



Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

| OCTOBER 2016 | CSD RESEARCH BRIEF 16-42 |

Financial Anxiety in Low- and Moderate-Income Households: Findings from the Household Financial Survey

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American Households and Financial Anxiety

Despite significant gains in the U.S. economy following the Great Recession, finances remain a common source of stress for many American households. Recent survey evidence has found that almost half of lower income households are either “finding it difficult to get by” or “just getting by,”¹ and in 2016, 52% of U.S. workers reported that their financial position made them stressed.²

Although financial stress may be a widespread phenomenon, research reveals that stress and anxiety associated with finances are particularly common, and more acute, among low- and moderate-income (LMI) Americans. In 2013, workers earning between \$20,000 and \$34,999 were 10 times more likely to indicate that they experienced overwhelming financial stress than were workers with income of \$200,000 or more.³ More recently, levels of financial stress reported by households making less than \$50,000 were found to be significantly higher than those reported by households making more than \$50,000.⁴ The potential consequences of financial stress and anxiety are numerous for low-income households. Research has shown, for example, that the financial stress faced by many low-income households may increase the risk of experiencing other mental health symptoms,⁵ negatively affect parental quality,⁶ and lead to adverse developmental and academic outcomes for children.⁷

The purpose of this brief is to evaluate the extent to which LMI households experience financial anxiety, a psychosocial symptom of financial stress and strain. Financial anxiety is a strong, negative emotional response to personal financial issues.⁸ The experience of financial anxiety is characterized by a general avoidance of important financial planning behaviors such as budgeting and debt management. Although some evidence has suggested that financial anxiety may be strongly associated with financial illiteracy and mismanagement,⁹

little research looks specifically at financial anxiety among economically vulnerable households.

Background

The Refund to Savings Initiative is an ongoing partnership of Washington University in St. Louis, Duke University, and Intuit, Inc. The R2S collaborators use TurboTax Freedom Edition, a free self-preparation tax product accessed online and developed by Intuit, Inc., as a part of the IRS’s Free File Program.¹⁰ TurboTax Freedom Edition serves as a platform to test behaviorally informed mechanisms to encourage filers to save a portion of their federal tax refund. The TurboTax Freedom Edition product is offered for free to tax filers with adjusted gross income of less than \$30,000 during the tax year, to filers who qualified for the Earned Income Tax Credit, or to filers who were active duty members of the military with an adjusted gross income of less than \$58,000. Data used for this brief come from the second wave of the Household Financial Survey (HFS), a comprehensive survey on tax filers’ financial behaviors. The survey’s second wave was administered 6 months after participants filed their taxes. In total, 2,681 tax filers participated in this wave of the survey.¹¹

The evidence presented here comes from analyses of data on households in the Refund to Savings Initiative. This research brief uses Shapiro and Burchell’s Financial Anxiety Scale (FAS) to assess the role that financial anxiety plays in the lives of LMI households; financial anxiety’s association with debts and assets; and how financial anxiety, financial hardships, and financial habits are related.¹² The FAS was included in the second wave of the 2014 Household Financial Survey.

Measuring Financial Anxiety

The FAS is a psychometric tool designed to assess the degree to which an individual experiences financial anxiety. Financial anxiety can manifest in ways similar to generalized

anxiety and may impede one's ability to engage in sound financial planning.¹³

With one exception, all FAS items in Wave 2 of the HFS originated in Shapiro and Burchell's evaluation of personal financial anxiety among undergraduate students. The original scale includes 12 statements relating to financial management behavior, but two of those items were not included in the HFS because they were not relevant to our sample. We used an adapted version of FAS with a Likert-type scale to capture the respondent's level of agreement with each statement. Response categories ranged from 1 (*strongly disagree*) to 5 (*strongly agree*). With 10 total items in the scale, respondents could score between 10 and 50 points on the anxiety scale.

