Assisting People Who Have

Unpredictable Income

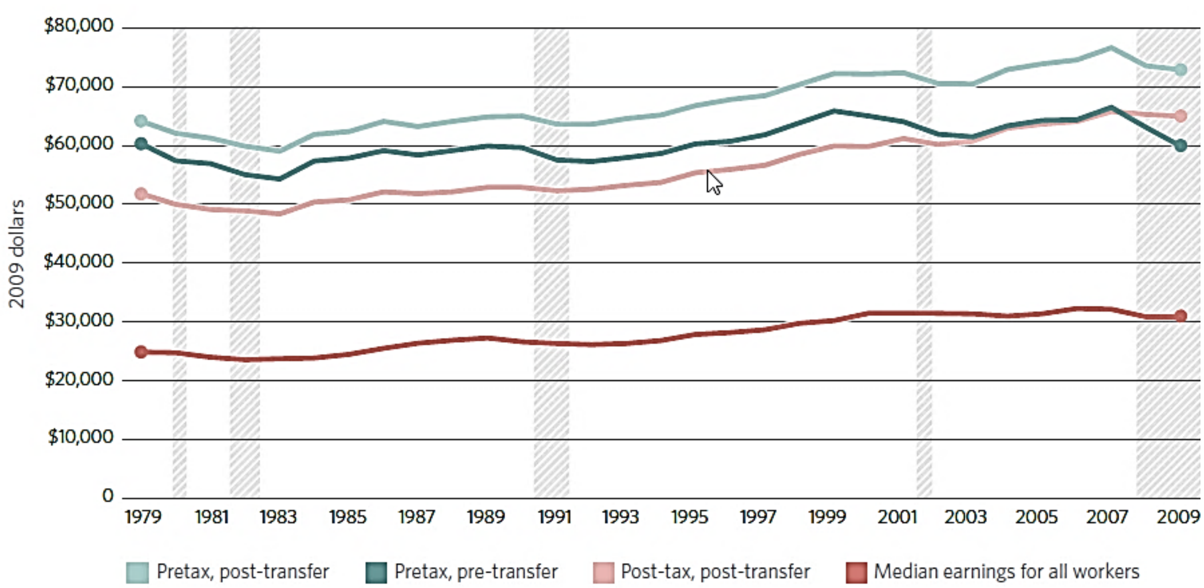
There is a growing need for an alternative financial assistance approach to assist with the growing trend of households who experience unpredictable incomes. These are incomes earned through unpredictable work schedules or temporary assignments that would not cover the basic household expenses. In other words, the source of income is not consistent. The existing financial assistance system typically responds to the needs of people after sporadic job losses. However, such a system may not be adequate when wages to support an entire family may not be responsive to the persistent long-term unemployment and stagnant wages that have become the norm during and the period following the Great Recession.

A recent report, *The Precarious State of Family Balance Sheets***,** by the Pew Charitable Trust described the financial insecurity many American households feel. The report looked at family incomes, expenditures, and wealth – and how they have changed through the years. One of the main findings of the report reveals how fragile have families become as a result of stagnant wages. As Figure 1 shows, Median earnings grew in the 1980s and 1990s but began to stagnate. According to the report, the typical worker had wage growth of 22% between 1979 and 1999 but just 2% from 1999 to 2009.

