Living Paycheck to Paycheck

U.S. Financial Diaries

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Amy Cox is a white 34-year-old single mother of two. She lives with her children, Hailey, 9, and Andy, 8, near Cincinnati, OH. A natural caregiver, Amy works at a day care center. She gets along well with her co-workers and boss, and the children in her care love her—they even ask her to take them home with her in the evenings and on weekends, which she does occasionally, without pay. Amy has a GED and a computer skills certificate from a vocational school, and during the study year she began pursuing an associate's degree at a local community college. Her boyfriend, Maurice, 38, lived with her off and on during the study year. For most of the year, he was unemployed, and either on parole or incarcerated, which played a large role in the family's finances. Amy's annual income was 12% above the Supplemental Poverty Threshold, but that was a result of the EITC pushing her over the threshold for the year. In 9 of the 12 months we followed her, Amy's monthly income was below the threshold.

Amy is among the few people in the USFD study who lived paycheck-to-paycheck. During our year with her, she spent almost all of each week's paycheck within 10 days. When she did have a little extra cash, she usually spent it on her children within a few weeks. She told us she wanted them to enjoy "special treats" like other kids and not to feel poor.

Amy's financial challenges are primarily a result of her low income, but also reflect the difficulty of matching up her income and expenses. Child support payments from her children's father often arrived late or in smaller amounts than expected, and sometimes they didn't arrive at all. Amy's employer didn't offer direct deposit, and she had had trouble in the past with overdraft fees on her bank account. She tried to avoid such fees by using prepaid cards and check cashers for many of her financial transactions. But she nonetheless regularly incurred other fees, some of which were unexpected. These totaled $966 for the year, further squeezing her tight budget. The constant juggling necessary because of her very low income and unstable financial situation had consequences that spilled over into other parts of her life. During most of the study year, for example, Amy went without needed medication because she didn't have the time or energy to navigate Medicaid and other benefits programs to determine how much a doctor's visit and the medication would cost.

Amy: June 2012-May 2013

The USFD data illuminate how life events and financial behaviors can advance or undermine a household's financial stability. In July, Maurice was incarcerated for violating the terms of his parole. His incarceration didn't have much of an impact on the household budget. He had been unemployed right before being locked up, contributing income from informal work only now and then. After, though he was no longer in the house, he still incurred expenses: Amy regularly sent him phone cards and other items while he was serving his sentence so that they could stay in close touch. Emotionally, Maurice's absence and managing the relationship through incarceration caused Amy considerable stress.

In late August, Amy received an all-too-familiar letter from a utility provider. Even before opening it, she knew the yellow notice was a warning that her gas and electric service would be cut off if she did not immediately catch up on payments. She had to call and negotiate a payment plan acceptable to the utility that she could realistically follow through on. In order to keep from falling behind again, she started an informal system of pre-paying utility bills, but her system ultimately proved too unwieldy, requiring too much focus to maintain.

Amy eagerly awaited the receipt of her W-2 form in late January. She immediately filed her taxes using a tax preparation service and took out a refund anticipation loan (RAL) to access some of her refund more quickly. A few weeks later she received the rest of her tax refund, as well as a large check for financial aid related to her enrollment in community college. Having cash on hand allowed her to catch up on bills, make some major purchases, and to spend on some extras like dining out. Around the same time, Maurice was released from prison and moved into a halfway house, incurring a different set of expenses. He soon found part-time work, however, and was able to contribute to the household's income again.

Events and Behaviors

The following sections provide more detail on the key events and decisions in the life of the Cox family during the study year and the impact on their finances.

The impact of fees

Amy used prepaid cards or cash, instead of a checking account, to pay bills. Typically, she would cash her paycheck (at a check casher) and then load cash onto prepaid cards when paying in cash was not an option. The fees on those transactions totaled $40 a month on average. Among lower-income households, the use of prepaid cards is fairly common, in part because fees associated with the cards and check cashing are often more transparent and predictable than bank account fees.[1] That's not always the case, though. Amy was often caught off-guard by both the situations that led to fees and the size of those fees.