Financial Anxiety in LMI Households

Table 1 outlines the results for each item on the FAS, showing the mean response and the percentage of people who agreed or strongly agreed with each statement. The cumulative results show that the mean of total anxiety scores is 25.8, indicating that, on average, respondents disagreed with the statements in the anxiety scale. However, there is a substantial amount of variation within the results. Almost two thirds of respondents said that thinking about their personal finances can make them feel anxious, over half were worried about their debt, and over 40% reported that discussing their finances can make their heart race or make them feel stressed. At the other end of the spectrum, fewer than a fifth of respondents indicated

Table 1. Financial Anxiety Experienced by LMI Households (N = 2,339)

Financial Anxiety Measure	Anxiety Scale Score	% Agree or Strongly Agree
I prefer not to think about the state of my personal finances	2.8	33
Thinking about my personal finances makes me feel guilty	2.7	34
I am worried about all of the debt that I have	3.2	51
Thinking about my personal finances can make me feel anxious	3.5	64
I get myself into situations where I do not know where I'm going to get the money to "bail" myself out	2.2	17
Discussing my finances can make my heart race or make me feel stressed	3.0	43
I do not make a big enough effort to understand my finances	2.1	16
I do not think I am doing as well as I could at my job because I worry about money	2.0	11
I find opening my bank statements unpleasant	2.4	21
I would rather someone else I trust keep my finances organized	1.9	12
Total anxiety score	25.8	

Note. LMI = low- and moderate-income. This table summarizes the level of anxiety felt by households. Answers to each question are rated 1 to 5: 1 indicates that respondents strongly disagreed with the statement, and 5 indicates that they strongly agreed. The lowest score a respondent could have is 10 and the highest is 50.

Table 2. Demographics and Financial Anxiety (N = 2,339)

Characteristic	Sample %	Anxiety Score
Full sample		25.8
Age		
Older than 35	46	25.7
35 or younger	54	25.9
Gender		
Female	62	26.6***
Male	38	24.5***
Race		
Asian	2	23.5*
Black	6	26.4
White	86	25.8
Household characteristics		
Owens home	24	24.0***
Does not own home	76	26.4***
Has children under 18	23	28.0***
No children under 18	77	25.2***
Employment		
Unemployed	22	25.5
Part-time	25	25.9
Full-time	52	25.9
Education		
No college degree	35	26.7***
College degree or greater	65	25.3***
Marital status		
Single	61	25.7
Married or living with a partner	39	26.0

Note. Significant differences among demographic groups measured through *t*-tests.

p* < .10; *p* < .05; ****p* < .01.

feeling that they were not doing as well as they could at their job because of worries about money, that they get themselves into situations and do not know where they will get the money to bail themselves out, or that they would rather let someone else keep their finances organized.

Anxiety and Demographic Characteristics

Table 2 presents sample characteristics and anxiety scores. On average, women experienced more financial anxiety than men, homeowners were less anxious than those who did not own homes, households with children were more anxious than those without, and more educated individuals were less anxious.

The statistically nonsignificant relationships in Table 2 are as interesting as the significant ones outlined above. Race, for example, did not appear to be strongly correlated with financial anxiety, though Asian households had slightly less anxiety than did White or Black households (*p* < .10). Also interesting is the finding that financial anxiety did not differ much by employment status; the unemployed felt about as much anxiety as did part-time and full-time workers. However, it is worth noting that this could be affected by the scale questions on debt and job performance. For example, the unemployed can be expected to have less stress about the effect of financial worries on their job performance because they have no job.

The Financial Lives of the Anxious

In Table 3, we elucidate the relationship between financial anxiety and household finances, presenting asset, debt, and income figures for those with above average anxiety (a scale score above 25.8) and for those with below average anxiety (a scale score less than or equal to 25.8). The differences are remarkable if not altogether surprising. Those with above average anxiety had over \$9,000 less in assets, almost \$17,000 more in debt, and \$3,300 less in resources available for an emergency (account balances; credit products; support from friends and family; and alternative financial services, including payday and title loans). Further, only 36% of respondents with above average anxiety lived in households that could access \$2,000 in an emergency, but 75% of respondents with below average anxiety lived in households with access to such funds.

Though the differences between the two respondent groups are significant, income and bank account ownership did not appear to vary much by financial anxiety level. Bank account ownership approached 100% for both groups, and the income of those with average or below-average anxiety was only about \$800 more per year than that of respondents with above average anxiety. The small income gap between the groups may be due in part to the nature of the sample in question, however, as very few of the study participants had incomes above \$30,000. While one may expect that income constraints would be substantially correlated with financial anxiety, it would appear that balance sheet issues such as debt and asset levels, and access to resources in an emergency, are much more distinguishing characteristics of financially anxious households than income levels.

