

EPISODE 562

[INTRODUCTION]

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FT: You're listening to So Money, welcome to the show. I'm your host Farnoosh Torabi, thanks for joining me. What happens when you have no savings and you suddenly incur a huge expense like a medical bill or a car repair? Nearly half of Americans would have trouble paying for a \$400 surprise expense because we just don't have the rainy day savings.

What happens if you work in retail and your weekly paycheck fluctuates because your boss changes your hours every week, and meantime, your monthly bills are steady? The topic today is financial fragility and we're going to explore this with Rachel Schneider, she's the co-author of the new book, *The Financial Diaries: How American families cope in a world of uncertainty*. She and her co-author take a deep dive into how over 200 low and middle income families in the country spend, earn and save over the course of a year. How do they deal with inconsistent paychecks? How do they cope with emergency costs and other financial ups and downs?

A little bit more about Rachel, she's the senior vice president at the Center for Financial Services Innovation, she's an expert on financial health and her career began as an investment banker at Meryl Lynch. Rachel and I talk about the forces leading to income volatility and financial fragility. I also wonder how a household earning six figures still has money troubles, as she discovered? And ways households are overcoming financial fragility on their own.

Here is Rachel Schneider.

[INTERVIEW]

[0:02:05.4]

FT: Rachel Schneider, welcome to So Money. By the way, you're the first interview that I am conducting since my maternity leave so you are my come back interview.

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RS: I'm so excited about that.

[0:02:17.3]

FT: No pressure.

[0:02:18.1]

RS: I'm excited to be here and congratulations, that's just fantastic.

[0:02:21.6]

FT: Thank you. I've been looking forward to this interview, you know? I think what your new book has to say is so important and the work that you do at the center for financial services innovation is so critical especially now talking about income volatility, there's a lot of uncertainty out there, whether it's political and economic.

Let's start right off the bat talking about financial volatility, as you define it, and why these days, it's such a growing issue?

[0:02:52.0]

RS: Sure, it's a big question. I should say the work I'm doing is really comes out of a research project called the US financial diaries and what we did is we worked really closely with 235 families to understand their life over the course of a year. We were really trying to understand — we went in with such an open mind. We just wanted to understand their financial life, pure and simple.

We had a big focus on financial services but as we looked at the data, what we saw was just huge ups and downs, big swings in people's income and big swings in people's spending. It led

us to spend a lot of time trying to understand volatility, which is really that idea of ongoing ups and downs in your financial life. We talk about volatility so much in terms of the stock market; you hear about ups and downs in our overall economy but people will really experience those same ups and downs in their own little personal economy.

[0:03:56.7]

FT: What's interesting is that it's not just the folks that are living paycheck to paycheck or making minimum wage. We're talking also people who make significant salaries, this is not unique to any particular income group.

[0:04:09.5]

RS: Yeah, that's really true. It's really a result of changes in our economy and changes in how people work. I know you talk about and think a lot about the gig economy and how people can generate a side hustle and make extra money on top of their paycheck. That's some of it.

But it's also the case that people who have full time work, nonetheless have ups and downs in how much they earn in that full-time job. Of course people who earn tips or work on commission but it's also people who work retail.

More and more companies have gotten really efficient in knowing exactly how many staff people they need on the floor at any given moment and they'll send people home when demand for their services is low. Even people who work allegedly right full time. Full time doesn't necessarily guarantee steadiness.

[0:05:04.0]

FT: No, it does not and what I've read from your work and I've been watching your videos, you talk a little bit about how over the course of the year, these family's households may make a nice salary of average middle class salary, 65, \$70,000 a year on an annual basis but it's when you get down to the micro sort of day to day, month to month budgeting, that is where they struggle.

You talked over 200 families, can you paint a picture who we're talking about? We talk a lot about millionaires next door, these people who live in obscurity but are millionaires. But then there are people who seem to be living very comfortable lives, comfortable salaries, good jobs but they're struggling.

[0:05:50.4]

RS: That's really true. In a separate research study that my organization, CFSI, did, we tried to understand the financial health of the American population and what we found was that about a third of people with lower incomes were still financially healthy.

