIFT program are more likely to be older, less educated, and be part of single-headed households. In addition, share of minors in the household, on average, is larger than 50%, indicating the prominence of household units with more than one child in the household. The financial profile of these households is analyzed in the next section.

Table 1- Household Size and Minors per Household in the LIFT Sample.

Type of Household	Average Number of Minors	Average Household Size	Share of Minors*
Single / Never married	1.00	1.85	54.1%
Married	1.62	2.77	58.5%
Divorced or Separated	1.69	2.56	66.0%
Other (Including Unknown)	0.56	1.56	35.9%
All Households	1.29	2.25	57.3%

*- Number of minors as a share of household size

Household Financial Data

Household financial data is presented in four categories; expenditures, income, assets, and liabilities. Data on income and expenditures is converted into monthly equivalents and along with relevant indicators of assets and liabilities are used to provide an objective financial assessment of the households in the sample. It should be emphasized that while the total sample size is 51, in some cases, existence of missing data resulted in a reduction of the

effective sample size. In other cases, existences of extreme outliers forced the elimination of additional data points.[3]

Monthly Expenses

Average expenses for all households in the LIFT sample is calculated at $1,939 per month. Based on the definition used in OPTA*Metrics*, monthly household expenses include payment for housing, utilities, food, transportation, existing debt payments, other household expenses, miscellaneous expenditures (such as gifts, etc.) and even contributions to saving and investment accounts. However, a closely related metric, called Total Monthly Expenses (TME) is also defined which excludes contributions to savings and investment accounts. Average TME value for the LIFT households is calculated at $1,912.

One striking result in comparing household expenses between participants in the LIFT program and that of the other providers is the proximity of estimations. More specifically, the calculated TME measure for other providers is less than $1,915 per month, only three dollars more than the number calculated in the LIFT sample. In terms of the broader measure of monthly expenses (which includes contributions to savings and investment accounts) a similar result was obtained ($1,947 for other providers compared to $1,939 for LIFT).[4]

A closer inspection of data however reveals some differences between the two samples. The distribution of monthly expenses in the LIFT sample tends to be skewed to the right, which automatically increases the average value of monthly expenses for this sample (albeit, by a small amount). One convenient way to avoid biased results from such data is by looking at the median value of expenses across both samples. In doing so, the median monthly expense for the LIFT participants was calculated at $1,721, whereas the corresponding number for the other providers was $1832.

Monthly Household Budget

Data collected through OPTA*Metrics* makes it possible to create a standard household budget for a typical client in the financial coaching program at LIFT. Accordingly, Table 2 and Figure 5 offer some insights into the financial habits and patterns of expenditure for clients in

[3] Elimination of outliers is necessitated on the grounds that the intent of the analysis is to explore relationships and categorical differences among households in terms of their financial performance and wellbeing. To obtain reliable results, statistical methods employed for such analyses require the elimination of outliers from the sample data.

[4] It should be noted that in the earlier report, the reported value for the TME was $2,094. That result was obtained without eliminating outliers from the sample.

financial coaching programs across Los Angeles. In particular, it appears that housing expenses typically claim the lion's share of all household monthly expenditure. At a median value of $700 per month, financial coaching clients at LIFT typically allocate 34% of their monthly budget to meet their housing needs. Clients at other financial coaching programs in Los Angeles tend to allocate a similar proportion to housing.

It is worth noting that the reported housing expenses are still well below existing market rates in Los Angeles. For example, the average cost for a one bedroom rental unit outside of the city center was estimated at $1,205.68 with a confidence interval of $900 to $1,500 as reported by numbeo.com.[5] Simple comparison of averages suggests that housing expenses reported by participants in the LIFT sample are on average about 40% below conservative market estimates.[6] This finding suggests that perhaps a considerable portion of clients who participate in financial coaching programs are receiving housing assistance through public or private sources. That notwithstanding, one may assume that low-income households are normally clustered in the lower end of the rental market distribution; therefore rental costs for this group may not be directly comparable to the general market averages. Regardless of how one attempts to explain this disparity, the observed housing expenses still claim a very large share of the household budget of a typical family in our sample. This limits the flexibility with which families can adjust their monthly budgets and improve their cash flow positions.

Table 2- Average Monthly Household Expenses in Each Expense Category.

