EPISODE 859

*"**JW:** Too often, we turn it into a blame game, you know? If you just get control your finances, if you just lived within your means and one of the things that we have identified as the more we study and the more people that I talk to is that sometimes it's not about living within your means. Sometimes it's about your life breaking your means."*

[INTRODUCTION]

[0:00:58.9]

FT: You know, one of the most financially fragile demographics in this country is women who have none prime credit scores. They are a part of the new middle class and these are women who experience challenges unlike many other parts of the population because they are often mothers, they're caretakers to elderly relatives, and they're the people in charge of their households. Their financial wellness matters to many people in their families and in their communities.

Welcome to So Money, everybody. I'm your host, Farnoosh Torabi. We're tackling this important topic today and our guest is spearheading research to better understand and help these women and all members of the new middle class. Jonathan Walker is the Executive Director of Elevate's Center for the New Middle Class. There he conducts research to better understand the behaviors, the attitudes and challenges of America's growing "new middle class". We discuss what is the new middle class, what are the specific challenges that they have, and how is the new middle class forming and shaping our country's economics.

Here's Jonathan walker.

[INTERVIEW]

[0:02:11.0]

FT: Jonathan Walker, welcome to So Money. How are you?

[0:02:14.9]

JW: Doing great, Farnoosh. It's great to be here with you.

[0:02:17.8]

FT: I'm so happy you're here, especially because you're such a resource, such a wealth of knowledge around just our attitudes, our behaviors, our challenges as Americans when it comes to money and how we are managing money, not managing money. You're particularly focused on what is called the new middle class.

So, let's start there by first defining that for our audience and, you know, what is it about this new middle class that is apparently it's like fertile ground for learning about where this country is and where it's headed from a financial perspective.

[0:02:57.6]

JW: Yeah, you know, the new middle class to us is a fascinating space because in the old days, you know, 50 years ago, we talk about the middle class as being kind of that middle income, right? Those who are making kind of just the basic income that is a living wage and kind of working Americans.

Well, we know that that middle class is being thinned out a little bit and when we started to look at the challenges of Americans, we started to realize the real shift isn't so much as economic as it is access to credit and access to those financial instruments that help people overcome the slight hiccups that happen in everybody's financial life.

You know, we define the new middle classes are people that have none prime credit scores. When we're doing our study, we study those who have a credit score below 700 and we compare them to people with prime credit, those over 700 who have access to whatever credit instruments that they need.

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FT: You hear often about this population that is under banked or the none banked and I sometimes wonder what is fueling that? There's also this other area of financial markets, which is like, you know, these pay day lenders and you know, these debit cards that are sort of like you know, they're not quite debit cards but they're like cash cards. I've always been skeptical of that and they market specifically to these sort of, you know, as you described it, subprime credit, you know, people who have subprime credit and I wonder, is this just you know, perpetuating this cycle, right? Where they're never going to be able to get to a point where they're going to be credit worthy because we're not giving them the right tools, the right resources, the right literacy to get there.

[0:05:08.7]

JW: Yeah, I think if we unpack that a little bit, there are two things that are happening that we really have to address in our society and the first one is, what causes people to fall into the none prime space? I think too often we believe that it's just, you now, we turn it into a blame game, you know? If you just get control of your finances, if you just live within your means and one of the things that we have identified as the more we study and the more people that I talk to is that sometimes it's not about living within your means. Sometimes it's about your life breaking your means. There are things that happen that are really genuinely out of people's control that drop them into the none prime, kind of disrupt their finances in a significant way.

That second issue then becomes exactly what you're talking about, once you're out of that prime space, how can you build yourself back up? How do you get back in there? And so often, the credit products that are available to people in the none prime space don't report to the credit bureaus and so what that means is that they are – they have a longer road to walk in order to get back to the prime space because if you don't have good credit behavior reported to the credit bureaus, it takes a lot longer for, you know, things that are poor marks on your credit report to fall off of it.

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FT: So, have you found in your research what may be some of these success stories or how do people pivot successfully from being subprime to getting out of that and then actually building credit? You know, it's like kind of a chicken or egg situation. It's like, you can't get credit until you have good credit, but how do you get good credit, right?

[0:07:09.9]

JW: Exactly. That's exactly the trap that we hear some people come into. In fact, I talk to a person, I don't know, probably a year and a half ago? Really savvy, young, probably 22, 23 year old and I had asked him why he took a loan with a company and he looked at me and he said, "Well, I really didn't need the money." I kind of just my jaw dropped, right? I'm like, "Well, why would you take money from this company?" He said, "They were the only ones that would lend me money and they report to the credit bureaus. I knew that if I could just build that history, I would be able to get on top of that," and he said — and I kind of looked at him and I said, "Well, is it working?" He's like, he said, "Yeah, in the last three or four months of paying it off, my credit has improved 25 to 30 points."