They still could pay their bills on time, they still felt a sense of confidence and security, they could still say — and conversely, about a third of the people with incomes over \$100,000 were not necessarily financially healthy. So it's not only about income, right? that's a huge piece but with the diaries, we were explicitly trying to understand middle and lower income families. About a quarter of the families in the sample were middle class and a quarter were near poverty level and then the rest were in between. It's probably useful to tell a story or two, right?

I think about this findings from the people, we collected so much data but what's really interesting is to understand a family. So I talk a lot about a family that we named "Sarah and Sam Johnson". We anonymize of course everything about the specifics of who they are but they're exactly what you just described; a middle class household living in Ohio, outside of a major city, a house, two cars, both Sam and Sarah work full-time but when we asked Sarah what her main financial goals is, she said it was to pay all her bills on time and in full.

Because for her, there's this constant sense of juggling, of, "I'm on late my mortgage is this month, so next month I'm going to have to pay it double and then the month, then I'm going to have to skip my cellphone bill to be able to afford to do that. It's really because for them, the cost of living has risen faster than incomes, which is the case for lots of people.

[0:07:52.5]

FT: Yeah, that is true. I mean, looking over just the course of 15 years, I started out at a job making \$18 an hour. That job still pays around \$18 an hour.

[0:08:04.2]

RS: Oh my gosh. That's crazy.

[0:08:05.6]

FT: Last I checked, the price of milk and housing and college and gas did not stay steady so that is I think an important point to make and so even if you're making \$100,000 a year and you have two kids and you're both working, there are so many not only rising costs but unexpected costs too, right? Talk about that and how that's playing a role in income fragility or rather, financial fragility? This inability to plan and budget and have an emergency account for things like a medical bill or your car breaking down?

[0:08:41.9]

RS: Yeah, it's really true and Sam and Sarah are a really good example of that. They have health insurance through their works but you know, health insurance, it's not only about if you're covered, it's how big is your deductible and what's your copay and how much of the premium do you pay. All those numbers have gotten worse even for many people even though more people are covered now than many years ago, right?

So Sam and Sarah, when we first got to know them at the beginning of the diaries year, they already had \$8,000 in medical debt. They didn't have any real hope of paying it down. What was heartbreaking to me is, at some point, they had it on a care credit card and at some point, the credit card company decided to just forgive that debt, forego getting it back and Sarah was actually disappointed about that because she wanted to pay it down and have access to that credit in the future. Because she knew other things would happen over time.

In the year that we got to know them, on top of that medical debt and then they of course had a car that needed repair and to be replaced which is just part of owning a car. They had a leak in

their house so they had house repairs to make. Normal stuff, right? Then they had good financial shocks too. Sarah's oldest child from her previous marriage graduated from high school the year of the diaries and she had had him when she was very young and had to raise him on her own and he was a special needs kid.

He graduated as valedictorian of his class, which is just awesome, right? It was such a huge moment for them. Of course, they wanted to throw a graduation party, which is not crazy to me right? it's just part of life but it's also a financial shock. So they had all this expenses over time, just wasn't a steady financial picture at all. Eventually, when we caught up with them after the conclusion of the study as we were writing the book, they had had to declare bankruptcy.

[0:10:53.3]

FT: I'm listening to this and I'm thinking, "When do these families get a break you know? When they get to celebrate life like they should be able to enjoy their hard work and their efforts and they are making money and it almost feels like this idea of the American dream or a life fulfilled is something that is a luxury to many of these families.

What's some good stuff that you discovered with these families? I mean, I would love to sign maybe talk now about how they're finding solutions, getting ahead in some ways that I know a lot of this will have to depend on policy changing but individual basis, what are some of these families doing to try to improve their lifestyle and their situation?

[0:11:37.6]

RS: So many things, I'm really glad you asked that because it's not all a story of hardship. I think the American dream is a story of struggle but it's a story that often, not always, but often has a happy ending, right?

Sarah continues to be — she's just often top of mind for me. Two things; One, she was the first to say life's not all about money and I know you think a lot about and talk a lot about on this show like what is the purpose of having a steady financial life in the first place?