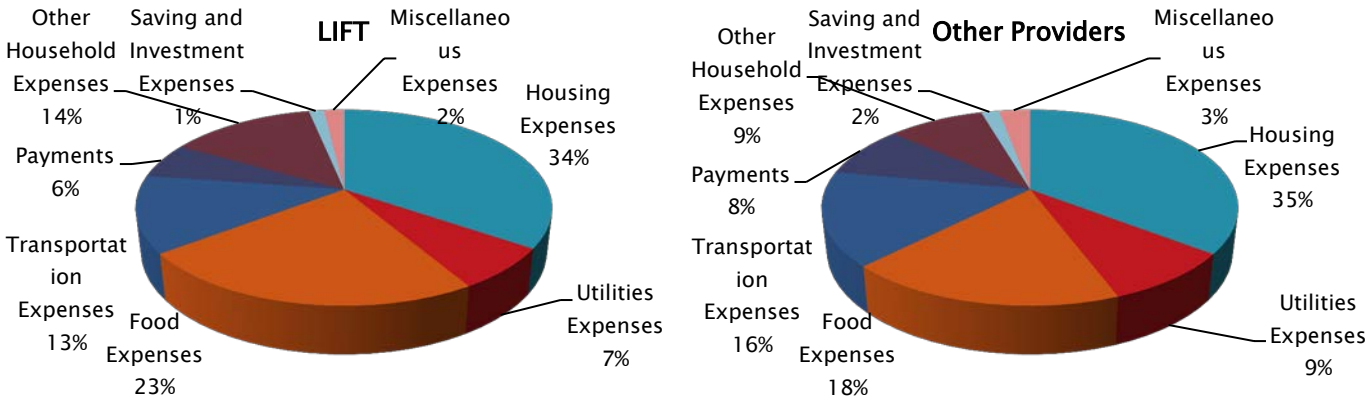
	LIFT [Interval Estimates]	LIFT	Other Providers
Housing Expenses	[$558 to $779]	$668.76	$688.89
Utilities Expenses	[$101 to $168]	$134.75	$171.84
Food Expenses	[$352 to $550]	$450.91	$356.15
Transportation Expenses	[$160 to $331]	$245.54	$302.69
Payments	[$40 to $187]	$113.25	$164.73
Other Household Expenses	[$199 to $327]	$262.68	$174.20
Saving and Investment Expenses	[$8 to $47]	$27.44	$32.47
Miscellaneous Expenses	[$11 to $62]	$36.13	$56.06

[5] See http://www.numbeo.com/cost-of-living/city_result.jsp?country=United+States&city=Los+Angeles%2C+CA. Data was retrieved on 08/16/2015.

[6] Other estimates of rental prices are generally higher than that reported above. For example, see http://www.latimes.com/business/realestate/la-fi-rents-rise-again-in-20150402-story.html

In comparing the share of expenses in the household budget, significant differences were detected in two categories of food expenses and other household expenses. Several sources of data, including the Bureau of Labor Statistics' Consumer Expenditures Survey (CES) estimate the share of food expenses for a typical household to vary within a range of 12 to 15%. In our sample of other providers (larger sample), the share of food expenses stands at 18%, somewhat higher than the CES estimates. However, in the LIFT sample, this share, 23%, is significantly higher. In addition, share of other household expenses is also disproportionately higher among LIFT clients as compared to other providers.[7] Of course, one possible explanation is that since the share of minors is significantly higher in the LIFT sample, a larger share of expenditures on food and other household items is to be expected. In most cases, programs such as CalFresh tend to inflate food expenditures in households with small children.

Figure 5- Household Budget Composition (LIFT vs Other Providers).



Food expenses do in fact increase with the number of minors. Figure 6, shows average monthly household expenditure on food for families with different number of minors. While, in general, food expenses increase with the number of minors, both in the LIFT sample as well other providers, average expenditure on food is generally higher (and in some cases much higher) for the LIFT clients. A similar pattern is observed in the category of other

[7] Using a Multiple Analysis of Variance (MANOVA) model, these differences were shown to be statistically significant at 95% confidence level.

household expenditures (which typically includes items such as clothing, entertainment, hygiene, and medical expenses).

