

## Financial Knowledge and Behavior of Welfare Recipients

Researchers investigated financial knowledge, financial behavior, financial attitudes and perception of barriers to effective money management of welfare recipients. Results indicate that these welfare recipients believe they are in control of their finances and exercise positive planning and saving behavior, but that they are frustrated due to a lack of income. Moderate levels of financial knowledge and existence of institutional barriers do not have adverse effects upon financial behavior of the welfare recipients.

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Welfare reform is a topic of much public concern and current federal legislative debate. When most people use the term welfare, they are typically speaking of Aid to Families with Dependent Children (AFDC), which provides cash assistance to unmarried individuals who have dependents. Georgia has passed welfare reform which stipulates that welfare recipients<sup>3</sup> who have not completed high school must participate in the Positive Employment and Community Help (PEACH) program (Georgia Department of Human Services, 1992). This program provides GED (Graduate Equivalent Diploma) classes, basic skills and job training. Classes in money management are part of the basic skills training in many PEACH programs.<sup>4</sup> However, the money management behaviors of the AFDC population have not been the subject of much research. This study investigated financial knowledge, behavior, attitudes and perception of barriers to effective money management of welfare recipients enrolled in the PEACH program.

### Background

Literature on the financial management practices of low-income households is scarce. In his landmark study, Caplovitz (1963) documented that low-income persons were disadvantaged in the marketplace and had unique consumer problems. Early studies surveyed financial management of low-income families in a general way, such as that of Williams, Noll and Dick (1976) who 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 had a financial plan, but that a majority kept track of expenditures. More recently, Davis (1992) compared basic financial management practices of low-income households to adequate-income and substantial-

income households. She found that 76% of the 63 respondents from low-income households had a spending plan, 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-income households did not typically plan for more than one month, with fewer than one-third of the households reporting that they planned for more than one month (Davis, 1992).

Debt payment problems are most severe for households where the head is young, unmarried, on public assistance and have the most children (Canner and Lockett, 1990; Sullivan and Fisher, 1988). Given the recent attention to welfare reform, it is important to understand the financial behaviors and attitudes of welfare recipients, as well as to assess their financial situations.

Barriers (or disincentives) may exist which discourage individuals on welfare from following sound financial practices (Marlowe, 1989; Roberson, 1994). Evidence of institutional barriers has appeared in the press (Rose, 1990; McCarthy, 1992) but has not been the subject of research. In particular, savings often disqualify an individual from certain public assistance programs. Thus, savings would be disadvantageous for the individual in the short-run, even though saving money is a beneficial financial practice.

Futility barriers to effective financial management have not been identified, though literature mentions hopelessness as a characteristic of the low-income population (Ellwood, 1988). Some Extension clients believed financial goals were out of their reach because they did not have much money. Other clients indicated that any money accumulated toward a financial goal would have to be given to needy family or friends

before the goal was accomplished; thus, attempting to save money would be futile (Marlowe, 1989).

Some individuals may have trouble implementing sound money management practices because they comprehend situations differently than educators. For example, some Extension clients believed that they could not manage their food stamps because they did not view the stamps as money (Hall, 1989). These views were labeled comprehension barriers. Thus, three identified categories of barriers may prevent welfare recipients from engaging in sound money management practices.

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

### **Hypotheses**

The objectives of the project were to assess the effectiveness of a money management education program in improving participants' knowledge of financial management and to assess participants' financial behavior in relationship to knowledge, attitudes and barriers which may prevent welfare recipients from implementing sound financial practices. Six hypotheses were: 1) Participants will increase their knowledge of money management after receiving training; 2) More money management knowledge will lead to positive changes in financial behavior; 3) More money management knowledge will lead to more positive financial attitudes; 4) Participants' financial behavior will be more positive when there are fewer institutional, comprehension or futility barriers; 5) Participants' financial behavior after the training will be more positive if they had more effective financial behavior before the training and if they perceived few barriers to effective money management; and 6) Certain participants will have higher financial knowledge scores because of certain demographic traits (age, education, number of children). It was expected that older participants would have higher knowledge scores due to experience, and that participants with more education would know more than those with lower levels of education. Those participants with fewer children would have greater financial knowledge, because they would

have more time available to acquire financial knowledge and skills.