She's really clear that yes, her life has financial anxiety but it's all that means to an end. Overall, her life has a lot of positive movement. During the same diaries year that she was struggling financially, she had gone back to college herself, she graduated from college at 40 and started a master's degree program. She was looking for a higher paying jobs. Part of it is about expanding your skill set, investing in your own capabilities and finding ways to earn more money, that was part of the many of the family's strategies.

We also saw lots of creative solutions to near term financial problems. Another family for example found it really hard to save, putting money aside, not spending it is just — it requires discipline, it could be tough to do. This mom's strategy was to buy in bulk which was cheaper of course and then stash away more than she needed of all sorts of things in her pantry.

She said, she just found it easier to stay with shampoo and toothpaste and pork chops in her freezer than to put aside cash but I think, we heard a lot of stuff like that where people know themselves well enough to setup some system that works for them.

[0:13:36.7]

FT: Right. Largely, do these families and households believe that is entirely up to them or are they hoping for external help and change?

[0:13:49.5]

RS: Such a good question. We did ask people, if they thought they had the same opportunities that generations before them, if they thought that they had a fair shot. So at some point we asked, "Is your financial wellbeing more the results of you or events outside of your control?"

People often feel like it is in their control and they feel like they can affect what they can affect their financial outcomes, even if they see that there are challenges that are just not theirs to solve.

[0:14:30.6]

FT: Well, right. There was a reason New York Times feature that Ron Leeber wrote, he's been a guest on the show and he's the personal finance editor at the New York Times and was all about the tradeoffs that we make in our lives. The financial tradeoffs, right? There are choices that we make and the money follows or doesn't. Sometimes it's conscious, sometimes it isn't but it is a fact of your financial life that when you make one decision, you are basically not making another. If you're saying yes to something, it means you're saying no to something else.

[0:15:02.3]

RS: Yeah, you know, I can't think of anyone that I got to know personally through the study who didn't think about those tradeoffs in some way, didn't have some plan for the future. So I'm thinking about a woman I got to know in California who is near retirement and she had this whole waterfall in her head about how she was going to afford her life in retirement.

It was, she owned her house free and clear but she had paid down her mortgage I should say but she still had a big home equity line of credit and it's in a side, it was so interesting that she really thought of those things so differently. She wanted to have fewer pieces of debt outstanding so she paid down the mortgage just because she could, the home equity line of credit was a big chunk of money and even though it was a higher interest rate, she didn't feel like she was within sight of paying that down.

She didn't so arguably, not the best financial choice, she was sort of screaming out for a refinance probably instead. She had this waterfall on her head about she was going to no longer have her income from her work so she was going to monitor her expenses really closely to see if she could — she thought she could probably cover everything and that's why she wanted to have one less bill. She was busy making sure she had fewer details to track.

But she had this whole set of event she thought would put in place. Either she'd still be able to afford her house post retirement or not. If she couldn't, she wasn't going to go get part time work, she felt really confident about exactly what part time work she could find. Or she was going to sell her house and move to a cheaper neighborhood since she no longer needed to get to work and so she didn't have to worry about a commute anymore. This whole series of things.

Often, you hear that from people right? The series of choices they think that they need to make and the tradeoffs they need to make. What was interesting to me though was that a consistent theme was some element of needing to wait and see. Seeing the numbers on a spreadsheet wasn't enough for this particular woman to feel confident she'd be able to support herself in retirement. She had done that math, she had that spreadsheet, but she still felt like, "Well, I still going to have to wait and see how it goes."

[0:17:19.7]

FT: Is that something that you found was different between the genders?

[0:17:24.3]

RS: I don't know. You know, we didn't look at it quite that way, it would be a really good follow up question to go back to our data and do. I should say, the financial diaries was really a repeat in some ways of research that had been done in a developing world using the same research methodology. The bankable frontier associates that did, who's done a lot of that international work has gone back at their international — to look at their international data sets to see if it's different with women led versus male led households.

There's a really interesting take away from that, which was around how important financial networks are, or social networks are. We had this false motto I think in our heads that people manage their money individually, "It's me and my bank." But in reality, we're in financial relationship with so many other people and those relationships affect our fragility or resilience a great amount.