So I think an answer to your question, when people are trying to get themselves out of the nonprime back into the prime space there's a couple of things that they do. They really focus, they understand what they need to do, they pay attention and they're fairly militant about being very disciplined to get on top of things and one of the guys I talked to who was doing that, I followed up with three or four months later and he's like, "Yeah, I hit a hiccup but I'm still working on it."

I think that second point is that hiccup. One of the big challenges for the nonprime people is that when they run into a financial problem, the hurdle is much lower for it to be a significant problem and it's because they don't have other ways like a credit card to put, you know, if you got a repair, replace your tires, you're less likely to have other means to cover those costs. So they tend to have on average, $1,200 will cause financial disruption to people's lives if you're nonprime whereas if you're prime, $2,900 expense will cause disruption.

One of the things that is challenging for them is how do they avoid the challenges that are bound to happen in their lives as they're rebuilding?

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FT: You call them the new middle class. So, it begs the question, the old middle class versus the new middle class if we were to compare this group of people to a generation ago, what are you seeing? Are we better off, worse off, and if we're worse off, what's changed?

[0:10:04.6]

JW: Yeah, so we call them the new middle class because they're the new kind of in the pinch. They're not the poor, and they're not the completely unbanked and I think you kind of eluded to that's a whole different societal problem that we need to address. But this new middle class, these are people who are the accountants, they're the nurses, they're the federal workers, they're the people who have decent jobs but they're a little bit more fragile financially than we were say 30 or 40 or 50 years ago.

That fragility is spawned by, you know, healthcare issues, there's a little less stability in job and retirement, there's a little bit more instability when it comes to education and the cost of education. So these are the things that kind of put them in a much more fragile state and that's why I think it's easy for people to run into trouble, even though they have good solid stable employment.

[0:11:20.6]

FT: You have so many data points around this market, this new middle class, and some of the startling things, I'm looking at it now just some of the bullets: 52% of the new middle class, more likely to deny themselves of the comforts to save money. What does that mean?

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JW: Well, what that means is that, you know, we need to put aside this belief that if you have credit problems, it's because you couldn't keep the plastic in your pocket, right? That, "Oh, I just have to buy this because I want it," or, "I'm going to go on vacation and you know, the consequences, I'm not going to worry about the consequences," and I think what you're seeing with the statistic like that is that half of the new middle class is actually highly conscientious about how they're spending their money so that they are not throwing caution to the wind but they're actually denying themselves some of the comforts of life in order to keep control of their finances.

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FT: What's also a little sad is that many believe, they're more likely to believe that their finances will worsen. They're not very optimistic. From your end, are you seeing some developments in the space, maybe some instruments and tools, literacy that you think is worth getting excited about, that there is a lot of opportunities still for people who feel like they're in this demographic and are in this demographic?

[0:12:57.4]

JW: Yeah, it's interesting. When we really look at this group. The whole nonprime space is not monolithic. There are a lot of different pockets of people and what you're talking about are those who feel very much trapped in where they are. It's a mentality that is not altogether – they come by that honestly in the sense that sometimes, they do struggle with understanding how they're going to get out of the situation they're in.

I think one of the biggest challenges and one of the things at the center for the new middle class, we've been trying to champion is we need to understand these people better so that we can provide better products and services for them. I think too often, the really cutting edge financial services tools that are coming out are really designed for prime people. They're designed for people who just make their lives easier rather than giving them a lift.

I'm not sure that I see a ton of great products out there that help people lift themselves out. There are a lot of financial literacy tools out there, but there are fewer tools that really help them manage their way out. I think the most effective ones are the ones that help people manage their day to day cash flow so that they can get on top of the challenges that happened to them on a daily basis.

[0:14:42.4]

FT: Your work also focused on the plights of women in this market. What did you find? I'd love for you to share some of the highlights in that space.

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JW: Yeah. So one of the things that –

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FT: I want you to be the bearer of bad news, not me, okay?

[0:15:00.4]

JW: Thanks for making me bad guy. Nonprime women are less likely to be salaried workers, that means they're a little bit more fragile in terms of the actual stability of their income. You know, only 13% of the nonprime women have a significant amount of money put aside for emergencies.

They're four times as likely as prime women, to predict their monthly income What I think is also – the reason we call this the societal problem and not just a women problem is because the nonprime women are more likely to have more children in the household, they're more likely to have disabled or elderly adult that they're caring for.

The fact that the nonprime women are more fragile than even the nonprime men is compounds itself through society because they are touching and they are affecting and they're helping more of the disadvantage people in our society.

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FT: When I say, you know, "When women make more, the world becomes a better place," it's to your point, you know, we're already in a position of helping and supporting. As the percentage of our salaries, even though we make less money on average than men, women are more charitable.