One benefit of data-assisted financial coaching is the ability to objectively assess the household financial situation based available data. In this case, financial coaches at LIFT can identify the reason or reasons behind the elevated levels of food and other household expenditures between LIFT clients and other providers even when the number of minors is held constant. This issue becomes even more perplexing considering that the average household size of 2.25 people in the LIFT sample is smaller than the 2.7 reported for the larger sample. Addressing this issue in an effective way could mean that financial coaches will be in a position to offer better guidance to their clients on how to manage their monthly budgets more effectively and improve their cash flow position to a point that can potentially result in higher savings rates in the program.

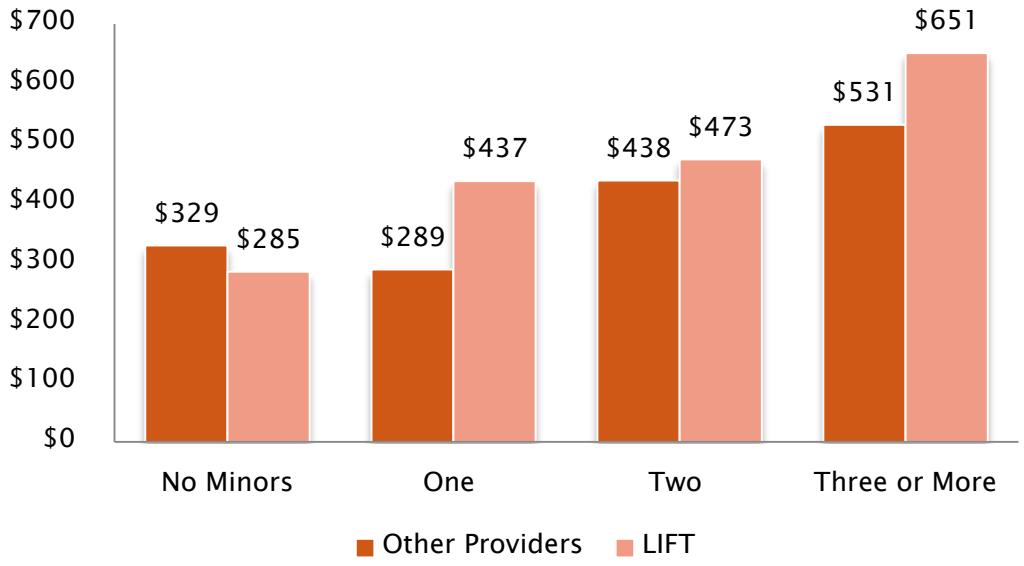


Figure 6- Monthly Expenditure on Food Based on Number of Minors.

Employment and Income

51% of clients in the LIFT financial coaching program report employment in a full time or part time position. This of course, does not mean that almost half of families don't have a source of earned income, because other household members could be in gainful employment. As a

matter of fact, when asked about the total number of jobs held by all household members, it turns out that there is an average of one employment position per household in the LIFT sample.

As expected, employment is not the only source of income for LIFT clients. Many clients receive income support through public benefits programs. In fact, income supports through public benefits programs accounts for 32.6% of the total monthly gross income for the typical LIFT client. This number is significantly larger than the 10% reported for the larger sample. This discrepancy is not surprising given the large share of minors in the LIFT sample (who are also the primary intended beneficiaries of most public benefits programs offered to low income families in Los Angeles.)

Average Monthly Gross Income (MGI) for clients in the LIFT sample falls within the 95% confidence interval of [$1,650 to $2,267] with an average value of $1,959. The median value of MGI in the LIFT sample is $1,700. These values are generally below the amounts reported for the larger sample. The average MGI for other providers was estimated at close to $2,200.

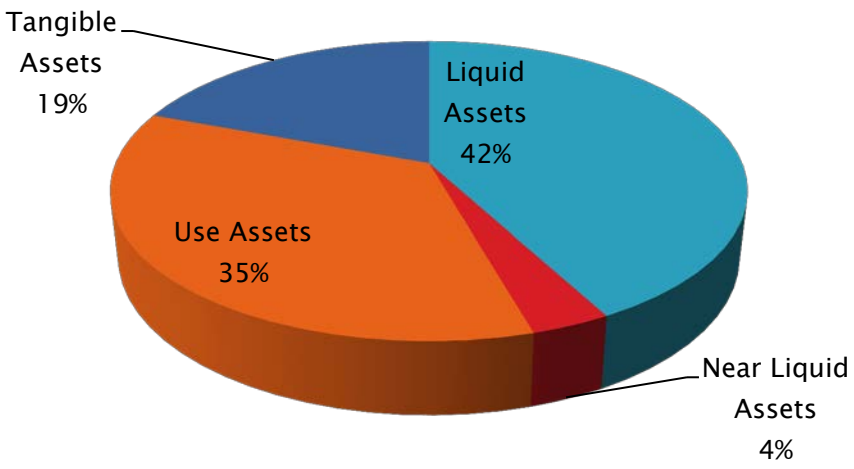
Household Monthly Discretionary Income (MDI)