In our study, for example, only 5% of the study participants had no financial interaction with somebody else during the study, everyone else was either borrowing or saving with a friend or lending money to a family member. So what they found in this international work was that women tend to really nurse their horizontal network, their peer group network where as men tend to nurse their vertical network, their suppliers and customers.

They were looking at sort of small business holder's, right? Sole proprietors but that rang true to me in terms of the way men and women internalize their peer groups and who we might go to for help about money, who we might be interconnected with about money.

[0:19:12.3]

FT: So with women they are looking for more familiarity. Like their friend group, their network, their family?

[0:19:18.8]

RS: Yeah, it was a takeaway around whether you're more invested in yes, your boss, your suppliers, your customers, that sort of up and down movement of money through your life. Versus I'm going to lend some money to my neighbor and she'll lend money back to me when she needs it and when she has it, right? And I don't know if you'd see that same thing in the US? You might.

[0:19:45.3]

FT: Maybe. We are a hodge-podge of cultures here so it's possible there are influences all over. Separate from writing this book, you also work at CFSI where you're really at the forefront of looking at and exploring all these new innovations when it comes to financial services and mobile applications.

What's new that is getting you excited? Because on the show we have talked a lot about Digit and Acorn and a host of apps and websites that are helping folks save more, invest more, on the go, taking into account behavioral psychology maybe not knowing specific things, but in terms of the kinds of technology that you are seeing that are becoming down the line, what can we look for?

[0:20:37.2]

RS: Yeah, I'm glad you asked that and god, there's so much and I am really excited about technology. I feel like that's going to be a big piece of the answer here because part of what you are seeing even from what I describe is that this is hard math for people to do on their own. It's hard concepts for people to do entirely on their own and as technology changes and evolves and we have more data and predictive analytics, you can help — you can really give people better and different advice. So I know you were involved with the first challenge that we ran through our financial solutions lab.

[0:21:13.6]

FT: Yes. I moderated a, it was basically an American Idol, for financial app developers.

[0:21:22.0]

RS: Exactly.

[0:21:23.5]

FT: Yeah and your organization selected a host of them, maybe six or seven of them to incubate along with Chase Bank and some of those players included Digit, very established companies that we now know and trust.

[0:21:38.4]

RS: Exactly and so we're now our third year of that challenge and the due date is soon. So I should say if there's anybody in the audience who is a FinTech entrepreneur, you should go and look up the *Financial Solutions Lab Challenge* and this year, the challenge is all around. It's really broad, it's anything with financial health and particularly if you have a solution that focuses on traditionally underserved populations we want to hear about it.

So if you've got a new service that helps older Americans, or Americans in rural communities, or for African-American or Latino, we're particularly interested but I think I am really enthused by Digit for example exactly in this way because they are tracking the ups and downs in your

income and siphoning off money to save without you thinking about it, they really are a perfect financial product for somebody who has income volatility. I'm really excited about Even who I would also describe as really being smart about the use of data to track their customer's financial life and then help them smooth them out.

[0:22:54.1]

FT: Right, this is great for folks who like you mentioned earlier, worked in retail or worked at a job that is hourly and may not be consistent hours every week. They work 35 one week, 40 another, 20 another, nothing in one week and they still have their reoccurring bills. So even essentially extends you an advance, knowing what your average paycheck turns out to be and that really, I think for a lot of working class America, is a huge help.

[0:23:25.4]

RS: It really is, yeah and I think I'm also really excited about, from this most recent group of lab cohort participants, a company called Earn Up where also again, there're just intelligently following your income ups and downs and then helping you pay down debt in moments when you are flushed which I think is really smart.

[0:23:49.3]

FT: So, Rachel you have such an important job and we were talking earlier about when we both took maternity leave, we rushed back to work not because we necessarily had to but we liked our work. We really enjoy our work and I think you are so entrenched in the financial world in a unique way, getting to see how people lived their lives and the innovations that are coming through the pipelines.

I'm curious to know how you find yourself in this place. Maybe let's take it back to our younger, our wonder years which by the way started playing on Netflix. I just saw the first episode of Wonder Years ever. It's a master piece.