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JW: Absolutely -

[0:16:34.0]

FT: That's an all income levels and so just putting more money in their hands, putting more financial resources in their hands, it's a win/win for everybody. Yeah, it's very important to me and I'm sure, you know important to you to make sure that women get even maybe some more attention on this stuff. Because we're living longer too, Jonathan. We, for so many reasons, we need the money.

[0:16:56.2]

JW: That's right. Really, it is to your point, it is - It reverberates through society and it is not just about women and if we think of it as only a women's issue then we're never going to make the headway that we need to.

[0:17:16.6]

FT: Well I would love to transition a little bit more to your personal journey with money and how you even got to being so curious about this aspect of the financial health of America and maybe take us back a few steps to how you even embarked on this and what drew you to it from a personal interest standpoint.

[0:17:37.2]

JW: Yeah, so much of my professional history revolves around market research, consumer insights. So I have spent a lot of time interacting with people and to me, this has been the most rewarding and most richly rewarding aspect of my career has been being able to really talk to people because money is where people's hopes and dreams can either be made or broken and when you talk to people about the challenges that they have in their finances, you get at the heart of the things that matter to them, you get at their values, you start to understand what they hope for, for their families as well as for their own future. So for me, I find great hope in working with people and talking with them and understanding what they are doing and I just find it endlessly fascinating.

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FT: Take us back even further to childhood, what is your earliest money memory?

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JW: Yeah, I have two memories that I think really helped define kind of my approach to money. One was, I grew up in a fairly large family. There were seven children and I remember one particular evening that my parents pulled us all together and my dad had Monopoly money and what he was doing was he put out and laid out on the coffee table in front of us, essentially a mock amount of money that is what would be our family household income. Of course I was too young to even understand whether it was a real amount or whether it was a symbolic amount.

But then he would proceed to go through and say, "And this much of it goes to pay for the mortgage and this percentage of it goes to pay for this," and he kept taking dollars away until we were left with just a small amount of money and he said, "That's the amount of money that we need to pay for our groceries and our clothes and anything else that we need in a month," and to me, it was a really powerful illustration as a child to understand that money comes from somewhere and it goes somewhere and it is just not free.

[0:20:23.5]

FT: No, it's not free. We haven't moved to Monopoly yet in our household. My kids are a little too young for that, but we do have Candy Land and we have what was it? The Game of Life, which I think, you know – I am trying to find financial ways to, like I am trying to find the ways to bring in finances into these games but it's not been easy.

[0:20:49.4]

JW: No it isn't easy and years ago when my children were a little bit younger, I created this little game that was supposed to teach them the value of getting a good education and the game was this forced scarcity where you were trying to build a home, did you want to be the person architecting the home, did you want to be the person building, contracting to build a home or the construction worker and I created it such that there were much fewer architects in the game than construction worker.

So I was trying to teach them that you need to have skills that would enable you to be worth someone wanting to pay you more money. But yes, it is a tough thing. How do you teach children, especially as they're very young, the value of money and, you know, the value of protecting investments?

[0:21:55.4]

FT: Well, it's still kind of the New Year, 2019 is for now this is airing in March but it is still Q1, so I am asking guests in partnership with our sponsor Chase, what is your New Year's Resolution, Jonathan? Financial resolution.

[0:22:13.5]

JW: Oh my financial resolution? You know, one of the things that my wife and I do fairly regularly is we sit down and just take stock in everything in all of our finances and one of the things that we do and we do that, we sit down and we say, "What are the things that we want to accomplish? What are our resources right now? How much are we putting in savings or investment? Should we be adjusting that?"

And for the New Year, one of the things that we did was looked at that and said, “Are there things that we want to accomplish this year that weren’t necessarily in our plan last year?” And so for us, it’s really about for 2019, our goal was to sit down and just really be a little bit more mindful of the resources, the limited resources that we have and what we’re going to do with those to make sure that we have a better plan for the future.

[0:23:13.9]

FT: It’s so smart. One of the best things that I have ever heard on this show and what you just said really echoes this, so I love what you’re saying, is especially as couples look ahead and try to stay on budget, your life changes all the time. You know, you set a budget last year, this time of year and by now, think about all the things that have changed. Membership, subscriptions, whatever you’ve got that no longer are necessary, or expenses that you were saving for that have pivoted and so it really is important.

This couple was telling me that they do what they call like taking their budget to ground zero. Basically rebuilding every year. Imagining if they’re lives were coming together today and you know of course, they’ve been married forever but like okay, let’s say we just kind of merged our lives together and we have what we have. We have our children. But does where we want to go this year, is that reflected in our spending? Is it reflected on our saving and in our investing? And you may find that you still should stay the course and other times you might find, no there are things that definitely have no more room or no relevance to where we are in our lives and so it’s a great exercise and something that I think could bring couples together, frankly.

