How American Families Are Mastering Their Money in a World of Uncertainty with Rachel Schneider

(Transcript)

PT: Rachel, welcome to the show.

Rachel: Thanks so much, I'm so glad to be here.

PT: This is a little bit different episode. Like I shared in the intro, you've got a new book out called, *The Financial Diaries*. We'll be doing less of a micro-interview today and on a macro-level we'll talk about the American family and how they're dealing with their money situation, managing their money and how they're becoming, hopefully and ideally—or can become, masters of their money in the future. Yeah, let's talk about that. Why did you write, *The Financial Diaries*?

Rachel: *The Financial Diaries* is based on a research project and the research project started right after the financial crisis. Basically, the funders of the research; the City Foundation, the Ford Foundation and the Media Network came to my co-author Jonathan Morduch and I and they were essentially saying, "We have a ton of financial data about Americans. We collect reams of information. Everything from total debt loads to the size of debit transactions yet this financial crisis has just unearthed that there was a huge layer of financial insecurity that was hidden, that we didn't really see because it was masked by rising housing prices and indebtedness. We want you to go and do a deep-dive so that we really understand the financial lives of families in a thorough and sophisticated way." So that's what inspired it. It was this idea of, how can we get underneath the usual data stats? How can we get underneath the usual questions and really understand the financial lives of the people?

PT: Yeah. Give us a snapshot of who is actually profiled in the book. Who are these people?

Rachel: The way we collect the data is we had 10 field researchers in locations across the country. They were in Kentucky and Ohio, Mississippi, California and New York. It's really a snapshot of families; some rural, some urban, some white, some black, some Latino, some born here, some immigrants. Their income range is pretty broad but all sort of middle to lower income. About a quarter were around the middle income of wherever they lived, another quarter was near the poverty line, and then the half was in between that. The idea was we wanted to understand working families. We wanted to understand people might be struggling, might be fine. It could go either way. You couldn't necessarily tell that just from income.

PT: Gotcha. So salaries ranged from—just to give people a number, if they don't know what poverty line stats are?

Rachel: Yeah, of course. I think the wealthiest families in our sample had—I'm not going to get the number exactly right. Call it $135,000 household income. The lowest income we saw was probably $10,000. So it's a pretty big range. Median income in our country is $65,000 for a household of four so lots of families are hovering around that number.

PT: Cool. And there were 10 field reps that went out. Does that mean there were 10 families or more families?

Rachel: It was 235 families. Each of the field reps worked with 20 to 30 families and it was crazy. You think about it and you just can't imagine signing on to do this, in a way. The families were so generous with their time because the field researchers went and met with families every few weeks for a full year. And they would sit down for an hour and say, "Walk me through every single dollar you spent, borrowed, earned, saved, gave away. Tell me if somebody donated you a couch..." We were really trying to get everything we could. The idea was to track every single dollar that went in and out of the house. What was interesting is a lot of people actually ended up—some people just dropped out. They said yes (initially) then saw how much of a huge hassle this was going to be and said, "No thank you." But people who stuck with it, many of them liked it. They appreciated having someone come and sit and talk with them about their money which I would think would resonate with your audience, right? With people who— we're all focused on our money and trying to think about how to make our finances work, so to have somebody come and sit with you and think about that with you, even if they weren't going to give you advice, they were just going to give you that space, really worked for some of the families.

PT: Yes, just having the conversation, right?

Rachel: Yeah. And our field reps were under strict guidelines to not give advice. That wasn't what we were there for. They were just recording. But, just having someone listen and feeling heard helped a lot of people focus on their money in different ways.

PT: Yeah. Okay, let's jump ahead. I think you ended the book by saying, "American families are struggling." The big question I have on this subject is why are American families struggling?

Rachel: It's a big question and there are lots and lots of reasons but to put it in its shortest terms, the way we saw it after sitting with all of these families was that our economy has really changed. And, we all feel that. The biggest changes are in the labor market. So many people now have variable incomes. And this is such a big theme for the self-starters who are money masters probably, right? Many people work fulltime but nonetheless have ups and downs on how much they earn and it's not only because they are sole proprietors or contractors or rely on tips or commissions, it's also true for plenty of people who have fulltime work. But, they nonetheless either have seasonality in when they earn more of less or they have variable hours at their job. Or they don't have paid sick leave so they lose some income every now and then. Many people have a lot of ups and downs in their income. And then you combine that with the fact that wages in general have been stagnant for several decades. The key things you need to invest in to get ahead like housing, education, health care, the cost of all of those things has been rising dramatically and so you're in a situation where people have far less cushion than they used to have between what they earn and what they need to spend to make their lives work. At the same time there is volatility in what they're earning and natural volatility in what people spend. Christmas is more expensive than other parts of the year, cars break down, and roofs break, so there's natural volatility. And you combine this diminished ability to put a cushion aside with the fact you have lots of ups and downs and it means people end up having to spend a lot of time and effort in just making sure they have the right money at the right time. I think that's the feeling that people then have of being really squeezed. One woman I sat down with at the very beginning of the diary study just stuck with me because she was describing how she and her husband—

PT: Was that the mechanic's wife?