[0:24:29.8]

RS: That's a classic. Oh my god I'm going to have to go back and watch it and have my kids watch it.

[0:24:33.3]

FT: Yeah, it's a whole other appreciation when you watch it in your 30's versus when you were 12.

[0:24:38.2]

RS: Yeah, exactly.

[0:24:39.9]

FT: But tell us a little bit about Rachel growing up and your financial influences then and how they might have shaped where you have led your career today.

[0:24:48.7]

RS: Yeah, well I hope my parents listen because I grew up in a household where it was just phenomenal about teaching money. It really was, and it's not something that most families talk about. In some families it's outright taboo but in lots of families it's just not what people even consider a dinner conversation but my mom and dad both really actively taught money concepts. My mom when she had me and my sister open a saving accounts as kids, she said that any money that we put in our savings account she would double.

So my grandma would give me \$10 for my birthday and if I saved it, it was \$20, automatically. She really was trying to teach how important it is to save and my dad was happy to say that a penny saved is a penny earned. But also, as I got older, I had to submit a budget. I was a terrible shopper like really unpleasant to shop with because I am always looking for the exact right thing and so instead of going to shop with me, my mom would have me submit a budget.

So I was sixth grade or 5th grade or whatever and I had have to say, “For summer I need five pairs of shorts and three T-shirts,” or whatever it was and I had to put dollar amounts by it and get my budget approved and then that was what I had to send and she’d send me to the mall.

[0:26:14.1]

FT: Wow, you weren’t kidding.

[0:26:16.5]

RS: I know, it was awesome. No it was amazing, and you know she’d send me to the mall with a credit card and a note saying, “This girl is allowed to spend on this credit card...”

[0:26:22.9]

FT: Two white shirts, a pair of sneakers, yeah.

[0:26:25.6]

RS: But I knew that if I spent on different things that was on me. That was what I had to spend period, which was amazing and my dad was and still is just an incredibly lucky and successful investors. So we were talking about stocks and real estate and my parents didn’t start out with a lot of money and my dad’s main job was that he was a dentist but they were able to turn that into a much bigger financial life than that because they really focused on saving and investing.

[0:27:04.2]

FT: Learning about investing as a young girl, what a gift. I like to think too that my family did me a great service of opening me up to financial concepts as a young person and there was a lot of communication around money in my household growing up that it never felt taboo. But investing, not saying that they shielded that from me, but it also was something that my parents really did.

They were immigrants so they were more focused on education and building your wealth through real estate and working hard and the stock market was something that was a little too nuanced for them perhaps although they did do their workplace 401(k)'s. They weren't following stocks and they weren't explaining, therefore, to me how the stock market worked. Had I been more familiar with it and more comfortable with it, I think I could just have started my investments so much younger.

[0:27:56.5]

RS: That's really true and it's not for everyone, but I do think what you are saying is right that if you have a comfort level with it and I don't know why my family was so comfortable with it in a way. My grandmother didn't go to college until her children were grown and in my family there was a real focus on particularly we need to teach women this, which is miraculous. My grandmother was smart enough to go to college but her dad thought, "Why would you go to college? You're supposed to get married."

So she went back to college as an adult woman once her kids were grown and I think the first stock I owned was that she owned Bell Telephone stock and when it broke into five different companies at some point, the government split up that monopoly and so if you owned their stock you got a piece of what's now Verizon, a piece of SBC, and it's split into five and she had five grandchildren and so she gave each of us that stock. And we were talking a few hundred dollars, it wasn't a lot of money but it was just the idea that you're 13 and you can own this little piece of US West, that was important.

[0:29:10.2]

FT: Yeah, David Bach, a guest on this show tells this famous story about his grandmother, Grandma Bach taught him one of the most important principles of money when he was young, a little kid, they went to McDonalds and she said, "There's two types of people in the world, David. There are people who eat at McDonalds and there are people who own McDonalds."

[0:29:29.5]

RS: Oh my god, that's amazing.

[0:29:32.7]

FT: And he was like, "What are you talking about?" and she explained the concept of stocks to him over a Big Mac or a Happy Meal, in that case and it's a story that he likes to tell because maybe at that time the story wasn't applicable to him but he remembers it and he probably built a curiosity from that point on.

