Exploring Financial Behaviors of Low-income Households in the United States

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The motivation for this research is the concern that income inequality is still a salient issue in the U.S. Since the 1970s, income inequality has been increased significantly in the rich countries, especially the United States. For the past 50 years, U.S. government programs and policies have lifted people from poverty; U.S. poverty rates fell from 25.8% in 1967 to 16% in 2012 (Economic report of the President, 2014). However, during the recent Great Recession, U.S. households, especially those with low incomes, faced severe financial distress. For example, the U.S. poverty rate and the number of people in poverty increased by 1.9% (6.3 million) between 2007 and 2009 (DeNavas-Walt, Proctor, & Smith, 2010).

This research is aimed to conduct a comprehensive analysis of various financial behaviors of low-income households who may face severe economic vulnerability after the Great Recession. For the empirical analyses, this study examined nine different outcome variables using appropriate statistical methods and related techniques. Results from the 2010 and 2013 Survey of Consumer Finances (SCF) provide the most recent financial status of low-income households following the Great Recession. The analytic sample included households with incomes no greater than 3 times federal poverty thresholds reported by the U.S. Census Bureau following Hogarth and Anguelov (2003) and Heckman and Hanna (2015). In addition to the poverty threshold restriction, this study excluded retired households from our sample due to possible skewedness on the distribution of the low-income household sample (e.g., households with low-income, but with high wealth) (Heckman & Hanna, 2015). The final analytic sample size was 3,983.

The methodological framework for our multivariate analyses was grounded on the study by Hanna, Lee and Lindamood (2015). Given the interest of this study, I selected nine dependent variables as follows; (1) spend less than income, (2) willing to take some risk, (3) stock ownership, (4) homeownership, (5) owning family business, (6) use of financial planner, (7) ever filed for bankruptcy, (8) having debt, and (9) debt delinquency. These nine different dependent variables were selected based on previous household finance literature that used the SCF dataset (See Hanna et al., 2015). In order to examine the different financial behaviors of households at different poverty levels, households are categorized by four different poverty thresholds: less than or equal to 100%, 101 to 150%, 151 to 200%, and 201 to 300% of the threshold. Further, various household characteristics were included as control variables following previous researches on each dependent variable. Age of head; education of head (less than high school, high school, some college, bachelor degree, post-bachelor degree); marital status (single male, single female, partner, married couple); race/ethnicity (White, Black, Hispanic, Asian/others); employment status (employed, self-employed, no work); the presence of dependent child under the age of 18 (Yes, No).

This study utilized various statistical models/analyses appropriate to the characteristics of the outcome variables: Ordinary Least Squares (OLS); Logit regression; Probit regression, and the Heckman two stage model. For example, a logit regression was used to analyze the relationship between several explanatory variables and a dichotomized outcome variable. Further, following Lee and Hanna (2012), the Heckman 2 stage model (Heckman, 1979) was used to avoid possible sample selection bias in analyzing debt delinquency. This study used the Repeated-Imputation Inference (RII) method with all of the five implicates in each SCF dataset, which provides an estimate of variances more closely representing the true variances than estimates obtained by only one implicate (Lindamood, Hanna and Bi, 2007).

Multivariate results showed that there was no significant difference over dependent variables between those in 100% of poverty and in 101 to 150% of poverty. Compared with those in severe poverty level (100% of poverty or less), those in 151 to 200% of poverty were less likely to own stocks while more likely to own home, more likely to have ever filed for bankruptcy, more likely to have debt. In particular, for households in 151 to 200% of poverty, the odds of owning stocks were 51% lower while the odds of owning home were 55% higher, the odds of filing for bankruptcy were 47% higher and the odds of having debt were 87% higher than those in 100% of poverty or less. Furthermore, those in 201 to 300% of poverty were more likely to save, more likely to own home, more likely to have ever filed for bankruptcy, more likely to have debt while less likely to have been two months or more late with a debt payment. Specifically, households in 201 to 300% of poverty had higher odds of savings (31%), higher odds of owning home (113%), higher odds of filing for bankruptcy (58%), higher odds of having debt (176%), and lower odds of debt delinquency (27%) than those in 100% of poverty or less.

This study explored financial behaviors of low-income households after the Great Recession. Households in severe poverty (100% of poverty threshold or less) were less likely to save, more likely to own stock, less likely to home, less likely to have ever filed for bankruptcy, less likely to have debt, and more likely to have debt delinquency compared to those in less severe poverty level. Empirical findings from this study provide some insights into current concerns of financial vulnerability of low-income households. How can financial practitioners help the low-income household improve their financial status? Financial advisors working with low-income households could disseminate information regarding the risk factors in an effort to help households become more knowledgeable of such risks and perhaps avoid such financial difficulties. In addition, with respect to debt problems, some states provide debt relief programs (e.g., debt settlement or negotiation). Practitioners working in financial counseling and education with low-income households may be able to improve their financial profile by assisting them in identifying eligibility for various government assistance programs.

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