Figure 1

Income and Earnings Increased Slightly Over 3 Decades

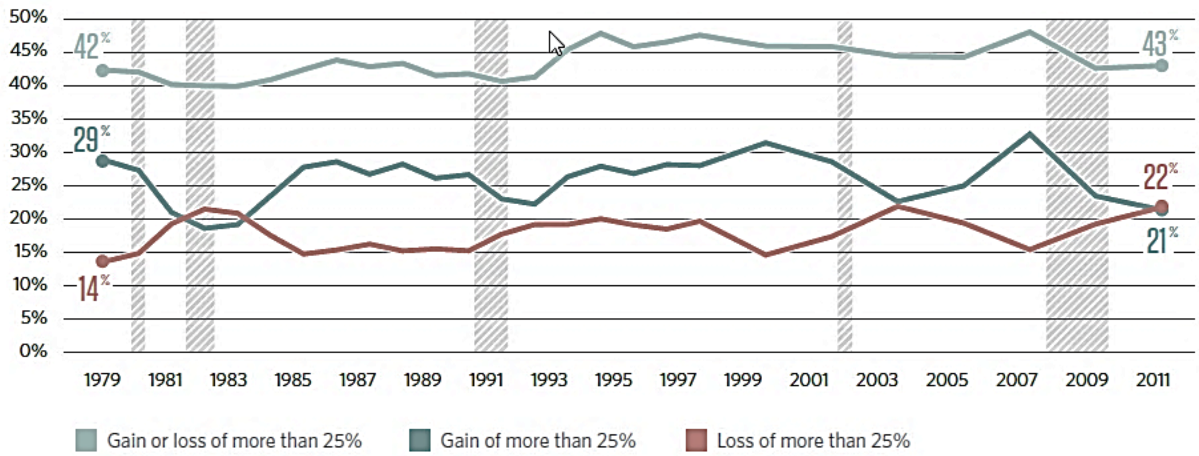
Median household income and individual earnings, 1979-2009



Stagnant wages would fail families to meet their financial obligations as the cost of living rises. These include housing and housing related expenses, childcare, health care, transportation, school supplies, food, and other basics.

The report makes clear that not only wages have been stagnant but also family income fluctuations have been relatively constant since 1979. As Figure 2 shows, nearly half of households experienced an income gain or drop of more than 25% in a given two-year period.

Figure 2
Rates of Income Volatility Remained Relatively Stable
Share of population experiencing 2-year gains or losses of more than 25%, 1979-2011



The combination of stagnant and unpredictable incomes creates financial frailties that force households to resort to expensive and consequential financial products such as payday loans or to rely on unsustainable loans through credit cards.

When family earnings fluctuate, which bills to pay first become unpredictable, and would make difficult to plan budgets and hence unable to save. The report describes 55% of American households as savings-limited, that is, they can replace less than one month of their income through liquid savings. This is particularly more so for low-income households who are particularly unprepared for emergencies, and have only less than two weeks' worth of income in checking and savings accounts and cash at home.
http://www.pewtrusts.org/~/media/Assets/2015/01/FSM_Balance_Sheet_Report.pdf

Fluctuating and unsteady incomes among the poorest households has been around for over four decades. *The Evolution of Household Income Volatility*, a 2012 study by Karen Dynan, Douglass

Elmendorf, and Daniel Sichel found that household incomes became more volatile between the early 1970s and the late 2000s despite a period of increased economic stability. The rise in the volatility of men's earnings appears to be as a result of greater volatility in earnings per hour and in the hours worked.
http://www.degruyter.com/dg/viewarticle/j%24002fbejeap.2012.12.issue-2%24002f1935-1682.3347%24002f1935-1682.3347.xml;jsessionid=16536140E4255D8B3BE1EC6C7FDFDA93

Modern day labor market characteristics are surely a source of income volatility. The proliferation of low-wage job industries in the service sector has negatively impacted the earnings of their workers. The recruitment through temporary agencies has lowered not only the wages paid by employers but dictates work schedules that makes labor less expensive.

In January 2015, the number of persons employed part time for economic reasons was 6.8 million, according to the U.S. Bureau of Labor Statistics (BLS). These individuals sometimes referred to as involuntary part-time workers. These workers would have preferred fulltime employment but were working part-time because their hours had been cut back or because they were unable to find a full-time job. Part time employment contributes to the unpredictable work schedule that deprives the flexibility to seek another part-time employment in order to increase earnings. It also disrupts arranging care for those working parents who have children that need care while they are at work. Unpredictable work schedule is also a factor that makes difficult for some individuals who would like to attend training or educational enhancement opportunities as they face schedule conflict.

On February 6, 2015, the BLS reported that in January there were 2.2 million persons who were marginally attached to the labor force. The Bureau states that these individuals were not in the labor force, wanted and were available for work, and had looked for a job sometime in the prior 12 months. And then there were 682,000 discouraged workers who are persons quit looking for work because they believe no jobs are available for them.
http://www.bls.gov/news.release/pdf/empsit.pdf

Seasonal employment tends to increase during holidays and when weather improves for those working outdoor and landscape businesses. During this period, some businesses pay above the minimum wage although short-lived. Employees who earn these wages from seasonal employment budget their household expenditures according to these unsustainable earnings so when the work ends, then they struggle to re-adjust it, and would lead to self-inflicted financial hardships.