The next step in the analysis of household financials is the evaluation of the household cash flow situation. Monthly Discretionary Income or MDI is a simple measure of cash flow that is calculated as the difference between net household income (after tax income) and monthly household expenses. Unfortunately, calculation of an average value for MDI proves to be difficult since biases and measurement errors in calculating total income and expenditures can be compounded when both data points are used to calculate MDI.

One way to address this problem is to subtract the reported average expenditures ($1,939) from the reported sample MGI ($1,959). Using this approach, the calculated average value of MDI is $20. A second approach to calculate the average MDI in our sample is to use existing distribution of MDI and calculate the average value of MDI after eliminating outliers. Using this approach, calculated MDI value for the LIFT sample is equal to $13. While both estimates are close and positive (indicating a surplus of income over expenditures), they are not dependable, because in the best case scenarios, a $20 surplus is only about 1% of monthly expenses, which is well within the normal margins of error for such data. In other words, calculated MDI values for the LIFT sample is not significantly different from zero. Households in the LIFT financial coaching program have managed to balance their monthly budgets.

Assets and Liabilities

Estimates obtained for assets and liabilities of households in the LIFT financial coaching program paints a grim picture of the financial situation of these households. Measurement of total asset holdings is based on asset valuations in four distinct categories discussed earlier in this report. Average value of total assets in the LIFT sample is estimated at $2,795. Liquid asset holdings (including cash and money in regular checking or savings accounts), accounts for 42% of total household assets. The second largest category of assets in the sample is the use assets (typically including the value of a personal vehicle, computers, etc.), which has a 35% share in total assets (Figure 7).



Asset values in the larger sample also remain generally low, even though they are higher than those reported for LIFT (see Table 3). The allocation of assets across different asset categories also remains fairly similar between both samples, even though the share of use assets remains larger for LIFT.

Figure 7- Composition of Household Assets in the LIFT Sample.

Table 3- Assets and Liabilities of Households.†

	LIFT		Other Providers	
	Value	%	Value	%
Assets	$2,797	100	$3,525	100
- Liquid	$1,178	42	$1,566	44
- Near Liquid	$96	4	$210	6
- Use	$982	35	$984	28
- Tangible	$540	19	$765	21
Liabilities	$4,253	-	$6,851	-
Net Assets	($1,466)	-	($3,326)	-

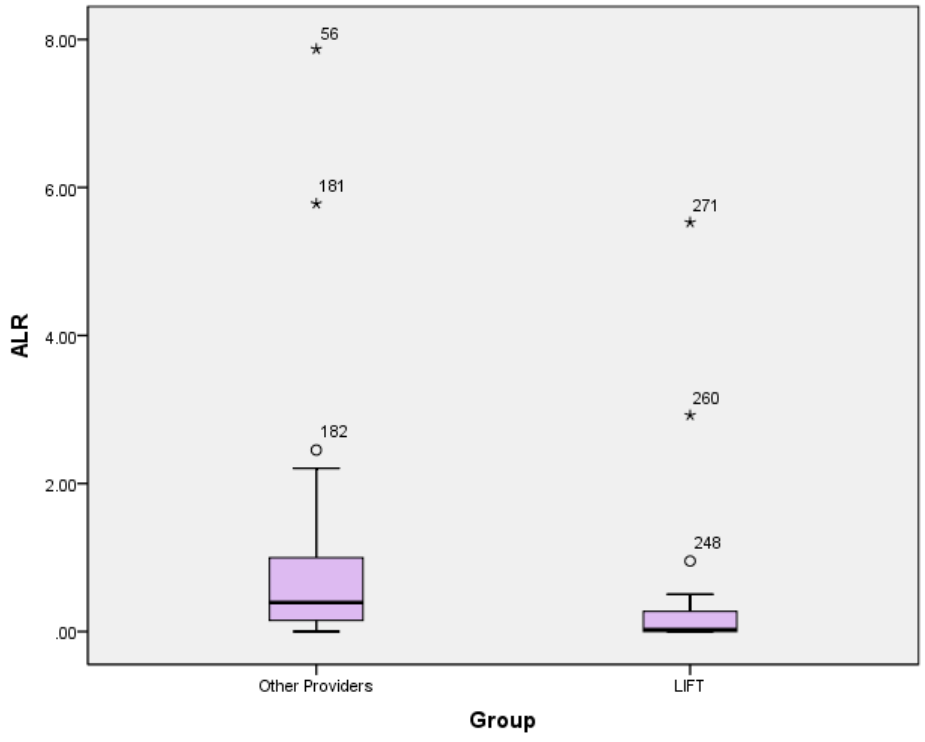
†- Asset values of less than $100 and above $12,200 as well as zero liabilities and values greater than $34,415 were excluded from the sample.