In August 2012, for instance, her utility company notified her that her gas and electric would be cut off if she didn't pay her outstanding balance. She spent an hour staring at the unopened envelope, she told us, because she was afraid to learn what she owed. Once she finally looked inside, she saw that the minimum due was $183. She couldn't afford to pay it immediately, but she called the utility and was able to work out a deal to pay $100 immediately and another $100 in seven days.

For the first payment, Amy loaded $100, paying a $4 fee to do so, onto a prepaid card with the intention of paying by phone. But the utility charged a $1.50 fee for a phone payment. That meant she would have to load more money onto the card; the minimum load was $10, and another $4 fee. Amy ended up needing to scrape together $119.50 to make that $100 payment.[2]

A complex system to keep up

After coming so close to having her utilities shut off, Amy was determined to stay on top of her bills. She came up with a system to make sure she could pay what she owed. Her plan was detailed, and similar to the commonly recommended "envelope method." From each weekly paycheck, she would load $100 onto her prepaid card and pay $50 for gas/electric, $25 for water, and $25 for the sewer bill. She planned to make these allotted payments for three weeks of every month. In the fourth week, she would pay the $50 due on her rent-to-own television in cash at the store. This strategy was effective for a stretch, but in late October she lost track of what week she was in and paid $100 toward utilities for four weeks straight. As a result she didn't have the cash to pay her rent-to-own bill. Amy received an unexpected gift of $100 that week which helped cover the gap, but she also ended up paying some additional fees for loading funds on a prepaid card, and for late payments. Discouraged, she abandoned her budgeting plan and returned to paying what she could on her utilities when the bills came due (or after getting a late notice and additional fee) with whatever cash she had on hand.

Going back to school

Just before the study started Amy overheard her daughter telling a friend that she wasn't going to go to college—her mom hadn't, so why should she? Amy was determined to set a positive example for her children, so shortly thereafter she enrolled at the local community college to pursue an associate's degree. Amy hoped that, in addition to showing her daughter that education was important, an associate's degree in childcare would make her better at her job and allow her to seek better paying positions.

Getting a degree is generally considered an investment in the future, but Amy's decision had a dramatic effect on her finances in the short term. She qualified for a Pell Grant larger than the cost of tuition, and she also took out student loans available to help cover living costs. The grants and loans contributed to a huge cash infusion in January and February.

Cash infusion in January-February 2013: tax refund, Pell Grant, and student loans

Amy received $1500 of education assistance in January, on top of $1255 of income from her job, from food stamps and from child support, more than doubling her average monthly cash inflow. In February, her income was more than four times the monthly average because of a $6200 tax refund (boosted by the Earned Income Tax Credit or EITC).[3] The tax refund/credit accounted for 30 percent of the household's total annual income. The added income boosted Amy above the SPM threshold for the year. Her income spike was further augmented by $4000 of education assistance in February, a mix of Pell Grant funding and student loans.

Amy's large spikes were a result of both her own decisions, but also the tax and education system calendars. She filed her taxes on January 21 at a tax preparer that provided refund anticipation loans, taking out a loan in order to access some of her refund/credit sooner. When the refund came in the first week of February she paid back the RAL of $1,000 plus a total of $250 in fees for tax filing and the loan. Amy had decided before she received the funds to use the cash infusion to purchase two cars, one for herself and one for Maurice. She felt the cars would improve her family's quality of life, as they would no longer be dependent on limited public transportation to get around. She also wanted to get current on her delinquent cable bills and reconnect her cable service, and buy her kids some new clothes. The family's spending increased across the board as well, including such items as food and toiletries. The income spike was spent entirely by March.

