

**Effects of an Educational Program on Financial Knowledge
and Behavior of Welfare Recipients**

*Julia Marlowe, Deborah D. Godwin and Esther Maddux
The University of Georgia*

Background

The number of households on welfare is a topic of much public concern. Several states have already adopted various forms of welfare reform designed to help recipients become more financially independent. The State of Georgia has passed welfare reform stipulating that welfare recipients, who receive Aid to Families with Dependent Children (AFDC) or Medicaid and who have not completed high school, must participate in the Positive Employment and Community Help (PEACH) program (Georgia Department of Human Services, 1992). The PEACH program provides Graduate Equivalent Diploma (GED) classes and job training; money management training is provided in the GED classes in some counties. Money management behaviors of the AFDC population have not been the subject of much research. This study investigated financial knowledge, financial attitudes, and financial behaviors of welfare recipients enrolled in the PEACH program.

Literature on financial management attitudes, knowledge, and practices of low-income households is sparse. Caplovitz (1963) found that low-income persons were disadvantaged in the marketplace and had unique problems. Williams, Nall, and Dick (1976) found that low-income families were more likely to have financial problems than higher income families. Schnittgrund and Baker (1983) found that few low-income families had a financial plan, but the majority kept track of expenditures. Debt payment problems are most severe for households where the head is young, unmarried, on public assistance and has several children (Canner & Lockett, 1990; Sullivan & Fisher, 1988).

More recently, Davis (1992) compared basic financial management practices of low-income households to households with adequate incomes. She found that 76% of the 63 respondents from low-income households had a "plan for spending", but only 34% had a written plan. Only 8% of the low-income households saved a fixed amount of income, while 76% of the adequate income households saved regularly. Both low-income and adequate households did not plan for more than one month, with 30% of the low-income households and 33% of the adequate income households reporting that they planned for more than one month (Davis, 1992).

Conventional wisdom suggests that low-income individuals could more efficiently manage limited economic resources if taught money management. It is widely assumed that AFDC recipients do not engage in sound financial behavior practices and that financial behavioral practices would improve with money management training. Although there are articles on effectiveness of education for low-income audiences (Schuchardt, Marlowe, Parker, & Smith, 1991), there is little evidence to document the effectiveness of money management training with the welfare population.

Methods

Objectives of this research were (a) to assess the effectiveness of a money management education program in improving program participants' knowledge of financial management and (b) to assess participants' financial behavior and attitudes in relation to their financial knowledge. Three hypotheses were: (a) PEACH participants will increase their knowledge of money management after receiving training, (b) financial behaviors will be more positive after receiving the training and will be positively affected by respondents' knowledge, and (c) financial attitudes will be more positive after receiving training and will be positively affected by respondents' knowledge.

The PEACH program coordinator in two counties used a money management curriculum provided by the Cooperative Extension Service with welfare recipients in GED classes. Program participants receiving the money management training were surveyed before and after receiving training during winter and spring 1994. Training lasted approximately four weeks and included information on setting financial goals and budgeting. The pre-test included questions to measure financial knowledge, financial behaviors, attitudes about financial management, and demographic variables. The post-test did not include questions about demographics; all other questions were the same but were asked in a different order than on the pre-test.

Both pre- and post-test questionnaires were administered by a graduate student who had established rapport with the participants. Each respondent wrote her answer on her questionnaire after hearing it read aloud to the group at the beginning of that day's class. Nineteen participants were present on both data collection days and are included in this study.

Measures of variables

Financial knowledge was measured with nine multiple-choice items on definitions of such terms as financial goals, fixed/variable expenses, savings, and budgets, as well as basic principles of effective financial

management. A financial knowledge score was obtained by summing each respondent's scores; the range was 0-9, with 9 the highest knowledge level.