### **Methods**

The PEACH program coordinator in two counties used a money management curriculum provided by Extension with the welfare recipients in GED classes. All program participants receiving this money management training in these two counties were surveyed before and after receiving the money management training. The data were collected during winter and spring 1994. All classes were small with 4 to 15 participants. The training lasted four weeks and included information on setting financial goals and budgeting. Questionnaires for the pretest and posttest were developed specifically to test the hypotheses. The pretest included questions to measure financial knowledge, attitudes toward financial management, financial behaviors, perception of barriers and demographic variables. The posttest did not include questions about barriers and demographics; all other questions were the same but were asked in a different order than on the pretest.

Both pre- and posttest questionnaires were administered by a graduate student who had established rapport with participants. Each respondent wrote her answer on her questionnaire after hearing it read aloud to the group. Thirty-five respondents answered the pretest questions. The posttest was administered after completion of the training. Unfortunately, all participants answering the pretest were not in class on the day of the posttest. Thus, only 19 respondents answered the posttest.

### Measures of variables

Institutional barriers were measured with two items. One asked how much money someone like them could save and still be eligible to receive AFDC. A second item asked how much individuals like them could earn and still be eligible for AFDC. Having a lower savings and earnings thresholds before welfare eligibility was threatened reflected a perception that barriers to welfare were greater than they actually are. The index used in the analysis was the sum of the two items.

Respondents' comprehension barriers were measured via three items that captured their beliefs about the efficacy of certain financial behaviors for people like them. The three items were: 1) "Credit is necessary if someone like me needs to buy something that costs more than \$100;" 2) "Financial goals are out of reach for someone like me;" and 3) "It would do me no good to try and budget because I don't have enough money." The

Table 1

## Results of hypotheses tests

| Null hypotheses (type of analysis)   | Parameter | Statistic |
|--|-----------|-----------|
| H 1: No change in subjects' financial knowledge  |           |           |
| H 2: Subjects' knowledge at pretest has no effect on their behavior at posttest  |           |           |
| Planning & saving behavior   | 1.42      | F= 2.21*  |
| Bill-paying behavior   | 0.27      | F= 0.78   |
| Borrowing behavior   | 0.04      | F= 0.15   |
| H 3: Subjects' knowledge at pretest has no effect on their feelings at posttest  |           |           |
| Feelings of control  | 1.27      | F= 1.29   |
| Feelings about financial mgmt.   | 0.27      | F= 0.83   |
| Satisfaction with situation  | 0.35      | F= 1.34   |
| H 4: Subjects' perceptions of barriers has no effect on their financial behavior at pretest  |           |           |
| Planning & saving at pretest   |           |           |
| Institutional barriers   | -2.04     | t=-1.40   |
| Comprehension barriers   | -2.21     | t=-2.10*  |
| Futility barriers  | 0.23      | t= 0.19   |
| H 5: Controlling for subjects' pretest financial behavior, subjects' perceptions of barriers has no effect on their financial behavior at posttest |           |           |
| Planning & saving at posttest  |           | F= 0.04   |
| Planning & saving at pretest   |           | F= 2.29   |
| Institutional barriers   |           | F= 7.59*  |
| Comprehension barriers   |           | F= 0.02   |
| Futility barriers  |           |           |
| H 6: No relationship between subjects' financial knowledge at posttest and their age, education and number of children                             |           |           |
| Age  | .35       | p=.14     |
| Education  | -.43      | p=.08     |
| Number of children   | .37       | p=.14     |

\* Significant at  $p < 0.05$

index was formed by summing respondents' answers to these questions.

The third measure of barriers was termed futility barriers and assessed respondents' feelings of hopelessness. The three items were: 1) "someone else always needs money so if I set any aside, I would just have to give it away;" 2) "It would do no good to set financial goals for myself because I could never accomplish them;" and 3) "it does no good to save for the future, because others would need the money--so I might as well spend the money." Responses on these three items were summed to form the index of futility barriers.

Financial knowledge was measured with nine

multiple choice items that involved definitions of such terms as financial goals, fixed and 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.

Fourteen items measured respondents' financial attitudes. Pearson correlation analysis indicated that these items should be grouped into two indices. The first index measured respondents' feelings of control of various aspects of their financial situation. It included seven items, such as their feelings of control over the amount of money they have, saving money, getting out of debt, and dealing with debt difficulty. These items were

Likert-type statements with a four-point response set including none (coded 1), not much, some, and a good deal (coded 4). Subjects' scores on these items were summed to form the index.