The Great Recession that ended almost five years ago has exacerbated the already deteriorating labor market conditions for low-skilled workers. Even after the recession ended, many low-income households were left with fear, anxiety, and financial instability.

A 2013 consumer survey by the Federal Reserve Board to understand the financial state of United States households and monitor their recovery from the Great Recession revealed that 34% of the households are doing somewhat or much worse compared to their financial situation five years prior. About 30% of respondents reported that they experienced unsteady incomes. Of these, 42% reported that it was due to an irregular work schedule, and 15% attributed their condition due to periods of unemployment.
http://www.federalreserve.gov/econresdata/2013-report-economic-well-being-us-households-201407.pdf

Unpredictable and volatile earnings are of a concern to families profiled in a report by the U.S. Financial Diaries (USDF), a research study collecting detailed financial data from more than 200 low- and moderate-income households in the U.S. over the course of a year. The report found that "Unpredictable expenses, a lack of savings, insufficient knowledge about financial management, usage of complicated or poorly designed financial products and services" are the many factors that can contribute to a feeling of a financial instability.

The data collected shows how participating families manage their financial lives. A third (34%), of the study participants said that it is not easy to predict their income. And that is why when asked about their main financial goals, 77% of the households in the study stated that financial stability was more important than moving up the income ladder. As described above, financial instability created by volatile incomes can push people to make decisions that complicate their financial troubles.
http://static1.squarespace.com/static/53d008ede4b0833aa2ab2eb9/t/53d6e12ae4b0907fe7bedf6f/1410469662568/issue1-spikes.pdf

It seems that sources of the income volatility stems from broader issues such as the economy and other factors that are beyond the control of those who experience unsteady incomes. And the fact that income fluctuations have been determined to have been around several decades, it makes desirable to employ various financial management tools and other support systems that can help low-income households weather financial uncertainties.

Despite this clear upward trend of wage stagnation and unpredictable incomes, many programs that provide assistance to low-income households have reported decreased funds while experiencing spike in demand for assistance. It then becomes imperative that programs should review whether traditional financial assistance systems, which normally respond to job losses when job losses were sporadic and wages were adequate to support households, are effective to meet this growing trend. Perhaps a new paradigm that includes financial management that takes into consideration the source of income volatility, and a solution geared toward sustainable financial stability should be explored. Therefore, profiling properly the households, their resources, and their potential to explore alternative ways to enhance their earnings need to be part of those solutions.

Embracing solutions that are financial empowerment centered seem to employ interventions that are of great catalyst in producing results that reduce financial stresses. Empowerment identifies all incomes and income supports, analyzes household expenditures including unpredictable ones, explores ways to increase savings when unexpected income is earned through overtime or bonuses, prevents inadequate financial management, and helps prevent use of complicated financial products and services that can lead to the use predatory lending.

Appropriating tax returns accordingly is another way to last out over year round unsteady incomes. Rather than spending it impulsively, incomes from tax returns can be used as precautionary when there is a shortfall or in the event of unpredictable expenses such as car or air condition repair.

The new paradigm needs to incorporate the use of public benefits, such as SNAP, TANF, SSI, EITC, and housing vouchers to supplement family incomes. Several groups including Center on Budget and Policy Priorities, National Women's Law Center, and Center for American Progress recommend low-income households seek public benefits for which they are eligible for. Their studies show how much the benefits lift millions of low-income households out of poverty.

http://www.cbpp.org/research/various-supports-for-low-income-families-reduce-poverty-and-have-long-term-positive-effects?fa=view&id=3997

http://www.nwlc.org/sites/default/files/pdfs/public_programs_lift_millions_of_women_and_children_out_of_povertyfinal.pdf

https://www.americanprogress.org/issues/poverty/report/2014/10/07/98452/harnessing-the-eitc-and-other-tax-credits-to-promote-financial-stability-and-economic-mobility/