Three indices were used to measure aspects of respondents' financial behaviors. One index was planning and saving behavior. It consisted of two dichotomous items: (a) Do you sometimes set aside money for emergencies or upcoming expenses and (b) would you set aside \$20 per month until you have \$200 saved if there was something you wanted to buy. Four more items were Likert-type asking, how often do you (a) have a plan for spending your money, (b) manage your money so you have enough money to last until you get your next income check, (c) contact the persons you owe, if you can't pay your bills on time, and (d) spend more than you make. Responses to all six items were summed, with higher scores indicating performance of more extensive and effective financial management behavior. The index of respondents' bill-paying behavior included: (a) Do you owe for any bills that are past due, (b) right now, are any of your bills past due, and (c) how frequently do you set aside money for things that are important to you. The index was the sum of respondents' scores. Two items measured borrowing behavior. The first asked, have you had to borrow any money within the past week? The second question asked, how much money have you borrowed within the past two weeks? Responses were: 1 = nothing, 2 = less than \$50, 3 = \$50-\$100, 4 = \$100-\$500, 5 = \$500-\$1000, and 6 = more than \$1000. The index was the sum of the two items.

Financial attitudes were measured with three indices. One index included seven items measuring respondents' feelings of control of various aspects of their financial situation, such as feelings of control over amount of money, saving money, getting out of debt, and dealing with debt difficulty. These items were coded as 1 = none, 2 = not much, 3 = some, and 4 = a good deal. Scores were summed to form an index. Another index captured respondents' feelings regarding managing money, and included five items such as, how often do you feel (a) afraid others will criticize you for the way you spend your money, (b) that others take advantage of you and your money, and (c) negative about managing money. These were coded 5 = never, 4 = seldom, 3 = once in a while, 2 = often, and 1 = usually, and responses were summed to create the scale. A high score represents positive feelings about money management. Respondents' satisfaction with their financial situation was measured by asking, how satisfied you are with your financial situation. Responses ranged from very satisfied = 4 to very dissatisfied = 1. If respondents were dissatisfied, they were asked to describe the source of their dissatisfaction.

Findings

Most respondents were ages 25 to 34 and had 10 or 11 years of school. Welfare recipients still in high school would not be in a GED class; therefore, most teenage recipients are not in the PEACH program. Forty-one percent of respondents had only one or two children and 38% had three or four. The sample consisted of welfare recipients; all respondents received some kind of welfare assistance and a majority (over 80%) received three categories of assistance: AFDC, Food Stamps and Medicaid.

Descriptive data on the financial characteristics of the sample are in Table 1. Financial knowledge was just below the midpoint of the scale before the money management training program and just above the midpoint after the training. These respondents scored relatively high with respect to planning and saving behavior. Welfare recipients indicated that they believed they had a high degree of control of their finances, with the mean degree of control well above the scale midpoint of 17.5. This is higher than expected, given the popular stereotype that welfare recipients have feelings of hopelessness and little control.

The last two columns in Table 1 report the results of the hypotheses tests. The first hypothesis was tested using a repeated-measures analysis of variance (ANOVA) of subjects' pre- and post-test financial knowledge and was not statistically significant. Even though, on average, respondents reported higher levels of money management knowledge after the training, the difference was not large enough to be statistically significant.

The second set of mixed model ANOVAs tested both the change over time in respondents' financial behaviors and the effect of respondents' knowledge of financial matters on behavioral change. The between subjects effect was respondents' knowledge and the within-subjects effect was the pre- and post-test difference. None of the average levels of respondents' behaviors, planning and saving, bill-paying, or borrowing, was significantly different from pre- to post-test. Financial knowledge was significantly related to change in planning and saving behavior ($F = 7.64, p < .05$). Higher levels of knowledge were associated with increased planning and saving behavior.

The third set of analyses, also mixed model ANOVAs, assessed the pre- and post-test change in respondents' attitudes about their finances (the within subjects effect), as well as the effect of increased knowledge on their attitudes (the between subjects effect). Again, none of the changes in respondents' attitudes, on average, were statistically significant. However, respondents' financial knowledge was significantly related to their perceptions of financial control ($F = 5.72, p \leq .05$). Respondents who reported more knowledge about financial issues also reported that they felt more in control of their finances.