Anxiety and Indicators of Hardship

The HFS also asked questions about households' experiences with financial hardships such as general difficulties paying expenses, skipping bills or necessary expenses (e.g., medical or dental visits) due to an inability to afford them, food insecurity, overdrawing bank accounts, and having credit cards declined. As would be expected, each of the hardships mentioned

Table 3. Financial Characteristics by Anxiety Levels (N = 2,339)

Characteristic	Anxiety	
	Above Average	Below Average
Median assets (\$)	2,476	11,825***
Median debt (\$)	22,550	5,825***
Median income (\$)	15,947	16,728**
Can access \$2,000 in an emergency (%)	36	75***
Emergency resources available (median \$)	700	4,000***
Own bank account (%)	96	99***

Note. This table presents comparisons of financial indicators based on the anxiety level of respondents. The average anxiety level is 25.8; significant differences between respondents with above- and below-average anxiety are measured through *t*-tests and chi-square tests.

p* < .10; *p* < .05; ****p* < .01.

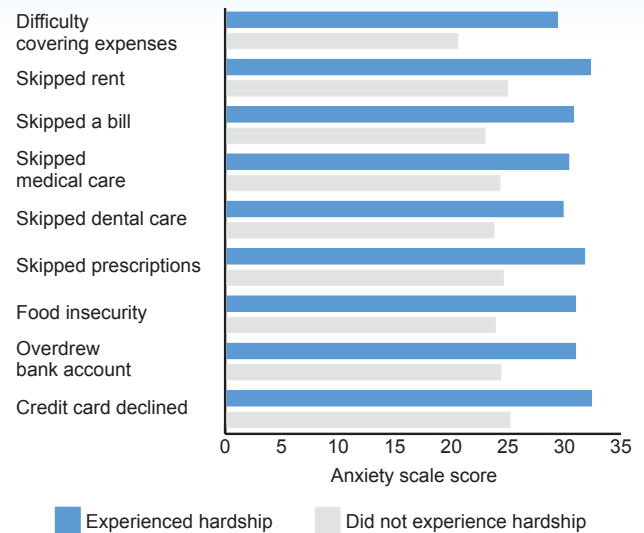


Figure 1. Financial anxiety and the experience of hardship (N = 2,339). This chart shows the level of anxiety felt by respondents, and the level is conditional on experiencing a given hardship. Anxiety scores range between 10 and 50; significant differences were tested via *t*-test. All relationships are significant at the 1% level.

in Figure 1 appears to be positively associated with financial anxiety, as levels of financial anxiety were lower among respondents who did not experience any of these hardships than among those who did. Every relationship examined is significant at the 1% level.

Interestingly, there does not appear to be a strong difference between the type of hardship and the level of financial anxiety: Households experiencing a given hardship had a score of about 30 points on the scale, and those who did not experience a given hardship had a score between 20 and 25 points. Of the examined hardships, skipping rent or mortgage payments (32.1 points) and having a credit card declined (32.2 points) were the hardships associated with the highest levels of financial anxiety, though the levels for these hardships did not differ greatly from the anxiety levels for other hardships.

We also investigated financial anxiety's relationships with various shocks and life changes in the 6 months prior to the Wave 2 survey. These events included losing a job, changing jobs, major home/appliance repair, hospitalization, major vehicle repair, incurring legal fees, and moving homes. Of the seven examined events, only losing a job and incurring legal fees had notable impacts on financial anxiety: The average anxiety score was 29.1 points for respondents who lost a job and 25.3 for those who did not (*p* < .01); it was 29.9 for respondents who incurred legal fees and 25.4 for those who did not (*p* < .01).