Rachel: No, this is somebody who didn't make the book but that story I tell also, all the time. And I'll get to it. We'll leave your audience saying, "What are you talking about, mechanic?" This woman talked about how she and her husband would sit down every Sunday night to do their weekly budget because on Sunday's is when they got their schedules for the week and knew how many hours of work they would each have. Then they would estimate what they thought that meant for their paychecks and look at what bills were coming due that week. To do that every week is going to feel stressful even if, at the end of it, you make it work week-by-week. A lot of our personal finance advice has kind of a set-it-and-forget-it feel, right? Set your budget and stick to it. But for a lot of people it's not about setting a budget and sticking to it. It's about constantly re-budgeting and that's stressful.

PT: Wow. That's a great explanation. I get it. One of the first questions I always ask my guests is what's the one thing you do that's had the biggest impact on your financial life so far? And I would throw that out to you. Did you discover a thing that the American families are doing that is having a positive impact on their finances?

Rachel: I wish I had thought of using that question as a crystallizing guide for the book because a lot of times we found ourselves asking what strategies people were using that were effective, and your question's better. The one thing I would point to is really about self-awareness, actually— self-awareness of the quirks and difficulties in managing money. As for the mechanic's wife you were referencing, that's a great example. She is somebody whose husband has the kind of income volatility I was describing. She's often worried about how she's going to pay bills but she knows that saving cash in the bank is just hard for her. It's too tempting to spend it. So the way she saves is by stocking up her pantry when she sees the opportunity for a good deal. She's got nothing material as an emergency fund in the bank but her emergency fund is she's got all the toothpaste and all the shampoo and frozen pork chops—all kinds of stuff. She knows she's going to be able to keep her family comfortable even if they have an income dip. I think it's that moment of knowing, "For me it's hard to save cash. For me this strategy helps me stick to my goals." That's really powerful. We saw lots of different versions of that but usually have that flavour of, "I know this thing fits my abilities, what's hard for me or what's easy for me." When you get that combination of knowing yourself and knowing what works for you and the right strategy, it's really powerful.

PT: Yeah, I like that. Self-awareness. It goes back to your point about how the actual interviews themselves ended up helping some of the participants because it brought some self-awareness probably to their situations, right?

Rachel: Yeah. You know, I didn't make that connection before but I think you're right. I think that's what's going on. The strategies were different for different people. We did have people who were like that, budgeting week-by-week or people who used different kinds of envelop budgeting; lots of different savings accounts with each targeted towards a different thing, handing money over to a relative to save, cutting up your ATM card or cutting up your credit card. There are lots of different things people use to stay true to their goals but it was usually about knowing what their temptations were.

PT: Usually for my guests I ask about a point where they made a switch to become a master of their money. For the folks you checked out in these diaries, what were the moments that sort of sent them into financial struggles? What were those moments for the American family that really sets them back financially?

Rachel: There is often a turning point that's negative. I'm thinking about one woman we got to know who avoids all debt no matter what because she had gotten in over her head in credit cards earlier in her life and had to declare bankruptcy. So a lot of times it's those kinds of stories but I also think sometimes people just hit their breaking point in terms of their own stress level. The mechanic's wife we were talking about, who in the book we call, Becky, ultimately she and her husband decided that the instability of his job just wasn't worth it to them and he quit his job and took another job doing the same kind of work. It was, in some ways, a worse job. It had a longer commute. He made less money overall but he was now on salary instead of being paid by commission so it was steady amount of money. For them, I think the turning point wasn't something specific that happened but it was a realization—maybe it's a continuation of this self-awareness theme. It was a realization that it just wasn't worth it to them to earn a little bit more money but have the stress that came with how that money arrived.

PT: Are American families good at setting basic finance goals? Do they have those goals? Did you ask those questions? Did they have goals they were looking to achieve with their money?

Rachel: Yeah, that gets to the heart of our worries about money. We tend to think people are just bad at and that's why they're suffering or we at least wonder if that's the case. What we saw was that people knew what their goals should be. We asked one question, for example, about how much emergency savings do you think you should have? And the answer was what personal finance experts would want it to be—people thought they should have several thousand dollars set aside. So the idea that you should have three or six months savings for expenses set aside has definitely made its way into the publics' consciousness. People knew that. But what we found was that whether or not people actually had the savings was not at all correlated with whether or not they knew it. And it wasn't even correlated with having more or less income, in our sample. It led us to think, what's going on is that people just don't have the cushion to save more. They know they should. And I'm using savings as sort of a catchall for financial goals but I think what I'm saying would apply to all other kinds of goals too. We heard from plenty of people that they knew they should pay down their credit card debt or they knew they should put aside money for retirement. I don't think it's a lack of knowledge that's making it hard for people to achieve their goals. I think it's that the goals are actually really hard and right now the economy is not making it easy.