TABLE 1: **February Spending Compared with the Rest of the Year**

CATEGORY	AVG (W/O FEB)	FEB	% CHANGE
Groceries	$225	$380	69%
Gas, electric, & water	$262	$400	53%
Resources given	$223	$999	348%
Food eaten out/delivered	$134	$290	116%
Asset purchases	$80	$6,080	7500%
Household & personal care	$76	$499	557%
Cigarettes	$72	$163	126%
School supplies	$58	$0	-100%
Clothing/Footwear	$48	$583	1115%
Debt repayment	$48	$300	525%
Fees	$38	$550	1347%
Entertainment	$30	$105	250%
Prepaid telephone	$29	$81	179%
Gas for car	$28	$69	146%
Public transport & taxis	$23	$266	1057%
Car insurance & maintenance	$22	$295	1241%
Cable & Internet	$11	$600	5355%
Medical	$1	$0	-100%

The effect of incarceration

Maurice's irregular income followed by incarceration affected the family's finances and amplified Amy's anxieties. At the start of the study he was unemployed. He contributed cash to the household only occasionally, either received from his friends and family, or from "off-the-books" jobs. During this time, Amy provided Maurice with cash and pre-paid cell phone minutes. Maurice eventually found a job as a busboy at a local restaurant, but then he was re-incarcerated. Amy routinely provided him money for the commissary and bought phone cards so that he could call her from prison—though she told us she was frustrated with the frequency of his calls given how expensive they were.[4] After he was released from prison and entered a halfway house, Maurice qualified for $200/month in food stamps. He initially shared them with Amy, until the halfway house required him to pass those funds on to the facility itself. In the months when he was not living with Amy, spending on Maurice represented an average of 14 percent of total monthly expenses, not including the vehicle purchase.

When we followed up with Amy roughly a year after the study's conclusion, we learned that Maurice had moved back in with her and the children. He had also found a regular job and had taken on much of the responsibility for managing the household's finances. Amy told us that with Maurice's help, contributing income, managing the household budget and generally as a force for stability, she was much happier and less stressed than she'd been during the study.

Income Statement

Amy earned $8/hour at the day care center (working about 30 hours a week depending on the center's needs and holidays), an average of $975/month during the study year. She also relied on food stamps, which she began receiving while pregnant with her first child. Until August 2012, the food stamps amounted to $220/month, but they dropped to $127/month in September. Amy didn't understand why. Child support was also erratic. Her children's father owed $306/month, but for four months between June 2012 and May 2013, they received no payments. When the money did arrive, it ranged from $70 to $245/month. Amy considered the money an "extra" and didn't count on it in her mental budgeting. She wished the children's father was a reliable financial provider, but more than that, she wanted him to take a more active role in their lives.

Amy essentially spent everything she earned. She knew the importance of saving, but she also wanted to give her children what she thought of as a "normal" childhood including trips to the movies, and other "treats." Once she'd paid all her bills, she usually used any money left to give the kids a few non-necessities. Utilities were the largest category of household spending at $275 month, on average; groceries were the second largest at $240/month. Spending on Maurice was also significant. Between December 2012 and May 2013, Amy gave him at least $150 a month, usually more. In February, when she had a lot of cash on hand, she provided nearly $1000. Other significant categories included restaurant and delivery