In terms of liabilities, LIFT households appear to fare better than their peers in the larger sample; however, in both cases, net assets of the household remains negative with the larger sample showing a significantly larger negative balance. It should be

emphasized however that, as expected, the distributions remain significantly skewed for both samples in both categories of assets and liabilities. In general, calculations based on averages in skewed distributions are not necessarily good indicators for the samples they represent. However, in this case, replacing averages with corresponding medians doesn't change the negative sign of net assets (asset poverty) in either sample, even though it reduces the absolute values of net assets for both samples.

Household Liquidity

In addition to assets and liabilities, a measure of liquid assets is commonly used in assessing the financial situation of the households. OPTA*Metrics* reports the Average Liquidity Rate (ALR) which measures the household liquid asset as a share of Total Monthly Expenses (TME). While negative net assets are often looked at as a measure of "Asset Poverty", values less than 200% for ALR is often regarded as indicating a case of "Liquid Asset Poverty". The rationale behind this categorization is that on average, households need to have a minimum of two months' worth of expenses saved in a liquid form (such as in a bank account) to meet household expenses in case of a job loss. Figure 8 compares the distribution of ALR for the LIFT sample and other providers.



Inspection of distributions in Figure 8 provides alarming indications of a lack of liquidity for households in both samples. In the case of the larger sample, average ALR value is 93.4% (with a median value of only 39.3%.) This means that households are able to meet their ongoing expenses for 11 to 28 days in case of an interruption in income.

Figure 8- Distribution of Average Liquidity Rate for LIFT and the Larger Sample.

For households in the LIFT financial coaching program, the outlook is even worse. Calculated ALR value for LIFT is 49.7%, but given the skewness of the distribution, median value of ALR is only 2.6%. In other words, in case of a complete interruption of income, LIFT households will only be able to meet their ongoing expenses for 1 to 15 days. While the prospect of a complete termination of income flow in the case of LIFT households given the significant share of income supports received through public benefit programs is not very likely, liquidity constraints of this magnitude still remain alarming.

Household Financial Behavior

Two measures of financial behavior will be discussed in this section. Literature on household financial capability underscores the importance of having access to suitable financial products and services. However, financial access is a multilayer concept involving factors such as type of products used, cost of access, quality of products, and frequency of use, among others. The Financial Access Survey (FAS) in OPTA*Metrics* measures the degree of financial access and generates a score from 0 to 100, with higher scores indicating a higher degree of financial Access.

In addition to financial access, financial capability encompasses other dimensions of financial behavior which in many cases are impacted by fluctuations in household income or degree of financial distress and limit the ability of the household to fully engage in economic activities. To account for factors OPTA*Metrics* measures the degree of financial stability of the household using the Financial Vulnerability Survey (FVS). Similar to financial access, scores generated by the system in this case also range from 0 to 100, with higher scores indicating a higher degree of financial stability. One characteristic of FVS which is worth emphasizing here is that measurement of financial vulnerability score depends largely on factors that remain outside of the sphere of influence of the household such as involuntary changes income, loss of job, or difficulty paying for unexpected expenses.

Scores obtained from both surveys indicate that the level of financial access for the LIFT financial coaching clients is alarmingly low. In terms of financial stability, while scores are somewhat better, they remain very low. In both cases scores of LIFT participants are below that of other providers. Table 4, reports calculated averages for both measures of financial access and vulnerability. It also reports the correlation between FAS and FVS scores. In general, correlation is a number between -1 and +1, with the sign showing the direction of

association and the absolute value showing the strength of the correlation between the two constructs. A correlation score of less than 0.5 but greater than 0.3 is usually considered a moderate correlation.