PT: Right. When you're switching jobs or having to fight for the next client or your hours are getting cut, I get it.

Rachel: Yeah.

PT: The volatility part is big. What about tools? What were people using to manage their money out there?

Rachel: They're using a wide variety of things. The way we ended up thinking about it was you can achieve financial stability even if you're underlying income and spending picture is unstable. You could theoretically achieve stability if you have really good tools to help you do that, really good savings or insurance or borrowing products. Or you could think about if you have friends or family to rely on. A lot of times what we saw was the tools people were relying on didn't really meet their needs. They were like, almost. People have savings accounts but that doesn't mean they have savings. And what does that mean about the savings account? It's not doing its full job. It's giving you a place to stick your money but it's not helping drive your behavior any differently. For example, one woman we got to know who lives in Mississippi puts her savings in a savings account that is an hour and a half drive from her house. It had inconvenient hours for her relative to her work. Then she cut up her ATM card. To me, what that says is what she's looking for is a savings account that makes it hard to withdraw from. She's just modifying her existing savings account to add that additional feature. But what if there was a savings account that just was hard to withdraw from and didn't require her to spend an hour and a half in the car but only let you make withdrawals between 2:00 and 4:00 on Wednesdays? I actually think some people would like that and they would end up saving more and being more successful with their financial goals as a result.

PT: I agree. I preach the "automate and separate" philosophy quite often. That's good. I've never heard of anyone doing it in such a manual way like that though. That's pretty cool. That's dedication.

Rachel: Yeah, yeah. It is. What she said was that she knew she'd only withdraw for a real need. She was setting up barriers for herself.

PT: What are people doing about their investing? Obviously they had debt goals, savings goals—basic goals, but are people investing?

Rachel: In our sample we didn't talk a lot about investing. I think some of the people in the sample did have 401ks but very few had separate investment accounts. And that may just be a feature of who we were working with and the kinds of questions we were asking. In a handful of people we talked with about their retirement savings, their focus was a lot less on how to have a diversified portfolio and what returns were going to be over time or what funds to pick. Really, the focus was more on how to get more money into that account or they were having a hard time balancing putting money into that account versus saving for nearer term stuff. I don't know that I have a ton to say on that other than I think for at least some portion of the personal finance audience, they are interested in more advice just about how to get more money into investing which is a different kind of question than what to do when they are invested.

PT: Right, right. What were a couple of the biggest surprises that came out of the book and the diaries for you?

Rachel: One question we keep getting asked that I think is surprising in the answers is about whether or not people are the same or different? We have a narrative right now in our country wondering if the economic lives of people in rural communities are so different than urban or if people in ethnic groups are really experiencing different financial lives. What we saw was really much more a story of common pain. It might manifest differently. You might really be struggling with housing costs in New York and really struggling with gas prices in Ohio just because what you have to spend on is different. But, in both cases the feeling is that they were not quite getting a fair deal. They're working really, really hard and still struggling. I think that was a really powerful realization as we were going through what we learned. I think another really important surprise was about how interconnected people are. We had this mental model—and I spent a lot of my career working in financial services and the model in financial services is customer or client and financial services company. It's sort of this binary, one-directional, individualized thinking about how you help this person change their behavior with money or how you deliver this person a specific product they need. But in reality, people are in a financial relationship with other people. Very few people actually think of their money as a loan. In our sample, for example, 40 percent of the people we worked with lent money to a friend or family member over the course of the year. It's a huge number. And 40 percent borrowed money from a friend or family member. Five percent of the sample had no financial engagement with somebody else during the year. So the people who weren't borrowing or lending were either saving in a group or saving with a friend or they gave somebody money or received money from somebody as a gift. Or they were just helping each other out which is probably the best way to think about it. It wasn't like a Christmas gift. It was like, "Hey, can you help me with my rent this month," kind of gift. And that interconnection of money across communities really changed how I think about personal finance because if you give one person in a household advice but the rest of the people in their community are following different advice, you're only going to get so far.

PT: Are there any other stories that really jump out to you from the diaries that you think would be a good example to share with us today about how families are coping in this uncertain world?