Amy's Cash Inflows

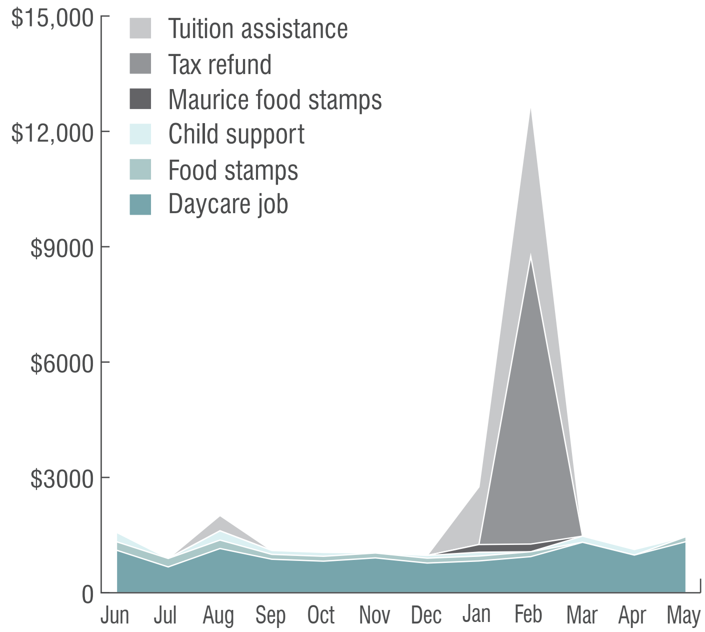


Figure 1: Amy's income was relatively stable, aside from her tax refund/credit, though it did vary for reasons outside her control. Her income spike from the EITC was significantly amplified by tuition assistance (both grants and loans) received at the same time.

Income vs. Expenses

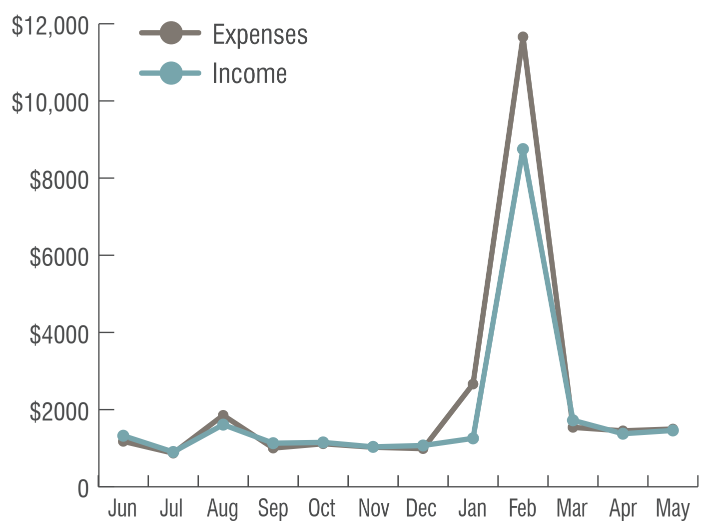


Figure 2: Amy spends almost everything she earns within a few weeks, including her tax refund/credit. During the course of the year she spent more than she earned in income, with tuition assistance covering the gap.

food at $145/month, and cigarettes at $80/month on average. Amy purchased a pack every day, and she always bought brands that were on sale.

Balance Sheet

At the start of the year, Amy had one major asset: a home. She inherited it, mortgage-free, from her aunt. With her February 2013 tax refund, she bought the two cars. Other than her student loans, she had little debt. Even though it was her only significant debt, Amy didn't fully understand how much she was borrowing, or the terms and timing of repayment. She didn't use credit cards, but did borrow from friends. One friend, the owner of a corner store, let Amy buy small items, such as snacks and cigarettes, on credit, which she repaid after receiving her next paycheck.

Net Income over Time

The following sections provide additional detail on the Cox family's cash flow activity. It's important to note that the household data collected as part of the U.S. Financial Diaries Study is self-reported and thus subject to error and omissions. It is likely that some periods of time are more fully reported than others. In addition, because income tends to involve fewer transactions than expenses, it's more likely to be fully reported. Reported expenses likely do not capture all of the household's spending. Finally, the weekly sums only reflect the net of the household's reported income and expenses for each week and month.

Details on Amy's cash flows, as described in the ledgers on pages 6 and 7, give a sense of her finances from week to week. We tracked the household's cash flows for more than a year, but below, we highlight September of 2012, which is typical of most months in terms of income and spending, and February 2013, when Amy had a large spike in cash inflows and spending.