Another index captured respondents' feelings regarding managing money. This measure included five items such as how often do you feel "afraid others will criticize you for the way you spend your money;" "that others take advantage of you and your money" and "negative about managing money?" These Likert-type items had a five-point response set ranging from never (coded 5), seldom, once in a while, often, and usually (coded 1). The index was a sum score of responses to all five items.

Satisfaction of the respondents with their financial situation was measured with a single Likert-type item, reading "How satisfied are you with your financial situation?" Four responses ranging from very satisfied (coded 4), somewhat satisfied, somewhat dissatisfied, to very dissatisfied (coded 1) were available to the respondents. Additionally, if the respondents were dissatisfied, they were asked to describe what was the source of their dissatisfaction.

A total of 18 items about various aspects of their financial behavior were asked; Pearson correlations were used to see how these items clustered together in order to form internally consistent and reliable measures of aspects of subjects' behavior. The first index was labelled planning and saving behavior and included six items. Two items had dichotomous response sets: 1) "Do you sometimes set aside money for emergencies or upcoming expenses?" 2) Would you set aside \$20 per month until you have \$200 saved if there was something you wanted to buy?", and four items were Likert-type items asking "How often do you: 3) "have a plan for spending my money?", 4) "manage my money so I have enough money to last until I get my next income check?", 5) contact the persons I owe, if I can't pay my bills on time?" and 6) "spend more than I make?" The entire index was the sum of the six responses with higher scores indicating better financial management behavior.

The second index measured respondents' bill-paying behavior and included three items: 1) "Do you owe for any bills that are past due?" 2) "Right now, are any of your bills past due?" and 3) "How frequently do you set aside money for things that are important to me?" These three items were highly correlated among themselves and marginally correlated all with the items in the first index, indicating that they tapped a separate construct from the first. The index was the sum of respondents' scores on the three items.

The final index capturing an aspect of subjects' financial behavior was their borrowing behavior. Two

items measured this construct. 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 available were: 1) nothing; 2) less than \$50; 3) \$50 - \$100; 4) \$100 - \$500; 5) \$500 - \$1000 and 6) more than \$1000.

### Data Analysis

The first hypothesis was tested using a repeated-measures analysis of variance of subjects' pretest and posttest financial knowledge. The second hypothesis was tested with three simple OLS regressions with each posttest measure of financial behavior (planning and saving, bill-paying, and borrowing) as a dependent variable and subjects' pretest financial knowledge as an independent variable. To test the third hypothesis, three regression analyses were performed with the three posttest measures of subjects' feelings about their finances as the dependent variables and subjects' pretest financial knowledge as the independent variable. Multiple regression analysis was used to test the fourth hypothesis; the dependent variables were the three measures of pretest financial behavior, and the independent variables included the respondents' perceptions of barriers they reported on the pretest.

The fifth hypothesis was tested using a repeated-measures analysis of covariance. The covariates were the three measures of pretest financial behavior. The dependent variables were the posttest financial behaviors--planning and saving behavior, bill-paying behavior, and borrowing behavior. The independent variables included the respondents' perceptions of barriers to exiting welfare. The sixth hypothesis was tested via Pearson correlation. Subjects' demographic characteristics were correlated with their financial knowledge at posttest.

### **Findings**

Most of the respondents were between ages 25 and 34 and had 10 or 11 years of school. Welfare recipients who were still in high school would not be in a GED class; therefore, most teenage recipients were not in the PEACH program. Forty-one percent had 1 or 2 children and 30 percent had 3 or 4 children. All respondents received some kind of welfare assistance and a majority received all three categories of assistance.

Respondents reported high perception of institutional barriers (mean of 3.53 on a range of 0-4). On average they perceived that earnings and savings disincentives of the welfare programs were more stringent than they really were. Respondents' financial



knowledge was almost at the midpoint of the scale (4.34 pretest and 5.0 posttest on a range from 0-9). The welfare recipients indicated that they believed they had a high degree of control with their finances. The midpoint is 17.5 and the mean degree of control was 19.57. This is higher than expected, given the popular stereotype that welfare recipients have feelings of hopelessness and little control.