[0:24:36.2]

JW: Well, yeah and more than you’re even saying. One of the things that we did a study last year about couples and finances at the center for the new middle class and we found that couples who shared their financial goals with each other and were very open about defining what those goals were, were 32% less likely to argue about finances and about other things as well and I think that that gets at what you are talking about is so much of money is wrapped up in our values, in what we want to accomplish, what our hopes are for the future and the more you can talk that out with your spouse and understand that, the more other parts of your life kind of fit together and you are more able to accomplish the things that you want to do as a couple.

[0:25:32.3]

FT: Your background, Jonathan, let's talk about that for a second, your career background is at — you worked at Radio Shack as the Director of Marketing Analytics. Then you were at, before that you were at Hollywood Entertainment holding the roles in merchandising and strategic planning. Your current role as executive director of Elevate's Center for the New Middle Class, seems like a complete kind of departure from your previous professional world. Or what is that bridge?

[0:26:01.3]

JW: Yeah, so the thread that flows through all of that is just how conscientious I have been in my career about understanding the consumer. What drives them, what matters to them, why they make the decisions they make and every one of those jobs previously. That's one of the key components that I focused on.

So when I came to Elevate and they asked me to launch the Center for the New Middle Class, I think one of the reasons for that was because of my rich background in understanding that consumer behavior, understanding how to get at some of those, understanding both qualitatively in talking with people and quantitatively so that we can have statistics that people can rely on to be reliable and so, that's kind of a thread. It doesn't seem like there is a clear thread there but it really is all about understanding people.

[0:27:07.4]

FT: I love it. I love that, you know, it really also it teaches people that you can parley into any field you want. It's really is about what is that story, right? And you have obviously connected those dots but sometimes from the offset, it doesn't appear like it is going to be a linear transition but it is really about understanding how can I take the skills and my perspectives from this current job into the next job even if it is in a completely different field. You know, your skills remain your skills and they are completely applicable to new work environments.

[0:27:44.9]

JW: Yeah, absolutely and that is, you know, we're becoming a society where you need to be more and more flexible in order to survive and so you're right. You know make your skills portable and the other is have a passion for what you do because people will feel that passion and want you to be a part of what they're doing.

[0:28:09.5]

FT: Oh I can sense the passion from you, Jonathan, and thank you for coming on the show. Before I let you go, though, I would love to ask you some So Money fill-in-the-blanks.

[0:28:18.4]

JW: All right.

[0:28:19.5]

FT: All right, you game?

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JW: I'm game.

[0:28:21.9]

FT: No need to overthink just first thing that comes out of your mind. If I won the lottery tomorrow, the first thing I would do is ____.

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JW: A big pot of money, or a little pot of money?

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FT: Big like I mean.

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JW: I'd probably launch a scholarship fund. I'd probably buy an architecturally interesting house. I've always wanted to live in a really interesting – it doesn't need to be a big house just an architecturally interesting one.

[0:28:52.9]

FT: Yeah, did you feel like you wanted to pursue architecture or design at one point?

[0:28:58.9]

JW: A little bit. I just love kind of the feeling that you create a life around yourself and I believe the space that you're in does that. I've always loved beautiful and interesting architecture.

[0:29:19.2]

FT: One thing I spend on that makes my life easier or better is _____.

[0:29:23.0]

JW: I have to admit, I am the cheapskate between my wife and I. I, as a household, what do we spend on? That's a tough one because I'm tight-fisted. I probably if I were smarter about my money I'd probably hire people to do my lawn care and house maintenance. That would make my life much better and I probably need to do more of that.

[0:29:56.4]

FT: Yeah, time is money.

[0:29:58.4]

JW: Time is money.

[0:29:59.8]

FT: Time is money. All right when I donate I like to give to ____ because _____.

[0:30:05.1]

JW: One of the things that we give to is childhood cancer research because we had a son who went through childhood cancer and got through it but that experience just kind of showed me that, you know, children of all people in our society should not be suffering and whatever we can do to help find a way to alleviate that kind of deeply unfair suffering is something we believe in.

[0:30:38.5]

FT: I love that and happy to hear too that your child is healthy now.

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JW: Yeah, he's been out of cancer treatment for eight years. So he is doing great.

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FT: Wow that's so tough. That's not fair. Children should not have to have to go through that.

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JW: Exactly.

[0:30:58.1]

FT: Okay and last but not the least, I'm Jonathan Walker, I'm So Money because _____.

[0:31:04.2]

JW: I'm So Money because I am not defined by money.

[0:31:08.6]

FT: Not defined by money and So Money I think for trying to really, you know, contribute to society as somebody who is really trying to understand the needs of the growing new middle class. Thanks so much for your work, for your attention to this market, to this demographic. So needed. Thank you so much.

[0:31:31.7]

JW: Farnoosh, it was a great pleasure to be with you. Thank you.

[END]