Conclusion

Amy's core financial challenge is her low income. Without her EITC-boosted tax refund and education grants, her annual income would have been well below the Supplemental Poverty Measure threshold—indeed she was below the threshold for 9 of the 12 months we followed her. If not for the house she inherited, which limited her housing expenses to just 18 percent of her budget (compared to 36 percent for other USFD households, and 36 percent nationally for households similar to Amy's, according to national data from the Bureau of Labor Statistics), it's hard to see how she could have coped at all.[5]

Amy's financial year highlights how hard it can be to measure poverty. Based only on her earned income Amy is well below the poverty line. Based on the Supplemental Poverty Measure, however, which includes the benefits she receives, she is not poor. But both the traditional poverty line and the SPM measure annual income, not monthly income, and not consumption. A rough estimate would say that Amy's consumption classifies her as poor for more than 75 percent of the year. The income spike in February that pushes Amy above income poverty lines for the year did nothing to change her low-level of consumption for the 11 months before that or the 11 months after. She spends the entire inflow within weeks of receiving it. So is Amy poor?

Low income is not Amy's only challenge. Her income was somewhat volatile and unpredictable independent of the spikes in January and February, and she lacked the tools to manage her financial situation. This is an important dimension of American inequality: the households with the most need for financial coping mechanisms have the least access to them. Where they do have tools, those tools are often costly. You can see this most explicitly in the many fees that Amy pays. Her refund anticipation loan, the charges for loading cash onto prepaid cards, the excessive cost of phone calls to or from prison, even the $1.50 fee the utility charges her to pay her bill by phone. Amy was often surprised by fees that she didn't anticipate or plan for, not necessarily because they weren't transparent, but because she didn't have the time amidst all her juggling to pay close attention. These fees likely wouldn't have made much difference to Amy if her income were higher, but in fact they were a big "tax" on her finances. Amy could have avoided many of the fees she paid by making different choices, but different choices come with a "tax" of their own: a major commitment of time and attention to details in

September 2012

September was typical of most months we spent with Amy during the study in that her expenses closely tracked her income. When there was more to spend, she usually spent it quickly catching up on bills or on "treats" for her kids. Her weekly income varied based on the number of hours available to work at her job, and the receipt of food stamps, and child support.