Rachel: Yeah. Let me just say a little bit more about Becky and Jeremy, the mechanic and his wife we talked about. They earn about $40,000 a year which, in their neck of the woods, is enough to barely support a family. But, because of the volatility they experience, they actually had six months of the year where they were technically below the poverty live. That's a really kind of crazy idea and we thought they were an extreme example, maybe—well, not maybe. They were on the high end of this spectrum but a large number of families that were firmly middle-class in our sample, nonetheless, spent a month or two under the poverty level. I think that realization goes a long way to understanding why people feel so economically insecure. The feeling of being poor is the feeling of, "I can't make it. I can't pay all my bills and I'm worried about my rent. And I'm checking how much is in my checking account before I go to the grocery store." Those kinds of activities and that kind of worry is not what we think a middle-class life is supposed to bring. For Becky, in those months where they were low, she would sign up for food stamps and put her kids on state-provided health care. But what she said about it was, "I feel like we're not supposed to be using those services. That's not supposed to be for us. That's supposed to be for people that are worse off. There are a lot of people worse off than us." So, we have this stigma about how it is when you feel that economically insecure. She just felt like she wasn't supposed to feel that way. I think that's probably true of a lot of Americans, where it feels like we're supposed to be on top of this. We are supposed to be climbing this ladder, achieving the American dream, earning ever-more, every week, every month—moving forward in our lives. When you aren't moving forward and you're just treading water, if feels really bad. And that feeling makes it even harder than to figure out how to fix it. And yet, certainly in Jeremy and Becky's case, it was nothing they were doing wrong. It was just the nature of what the economy was delivering for them. We're doing a lot of things right and working pretty hard but this is just what their jobs were providing in the way of economic security. I was just thinking about this, this morning. My thinking over the course of this project really changed around what is people's responsibility versus what is shared responsibility. I, like so many Americans believe so strongly in the power of person will and person action to be able to create the life you want to create for yourself, and I would hate to say that narrative is wrong, but it's not. We see so many examples of it everywhere around us and I'm sure your audience is full of go-getters who are making their lives better every day. Even though we want to keep advancing that potential, we shouldn't lose sight of the fact that sometimes, in spite of people's best work, that's really just not possible or not easy. They still need some help.

PT: The goal of the book, obviously, was to provide a snapshot—to provide a diary. Did it leave you with some action steps at the end of the book for either free enterprise or government or society to sort of take action on some of these items? Or did you just leave that open to interpretation for the next folks who come along to take that run with it? Or did you put some stuff down?

Rachel: Yeah, we did. We put some stuff down. It was some of the hardest work we did writing because it felt like trying to boil the ocean. There were so many things we thought could be done. But the biggest things probably fall into two categories. One we described as the idea of helping people get the right money at the right time. And there is a lot the financial services industry can do to develop new and different products that make it easier for people to manage the ups and downs in their financial lives. For example, I'm a big fan of a product like Digit where it automates your savings but it does so by looking at how much money is in your account and pulling out an amount you can afford to pull out at the moment which is a material improvement (for some people) over setting a specific amount to save every week. But, if your income is volatile, then that variability in how much you're going to save is really an advancement. So there are some things like that that I think the financial industry is headed towards as we use technology more to deliver more nuanced, more personalized advice and services. Then there was a category of things that are more about society at large that we thought of as putting risk on the right shoulders. It goes to this point I was making about Becky and Jeremy where they're doing the best they can but there is only so much they can do on their own. We do need to rely on big institutions like employers and government and insurers to spread some of the economic risks across a broader group rather than leaving families to manage those risks entirely on their own. So you can think of the volatility in Jeremy's income as his employer passing on the volatility and demand for services to him. He's getting paid on commission so if more trucks need to be fixed he makes more money. If fewer trucks need to be fixed he makes less money. But that's really a business risk. So, you have to think about if that business risk is appropriate for the worker to bear or is that a business risk that maybe the shareholders of that company should bear? I think that at a societal level, those are the big questions—how do we want to distribute the inherent risks of the economy across our society? How much do we want to deliver down to individuals versus hold at an institutional level?

PT: I like it. So where can folks find out more about you and the book and all you have going on?

Rachel: There is a website; usfinancialdiaries.org where there's more research, household profiles and some of the stuff I talked about. Or, of course, they can buy the book which is, *The Financial Diaries*. It's available anywhere fine books are sold. And my co-author Jonathan Morduch and I are doing some speaking around the country and information about that is on our website. It's not a massive, massive book tour but there is some amount of being available to talk with people. And certainly I'd love to be in touch with people if they're interested in knowing more or being engaged on these issues. They can find me through the website. I'd be happy to be in touch.

PT: Fantastic. Rachel, thank you so much for being on the show. It's been great getting this snapshot. Thank you so much for sharing it with us today. All the links to what we mentioned will be in the show notes. Thanks for being on the show with us Rachel.

Rachel: Thanks so much for having me. It really was a pleasure.