Table 4- Financial Access and Financial Vulnerability Scores and their Correlation.

	LIFT	Other Providers
Financial Access Score	50.2% (Alarming)	57.9% (Needs Improvement)
Financial Vulnerability Score	64.6% (Needs Improvement)	71.6% (Good)
Correlation (FAS , FVS)	0.46 ($p<0.01$, pooled sample)	

Discussion

Has the data presented in the preceding sections given us an idea of the overall household financial situation in the LIFT financial coaching program? More importantly, has the data helped us figure out how to effect change in the financial conditions of financial coaching clients?

While findings from our data analysis suggests that households in the LIFT program remain financially vulnerable, they illustrate additional dimensions of financial vulnerably that separates the LIFT sample from their peers in other financial coaching programs in Los Angeles. In fact, one of the unique advantages of data-assisted financial coaching is the ability to differentiate between subcategories of households that are otherwise typically grouped under the "low-income" banner.

Demographic data obtained from the sample indicates that a majority of participants is female, Hispanic and in her forties. Clients tend to live in smaller households with an average size of 2.25 persons per household. The relatively small household size is largely due to the fact that most of the LIFT clients are single parents with one or more children in the household. In fact, minors constitute more than 57% of the size of a typical household in the LIFT sample. That number increases to 66% in the case of divorced or separated households.

On average, one person per household is employed in a part time or full time position and the typical household monthly income is in the range of $1,650 to $2,267. Of this amount, share of employment income is only about 65 to 66%, indicating that in most cases the employed individual is either employed in a part-time position or otherwise receives minimum wages

working in a low-skill job. In fact, this is consistent with the level of education reported by the clients as 66% only have a high school diploma or a below high school level of education.

LIFT clients are heavily reliant upon income supports received through public benefits programs. In fact, 32.6% of the typical household monthly income consists of support received through such programs, including tax refunds. Overall, families have managed to get by on their monthly income as their total expenses are almost equal to their total monthly income. However, indicators of assets and liability reveal that the LIFT households are stagnating and stuck on the bottom rungs of the financial stability ladder. Less than 1% of expenses are allocated to saving and total net assets are negative, officially putting these families in the "Asset Poor" in addition to the traditional "Income Poor" category.

Final Comments and Recommendations

The primary goal of a financial coaching program is to offer support and guidance to clients in order to improve financial wellbeing by making more informed financial decisions. In the case of clients served in the LIFT financial coaching program achieving this goal appears to be rather difficult. Nevertheless, following recommendations may offer pathways to help families improve their financial conditions over time.

Employment and Income

LIFT families face significant barriers in improving income through employment. Based on the data on household size and share of minors, it appears that most clients represent single-earner households. In addition, they are older and have limited education and in some cases English language skills. Path to employment for this group of clients is fraught with problems. Traditional models of job training and education may prove ineffective and may not generate enough interest among clients to even consider the opportunity. Even if clients are able to upgrade their skills and land employment opportunities that offer higher salaries, the increase in income might be offset by a proportional reduction in public benefits, leaving very few reasons for clients to pursue employment opportunities in the first place.

However, clients at LIFT may still benefit from customized programs on micro-entrepreneurship. Self-employment opportunities offer the kind of flexibility parents need in order to meet their obligation at home as well as outside of home. Even clients in formal employment positions might still be able to allocate their evenings or weekends to supplement employment income.

LIFT can invest in relevant programming to offer classes to individuals who might be interested to explore self-employment opportunities. It can also offer additional support, for example, provide childcare services during even training hours, business mentoring, or even consider applying for grant opportunities such as the Individual Development Account (IDA) program to offer sizable grants to clients who complete entrepreneurship training and develop a plan to start their own business. Programs such as IDA can offer strong incentives to clients and can serve as a proper vehicle to drive participation in microenterprise development programs. LIFT's strategic partnership with the Jewish Free Loan Association means that they can also leverage free loan resources to help clients with their financing needs.

Budgeting

Food expenses for a typical client at LIFT are disproportionately higher than the national and even local averages. Families also tend to spend more than their peers on other household items such as clothing and household supplies. Financial coaches at LIFT can gain an in-depth understanding of their clients spending behavior by asking probing questions during the interview. For example, one reason for higher food expenses might be that families receive assistance through CalFresh or other programs which may result in a disproportional allocation of expenses to food. In any event, financial coaches might be able to help guide families in changing their expenditure behavior by looking closely at all categories of expenditure and comparing percentage allocations to existing norms.