FIGURE 3: **September Overview**

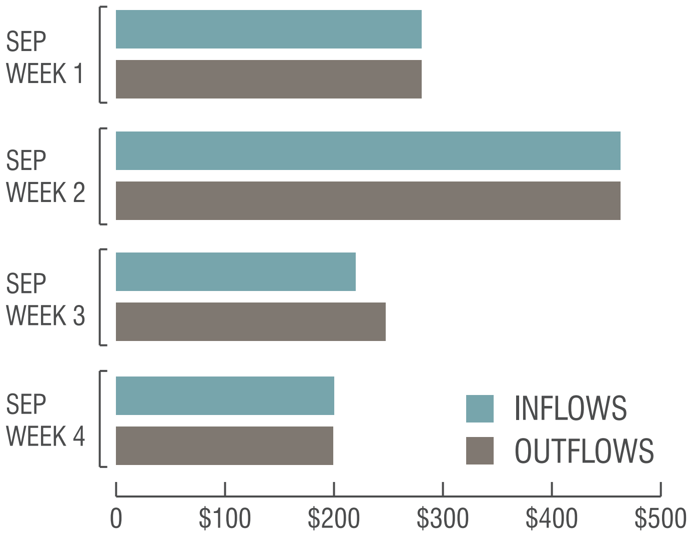


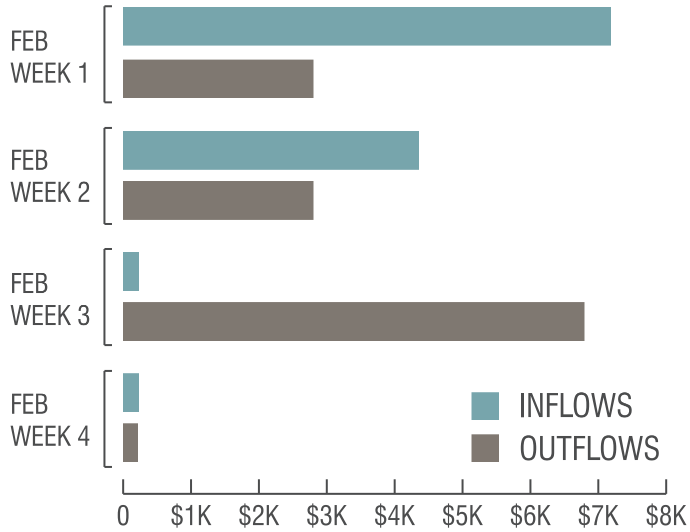
TABLE 2: **September Cash Flow Ledger**

WEEK	INFLOWS	OUTFLOWS		WEEKLY SUM	ACCUMU-LATION
1	$251 in salary $30 gift from children's grandfather	$100 gas and electric $70 entertainment $45 food eaten out $36 prepaid phone	$13 fees $10 cigarettes $6 public transit	+$0.80	+$0.80
2	$240 in salary $127 food stamps $101 child support	$145 groceries $140 son's birthday gift $53 food eaten out $50 rent-to-own pmnt $32 fees, incl $19 for prepaid card	$29 prepaid phone $15 taxis $6 cigarettes	-$2.30	-$1.60
3	$220 in salary	$50 water bill $47 gas and electric $46 clothing $45 food eaten out $20 cigarettes	$19 toiletries $10 pet supplies $6 fees $5 taxis	-$27.60	-$29.20
4	$200 in salary	$60 groceries $50 water bill $47 gas and electric $20 food eaten out	$10 pet supplies $6 cigarettes $6 fees	+$.60	-$28.60

February 2013

Amy's inflows rose substantially in January and then spiked even higher in February with the receipt of her full tax refund/credit and education assistance. She had a plan on how to spend the funds, buying vehicles for herself and for Maurice, but also spending more in most other categories (see Table 1). Though the February spike gave her more than four times her usual monthly inflows, she spent all of the spike before the end of the month.

FIGURE 5: **February Overview**



Note the change in scale on this graph vs. September.

TABLE 3: **February Cash Flow Ledger**

WEEK	INFLOWS	OUTFLOWS		WEEKLY SUM	ACCUMU-LATION
1	$6,235 tax refunds & credits $500 RAL $250 salary $200 food stamps from Maurice	$1,000 RAL repayment $531 fees $310 Maurice $228 groceries $173 household goods $115 rent-to-own $110 toiletries	$108 clothing & shoes $68 food eaten out $66 taxis $58 cigarettes $20 entertainment $14 pet supplies	+$4375	+$4375
2	$4,000 Pell Grant & student loans $230 salary $127 food stamps	$600 cable and internet $375 clothing and shoes $270 household items $260 to Maurice $220 new cell phone $185 layaway payment $170 taxis $150 car insurance $150 water bill	$127 groceries $100 gas and electric $81 prepaid phone $65 entertainment $35 cigarettes $29 to a friend $13 pet supplies $13 fees	+$1514	+$5889
3	$230 salary	$3500 car for Amy $2200 car for Maurice $580 to Maurice $165 food eaten out $145 vehicle expenses $40 clothing and shoes $35 cigarettes	$30 gasoline $30 taxis $25 groceries $20 books $13 pet supplies $9 car maintenance $3 fees	-$6565	-$676
4	$230 salary	$60 clothing $57 food eaten out $36 pet supplies	$35 cigarettes $30 gas for car $3 fees	+$9	-$667

the midst of the juggling required to get by on a low income.

Amy's relationship with Maurice illustrates an important aspect of measuring and understanding the financial lives of American households: defining who is part of the household. Amy and Maurice are not married. Maurice shared a home with Amy for less than half the year we followed her, and they maintained separate financial accounts. Yet it is impossible to understand Amy's budget or her prospects for financial stability without including Maurice.

The diaries data only captures part of the impact his comings and goings had on the household. For most of the study year, Maurice appeared to be a financial drain on Amy. But after his release from the halfway house he found regular work, provided income to the household, and helped Amy manage her competing financial needs. In our conversations with Amy after the study, she was less anxious about her finances. She credited Maurice for her improved peace-of-mind. His ongoing help managing their finances was even more valuable than his income, she said.