The results hypotheses tests are given in Table 1. Financial knowledge on the pretest was a significant determinant of reported financial planning and savings behavior on the posttest. Respondents with higher pretest financial knowledge scores reported higher financial planning and saving behavior on the posttest than subjects with less financial knowledge. Financial behavior on the pretest was negatively associated with subjects' perception of comprehension barriers. Thus, subjects' reporting fewer effective financial behaviors were those who perceived higher comprehension barriers. Finally, respondents who reported higher comprehension barriers had lower posttest financial planning and saving behavior scores.

On average clients did not significantly increase their knowledge of money management after receiving the money management education. With the exception of a positive change in planning and saving behavior, increased money management knowledge did not lead to positive changes in attitudes and financial behavior. The hypothesis that clients' attitudes would be better after the training if they had more financial knowledge on the pretest, was not supported. The hypothesis that clients' financial behavior would be more positive when there are fewer barriers was not supported, with the exception of comprehension barriers. Financial behavior after training was more positive for those clients with low comprehension barriers; otherwise, the hypothesis was not supported. None of the demographic variables were significantly related to subjects' financial knowledge.

There were several open ended questions asked in order to gain additional insights into financial management practices and barriers of this population. When asked if they were dissatisfied with their financial situation, 22 out of 35 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 and 30 listed utilities (excluding telephone) and 20 listed rent. When they did not have enough money, 11 of the 35 respondents said that they borrowed from family and friends, and 22 said that they just do not buy some of the necessities. The primary management tool for dealing with credit bills when there is not enough money is to "pay some bills, but not others."

## Summary and Implications

These welfare recipients did not have high levels of financial knowledge. Though 63.2 percent of those taking the posttest improved their financial knowledge score, the mean scores of the subjects on the posttest were not significantly different than scores on the pretest. Additional analysis was performed to determine if the age of the client was related to financial knowledge, and it was not. Caution should be used in interpreting the statistical results, because only 19 of the 35 participants answered the posttest. Furthermore, while the test matched the curriculum, it is possible that all the knowledge components were not actually delivered to the participants in the PEACH program. Further development of the educational program may be necessary, or this sample may not be representative of a typical welfare recipient. In addition, the period of time over which these subjects were observed was limited. More change might occur over a longer time period.

While most respondents perceived that institutional barriers did exist, institutional barriers do not appear to have an effect upon participants' financial behavior. Further research with a larger sample could uncover different results; however, there is little evidence from this preliminary study to warrant further research on the effects of institutional barriers upon financial behavior. Though few respondents reported high levels of comprehension barriers, for those who did perceive a comprehension barrier, it was significant in predicting financial behavior on the pretest and posttest. Most respondents reported few futility barriers; thus, this barrier did not appear to exist.

Respondents reported that they have a high degree of control over their finances, which indicates that they are not suffering from feelings of loss of control. Respondents reported high levels of institutional barriers, yet these barriers did not affect their financial behavior. They also indicated much higher than expected planning and saving behavior. At the same time, respondents indicated that they had negative 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.

Job training in order to increase income may be the most important approach to improving financial management practices of welfare recipients. It is important that welfare recipients receive training for jobs that pay more than they receive from welfare and for jobs that are available. Research is needed to assess financial behavior after a welfare recipient becomes gainfully

employed. Furthermore, once an individual has enough income to meet current financial obligations, additional study should be undertaken to investigate the variables other than income (such as time horizon) which are associated with sound money management practices of former welfare recipients.

Results of the open-ended questions suggest 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 have their priorities in order. 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 didn't have enough money to met all their bills, they would pay only some creditors.

Rather than making assumptions about what the money management education needs of the audience, it would be wise to use a screening test or needs assessment tool and then tailor the educational program to the audience. Currently there is no widely accepted tool designed for limited income audiences to determine level of financial knowledge. Such a screening tool could result in designing programs which more effectively meet the needs of the audience. Money for programs could then be spent on what is needed most. Educators and practitioners should avoid making assumptions based on stereotypes. More thought needs to be given to determining which kinds of programs best meet the needs of the clientele. The result would be more efficient use of public resources.

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#### Endnotes

1. Associate Professor, Department of Housing and Consumer Economics
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3. Most PEACH participants receive AFDC, Medicaid and Food Stamps; however, in some cases where there was other income, Medicaid and food stamps may be the only welfare received.
4. PEACH is administered at the county level and there is variation from one county to another.