One important step in doing so is to monitor variable and fix expenses when tracking and recording the household budget. In recording expenses in OPTA*Metrics* the user has the ability to identify whether or not an expense item is a fix or variable expense. Our general guideline is to keep the percentage of fix expenses (reported in OPTA*Metrics* as PFE) below 60%. Household budgets with a PFE value of less than 60% are more flexible and allow the financial coaches to identify areas where families can cut back on their monthly expenses.

Financial coaches should also pay close attention to monthly discretionary income (MDI) of their clients which is the difference between total income and expenses. If coaches are successful in helping clients improve their budgets, then these improvements will result in positive and larger values of MDI. A financial coach should then use the resulting MDI as a

new saving target for the period (above and beyond what the family has been savings up to that point).

Saving

Existing data on client savings suggest that families are doing poorly in this area compared to their peers in other programs. There are probably a myriad of reasons that explain this phenomenon. One plausible explanation is lack of access to proper savings opportunities. Financial institutions, in most cases, charge fees on low account balances. That notwithstanding, low income families may often have difficulty making the psychological commitment to save money on a consistent basis.

Research has shown that in order to help prepare families to save money it is important to offer financial education workshops. These classes not only help families gain a better understanding of the range of financial products available to them, but can also serve as great motivators to help families commit to saving and improving their financial conditions.

Evidence obtained from the LIFT data suggests that a one percent increase in the financial access score results in almost a $7 increase in monthly discretionary income (MDI). In other words, if financial education helps families improve their knowledge of financial products, and if as a result they increase their access to financial products and services, then this will help families manage their budgets more effectively and increase their saving by $35 per month for every 5% increase their level of financial access.

Of course this process is not always as simple as it may sound. In many cases, fluctuations in income or the degree of financial distress limits the ability of the household to fully engage in economic activities or integrate in the financial mainstream. Data from our sample indicates that there is a moderate but statistically meaningful relationship between the degree of financial stability and household financial access. This means that households who are more financially stable tend to increase their access to financial products and services. In the case of financial coaching program at LIFT, it appears that if financial education is combined with one on one financial coaching to address those instabilities, chances are that families will be able to improve their financial access and ultimately savings rates.

Two final comments are in order in this regard. Saving as a behavioral process involves commitment and sacrifice. To offset the cost of this sacrifice, it is customary for savings

programs to offer financial incentives to savers. Financial coaching clients at LIFT are also offered incentives to open savings accounts. However, in order to stimulate savings in an effective manner, it is important to engage in a design process whereby LIFT can assess the appropriateness of the incentives offered, both in terms of the amount of the incentive as well as how the incentives are timed or offered. Offering incentives without paying attention to these details may not generate the intended results.

Finally, one probable reason for the lackluster performance of client savings could be attributed to the uncertainty surrounding accumulation of savings in means tested benefits programs. If a significant number of families are on means tested public benefits programs, saving money in excess of existing limits may have adverse consequences for the household, which may result in lack of take up for savings programs. To the extent that this applies to LIFT clients, it is important for financial coaches and staff to consult experts in the field and identify opportunities for families to save in certain types of savings vehicles that are exempted from such means tested programs. IDA, for example, is one such vehicle that will allow families to accumulate savings without jeopardizing benefits in means tested programs.

Assets and Liabilities

Households in the LIFT sample are asset poor. This means that their existing assets are less than their existing liabilities. But families do not face a liability crisis per se. As a matter of fact, monthly payments on existing liabilities for most families are well below the recommended ceiling in the household budget. Rather, families have dangerously low levels of assets. Not only are these assets not enough to cover existing liabilities, but also they are allocated in such a way that are subject to loss or depreciation. 77% of the total assets of the households are either in the cash form (which basically serves as a buffer to smooth out receipts and payments) or use assets such as a personal vehicle, which are subject to depreciation.

Paucity of assets is the direct result of low savings rates. It appears that a key barometer of success for the financial coaching program at LIFT is the ability to increase savings rates and household assets by focusing on opportunities to increase income through self-employment, and increasing savings by offering financial education classes and designing a meaningful savings program. Successful implementation of these strategies can offer positive, life

changing effects for many low income households that are currently enrolled at LIFT's financial coaching program.