As with many households in our study, Amy was caught between seeking financial stability and mobility. Despite Amy's struggles, she was trying to better her situation. Amy's major financial choices are difficult to evaluate without knowing what the outcomes ultimately were. Were the cars she purchased reliable enough to help her family over the long-term, or will they require costly repairs in the short- or medium-term and become a financial drain? Amy wanted to go back to school in part to set an example for her children, but will the credential she earns help her find a higher-paying job (in an industry with relatively low average wages)? Even if she got a higher paying job, would the pay increase be enough to cover the cost of her student loans? Would a reliable car increase Amy's chances of finding a better job to ensure her educational investment paid off? Amy was taking a big risk on top of the many other risks she bore. A firmer foothold on the path to stability and mobility would require more of the risks that Amy faces shifting onto shoulders better-equipped to handle them.

There are many instances when simple rules, or minor tweaks to available financial services, could have helped Amy make better financial decisions. Her attempt at a budgeting system was on the right track, but didn't ultimately work for her. Amy mostly managed her financial life on a weekly basis, but many of her bills were monthly. There was no easy way to handle this timing mismatch, and it doomed her system. Loading cash onto a prepaid card helped avoid more expensive overdraft fees, but was more costly than it needed to be. Any of these problems could plausibly be solved with a rule-of-thumb or an app, and Amy would be better off for them. But none would have put Amy on a different trajectory. Her investment in education offers potential for a major step forward, and Amy would have benefited from assistance in making the financial decisions associated with it. The help she needed would have required intensive financial counseling, however, or coaching that took volatility and instability into account. Amy and her family are a good example of the limitations of the standard "slow and steady wins the race" approach to financial planning, and the need for new approaches to helping households meet the challenges that come with not only low wages, but incomes that spike and dip throughout the year.

Notes:

1. Susan K. Urahn and Travis Plunkett, "Why Americans Use Prepaid Cards: A Survey of Cardholders' Motivations and Views," The Pew Charitable Trusts, February 2014. http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2014/prepaidcardssurveyreportpdf.pdf

2. She paid \$4 to load \$100 onto the card, then \$4 again to load an additional \$10, then paid the \$1.50 phone payment fee. \$4+\$4+\$10+\$1.50=\$19.50

3. While there is a difference between a tax refund and a tax credit, Amy, like most USFD participants—and most households in the US—did not know what part of her tax income was a refund and what was a tax credit. For a detailed discussion of recipients' perspective on the EITC, see Sarah Halpern-Meekin, Kathryn Edin, Laura Tach, and Jennifer Sykes, It's Not Like I'm Poor. *University of California Press, 2015.*

4. In the fall of 2015 the FCC adopted new rules to limit the cost of phone calls to and from incarceration facilities.

5. Bureau of Labor Statistics, "Consumer Expenditures in 2013." *U.S. Department of Labor, February 2015. https://www.bls.gov/cex/csxann13.pdf*

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U.S. Financial Diaries

The U.S. Financial Diaries Project collected detailed cash flow and financial data from 235 families over the course of a year. The data provide an unprecedented look at how low and moderate-income families—in four regions and 10 distinct demographic profiles—manage their financial lives. USFD was designed and implemented by Jonathan Morduch of NYU-Wagner's Financial Access Initiative, Rachel Schneider of the Center for Financial Services Innovation, and Daryl Collins of Bankable Frontier Associates. Morduch and Schneider are the Principal Investigators for the ongoing analysis of the data. Timothy Ogden is managing director of the project. For more information, please visit **www.usfinancialdiaries.org**.

fai Financial Access Initiative NYU WAGNER

The Financial Access Initiative is a research center housed at NYU Wagner focused on exploring how financial services can better meet the needs and improve the lives of poor households. **www.financialaccess.org**

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