Table 1. Descriptive data and hypothesis tests on financial characteristics of subjects

Characteristic (Range)	Pre-test		Post-test		F-Value for:	
	\bar{x}	s.d.	\bar{x}	s.d.	repeated mea- sures	know- ledge effect
N = 19						
Financial Knowledge (0-9)	4.00	1.20	5.00	1.53	0.11	
Financial Behavior:						
Planning & saving (4-22)	16.47	4.31	18.00	3.62	0.29	7.64*
Bill-paying (1-7)	4.79	1.75	5.00	1.73	3.20	1.08
Borrowing (1-7)	6.57	0.90	6.37	1.30	0.45	0.41
Financial Attitudes:						
Perception of finan- cial control (7-28)	20.16	4.43	21.26	5.11	0.06	5.72*
Feelings about finan- cial management (5-25)	8.11	2.23	9.00	1.63	8.45	2.93
Satisfaction w/finances (1-4)	2.56	1.20	2.52	1.35	0.46	3.14

* $p \leq .05$

There were several open-ended questions asked in order to gain additional insights into financial management practices of this population. When asked if they were dissatisfied with their financial situation, 63% said yes. Most respondents reported not enough money as the reason for the dissatisfaction. Respondents were asked to list which expenses were their top three priorities; 86% listed utilities (excluding telephone), and 57% listed rent. When they don't have enough money, 63% said that they do without some necessities, and 31% said they borrowed from family and friends. The primary management tool reported for dealing with credit bills when there is not enough money is to pay some bills, but not others.

Summary and Implications

The purpose of this project was to assess the effectiveness of a money management education program designed for welfare recipients, and to test several hypotheses relating to their financial knowledge, behavior, and attitudes. These welfare recipients did not have high levels of financial knowledge. Though 63.2% of those taking the post-test improved their financial knowledge score, mean scores of the subjects on the post-test were not significantly different than scores on the pre-test. Additional analysis was performed to determine if age of the client

was related to financial knowledge, and it was not. However, when respondents did have higher levels of knowledge of financial matters, they also reported planning and saving more and feeling more in control of their finances.

The research had limitations. The sample size was small; caution should be used in interpreting the statistical results. Also, while the test matched the curriculum, it is possible that all knowledge components were not delivered to the PEACH program participants. Further development of the educational program may be necessary, or this sample may not be representative of a typical welfare recipient. Training lasted only four weeks, and this may not have been a long enough period for change to occur.

Respondents reported a high degree of control over their finances, which indicates that they are not suffering from feelings of loss of control. They also indicated much higher than expected planning and saving behavior. At the same time, respondents indicated that they had very low feelings about financial management. These welfare recipients feel in control of their management, engage in planning and saving, and are not blaming someone else. However, they are frustrated because they simply do not have enough money.

Results of the open-ended questions suggests that these recipients are not just throwing their money away. They listed basic necessities (rent and utilities) as their top priorities among expenses, which indicates that they order expenses in the same manner advocated by educators. However, this audience could benefit from knowing how to approach creditors when they do not have the money to meet their payments. They reported that when they did not have enough money to meet all their bills, they would pay only some creditors. Thus, an expanded curricula could benefit this audience.

Findings from this small sample suggest that rather than make assumptions about money management education needs of the audience, it would be wise to use a screening test and tailor the educational program to the audience. Currently there is no widely accepted tool designed to determine level of financial knowledge of low-income audiences. Such a screening tool could result in designing educational programs which more effectively meet the needs of the audience and could be a more efficient use of public resources.

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Dr. Julia Marlowe is Associate Professor, Department of Housing and Consumer Economics, Dawson Hall, The University of Georgia, Athens, GA 30602 (706) 542-4851; e-mail: JMARLOWE@fcs.uga.edu.

Deborah D. Godwin is Associate Professor, Department of Housing and Consumer Economics, Dawson Hall, The University of Georgia, Athens, GA 30602.

Esther Maddux is Professor, Department of Housing and Consumer Economics, Dawson Hall, The University of Georgia, Athens, GA 30602.