[0:29:49.8]

RS: That's really an amazing story, it's phenomenal.

[0:29:52.3]

FT: All right, so Rachel we don't have a whole lot of time left here but I would like to ask you some So Money fill-in-the-blanks and this is when I start a sentence and you finish it, first thing that comes to mind, okay?

[0:30:02.2]

RS: Okay, got it.

[0:30:03.8]

FT: All right, if I won the lottery tomorrow, let's say \$100 million, the first thing I would do is _____.

[0:30:08.3]

RS: So clearly I would set up some kind of a foundation to give lots of it away, but I have to, because I don't need that much money, but I have to admit that I would also outsource so many things in my life. I have to say, right? You know if I could skinny my life down to work, kids,

family, friends, hobbies it would be amazing and I don't think we give — it takes a lot of time to run a household and keep just the basics of life management going. I need to give that time a lot more credit.

[0:30:40.8]

FT: Agreed, good answer. The one thing that I spend on that makes my life easier or better is _____.

[0:30:46.9]

RS: So I guess it's a theme for me; I do spend money on a personal assistant, which sounds extravagant but I am a working mom and I figured out when my second child was born, here's my one piece of advice for you Farnoosh, you probably do this already but when my second child was born I realized that I can only work and be a mom and barely have time for anything else and I realize that it would cost me just the same amount of money to hire a babysitter as it would to pay someone to help me with other stuff and that I would rather be with my kids versus going to the DMV to get my car registration up to date.

[0:31:28.1]

FT: Really? That's so weird.

[0:31:29.7]

RS: I know, why? It's so fun there. It's the best money I've spend every year. It's really phenomenal and a game changer. I started out with an offshore assistant. So it doesn't necessarily have to be a super expensive thing, but can dramatically change your life.

[0:31:48.2]

FT: Well it goes back to what we talked about earlier, which is tradeoffs, right? Figuring out where your money is best spend and based on not necessarily absolutes but personal

preferences, how you envision a fulfilled life and it's in one way to stay in control of your financial destiny and feel in control of your money.

All right, one thing I wish I had learned about money growing up — it sounds like you learned more than the average kid but if there was one thing that was left out, what was it? One thing that you wish you had learned.

[0:32:25.9]

RS: It's tough. I did learn a lot about money itself, money management, which was really lucky. I don't think I was as conscious as I am now about how much money is really about, as you just said, like tradeoffs and values. I knew it was about tradeoffs in terms of "I can buy this versus that". I don't think I thought about it that much as in terms of a tradeoff about my values and my time until I got older.

So my first work experiences were really about making money and I knew it wasn't quite in accordance with my values. I wanted to value time and mission more but it took me a little while to get there.

[0:33:12.7]

FT: Yeah, I do think that's something that comes with age that comes with experience. Although, I will say it might be also generational because my younger brother who is a millennial, I think his cohort of young workers they aren't just interested in the paycheck anymore or the "benefits" that they want to work in the environment where they feel valued and there's maybe an emphasis on giving back and so companies are now starting to rethink their mission and how to attract this younger work force that isn't all about the money.

[0:33:47.2]

RS: Yeah, it's something we can learn from millennials. I'm a Gen X-er and we weren't really — I mean Gen X should be renamed the ignored generation. It's not really clear what Gen X is about in the same way, but I don't think we learned that early.

[0:34:00.6]

FT: They're all about Pearl Jam and MC Hammer pants. Yeah, all right last but not the least, I'm Rachel Schneider and I'm So Money because _____.

[0:34:12.9]

RS: I'm So Money because I spend my time thinking about these issues and expanding our knowledge base about it and expanding my knowledge base about it. I am not done at all.

[0:34:25.0]

FT: You are not, and we're happy for that because your work is amazing and everybody check out the Financial Diaries. Thank you so much for your work Rachel and we'll be keeping an eye on all of the news that comes from your team.

[0:34:37.1]

RS: Oh thank you so much. This was really a lot of fun. I'm so glad I could join you.

[END]