FINANCIAL MANAGEMENT PRACTICES AMONG HOUSEHOLDS WITH DIFFERING RESOURCE CONSTRAINTS

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In the last decade there has been renewed interest in consumers' financial management practices [3,4]. However, relatively little attention has been given to the financial management practices of low-income households. This article reports the results of an investigation comparing low-income households with more affluent households on the basis of their use of five widely recommended financial management practices: budgeting, record-keeping, comparing records to the budget, estimating net worth, and saving on a regular basis. Knowing what low-income households are and are not doing to manage their finances can help consumer educators to design appropriate programming for this clientele.

Procedures

The target population was non-metropolitan households in Kansas. The researcher drew a two-stage cluster sample, selecting counties in the first stage and residential telephone listings in the second stage. A questionnaire based on the management framework developed by Deacon and Firebaugh [1] was mailed to the sample households in the spring of 1984 following procedures recommended by Dillman [2]. Of the 1,200 households contacted, 672 returned usable responses.

The majority of respondents (79 percent) were married. The mean education level was two years post-secondary. Over one-half had received some formal education beyond high school. The mean age for the sample was 48 years; the mean household size was 2.7 persons. Median household income before taxes was between $20,000 and $25,000.

Information on total household income before taxes for the 1983 calendar year was collected as a set of 11 ordinal categories. The

midpoint of the household's income category was divided by the 1983 Social Security Administration's poverty income guideline appropriate for the household's size to calculate an income-needs ratio [6].[1] The resulting variable was initially divided into four categories, following the precedent of Morgan [5]. The categories were 1) poverty (income-needs ratio below 1.00), 2) marginal (ratio 1.00 to 1.50), 3) adequate (1.51 to 3.00), and 4) substantial (ratio above 3.00). The first two categories were combined due to small cell sizes, and the resulting category was relabeled "stressed." A total of 63 respondents (12 percent of the sample) were in this category; the plurality of respondents (47 percent) had "substantial" incomes, relative to their needs.

Respondents were asked a series of questions regarding their financial management practices. The first question asked respondents if they generally made some kind of plan before spending money. Those who did plan were asked to use a five-point scale to describe the extent to which the plan was mental versus written. They also described the time period that the plan covered; choices ranged from a week to several months. Other questions asked respondents if they generally kept written records of spending, if they occasionally compared their plan to actual spending to identify needed changes, and if they occasionally estimated net worth. The sample was also asked which of the following statements best described their household:

- *Save or invest a fixed amount or percentage of income regularly*
- *Save or invest income left after bills and expenses are paid*
- *Save or invest any "windfalls" like bonuses, refunds, or gifts*
- *Try to save and invest but can't*
- *Don't try to save or invest income*
- *Other*

The Pearson's chi-square statistic was used to determine if relationships existed between the income-needs ratio and financial management practices.

Results

For each of the financial management practices, except one, the chi-square test indicated significant associations between the income-needs ratio and management practices. Similar proportions of all

[1]The poverty income guidelines, which vary by family size, are a simplified version of the federal poverty thresholds and are used to determine eligibility for a number of federal assistance programs.

groups reported having a plan for spending and saving, as shown in Table 1. Compared to the other two groups, a larger proportion of the "stressed" group indicated that their plan was partly or completely written. Likewise, a larger proportion of the "stressed" group compared their records to their plans. Smaller proportions of the "stressed" group and the "adequate" group, compared to the "substantial" group, had plans that covered a time period greater than one month. Compared to the other income-needs groups, "stressed" households were somewhat less likely to keep written records, were less likely to estimate their net worth, and were far less likely to save a fixed amount or percentage of their incomes.

Table 1. Percentage Distribution of Respondents Reporting Selected Management Practices by Income-Needs Levels

	Income Needs Category						
	Stressed		Adequate		Substantial		Chi
Management Practice	n	Percent	n	Percent	n	Percent	Square
Any kind of plan	48	76%	198	85%	218	83%	2.47
Written plan	72	34	126	64	218	54	9.97*
Plan for more than one month	14	30	60	32	99	52	18.44***
Written records	51	81	212	91	243	92	7.76*
Compare records to plan	49	82	166	72	172	66	6.00*
Estimate net worth	25	40	108	46	149	57	8.42*
Save fixed amount or percentage of income	5	8	179	76	166	63	25.07**

*p<.05, **p<.01; ***p<.001

Discussion and Implications

Results of this investigation provide insights for consumer educators and other professionals who help families. However, the findings should be interpreted with caution due to the small number of cases in some cells. The results do suggest that "stressed" households are in many respects following recommended procedures for managing their

money. These households do plan and monitor their spending; over seven in ten had a spending plan which was at least partly written, had written records of their spending, and compared their records to their plans. These cash flow management techniques may be particularly important to "stressed" households precisely because they have little, if any, flexibility in the allocation of their incomes. In contrast, the more affluent households, with more discretionary income, may feel less compelled to account for every dollar.

Both the "stressed" and the "adequate" households in this study appear to have a fairly short time horizon in their planning efforts. Educators working with such households need to help clients understand the importance of planning over the longer term, while realizing that the definition of "longer term" may differ by income levels. For lower-income households with little money available for savings and investment, the "longer term" might take the form of a "financial focus of the month" calendar. For example, April's challenge might be income taxes, June's the auto license, August's challenge the back-to-school expenses, and so on. This strategy also helps to divide the task of long-range planning into manageable segments.

Forty percent of the stressed households reported that they estimated net worth. Consumer educators working with low-income households need not only to demonstrate how to estimate net worth, but also to show how the estimate can be used to monitor the household's financial progress year by year, or to assess the household's ability to assume additional debt. For example, educators might demonstrate how a loan officer would use the abbreviated net worth statement in a loan application to decide whether to grant or deny a loan.

In this study, only eight percent of the stressed households reported saving a fixed amount or percentage of income. The whole concept of "saving" for such households, to the extent it is possible at all, will be done in a different context and likely for different reasons than is the case for more affluent households. Saving may seem pointless to consumers who can at best put aside only a few dollars each week. Consumer educators, therefore, may need to demonstrate that saving small amounts on a regular basis can enable the clients to achieve objectives such as building an emergency reserve fund, paying a bill on time, or paying cash for an item to avoid the additional costs of credit. Educators may also need to help "stressed" households identify effective strategies for small savers.

In this study only the bivariate relationship between the income-needs ratio and management practices was examined. Future researchers in this area may wish to determine if this relationship is affected by

possible demographic differences among the income-needs groups, such as differences in age, ethnic background, or gender.

References

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5. Morgan, L. A., *After Marriage Ends*, Newbury Park, CA: Sage Publications, 1991.
6. "Poverty Data," *Social Security Bulletin Annual Statistical Supplement, 1986*, pp. 71-73.

Notes From the Editor

With this issue I complete my three-year term as editor of this journal. Thank you, ICEA, for the opportunity. Many people contribute to the success of this publication, including the Journal board, the ICEA board, the authors who submit manuscripts, and the business manager. Thanks to all of you. In each of the three years that I have edited the journal the number and quality of submissions have increased. It has been a rewarding experience.

Mary Pritchard, Northern Illinois University, will become the editor with the next issue. Look for the call for papers for next year on page 51.

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