Financial Habits and Financial Anxiety

The financial habits of HFS respondents also differed substantially by level of financial anxiety. Figure 2 lists the seven examined habits and shows two sets of percentages for each: The percentage of respondents with average or below-average anxiety who reported

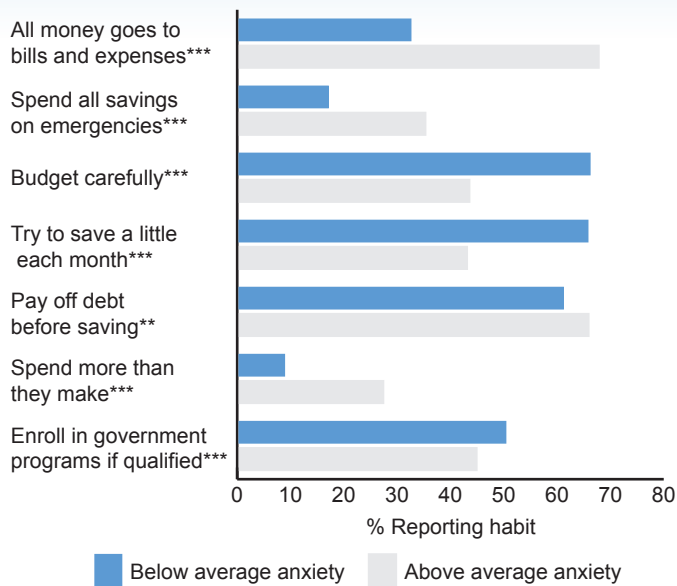


Figure 2. Financial anxiety and financial habits (N = 2,339). This chart shows the percentage of respondents who reported a given financial behavior, segmented by their level of financial anxiety. Significant differences tested via chi-square test.

*p < .10; **p < .05; ***p < .01.

that the habit was “mostly like me” or “very much like me,” and the percentage of respondents with above average anxiety who reported this. The percentage of respondents who reported that all of their money goes to bills and expenses was much higher among those with above average anxiety than among their counterparts with average or below-average anxiety (67% vs. 32%; $p < .01$). The above-average anxiety group was also substantially more likely to report spending all their savings on emergencies, and spending more money than they make. Conversely, the percentages of respondents who reported that they budget carefully or try to save a little each month were markedly higher for the group with average and below-average anxiety scores than for the group with above-average anxiety scores. Interestingly, respondents in the two groups demonstrated a similar preference for paying off debt prior to saving and for enrolling in government benefits if they were qualified, although the differences between the groups remained significant.

In line with the results showing that debt levels and asset levels were strongly related to financial anxiety, the financial habits which most distinguished more anxious from less anxious households were those involving the amount of financial “slack” a household has. Those who reported that their income was fully consumed by bills and expenses, who had spent all their savings on emergencies, who could not save each month, and who consistently spent more than they made were households that likely had trouble building assets, maintaining emergency funds, and managing their debt levels. Given that these households likely had difficulty building any sort of assets to buffer against income or expense shocks, it is unsurprising that they reported higher levels of anxiety.

Conclusion and Policy Implications

By using a validated scale to capture the levels of financial anxiety in LMI households, this report has illustrated the importance of incorporating financial anxiety into an understanding of the financial lives of these households. Interestingly, the respondents to the HFS, who are income and asset constrained, did not report uniform anxiety across different measures. Although they commonly reported anxiety about general themes like their personal finances or their debt, they were not as anxious about more specific phenomena like the relationship between their finances and their job or their need to enhance their financial understanding. Overall, their general financial anxiety scores were not as high as one might expect, given the nature of the population under study here: The average anxiety score of 25.8 indicates that the typical response to each item fell between “disagree” and “neither agree nor disagree.” However, because we have no non-LMI population for comparisons, it is not possible to say whether this result is high or low relative to the level of financial anxiety in the general population.

Regardless of the reported absolute levels of financial anxiety, these results suggest that asset and wealth ownership plays a major role in the financial lives of LMI households. Higher financial anxiety is associated with higher debt, fewer assets, and fewer financial resources with which to weather an emergency. Indeed, these results demonstrate the degree to which LMI households lack financial slack to provide a buffer against shocks, and they show that this lack of a buffer is positively associated with the level of anxiety reported by these households. The nature of the relationship between anxiety and financial resources is an interesting one. Although it is highly plausible that a lack of assets (and specifically a lack of emergency assets) by itself causes financial anxiety, it may also be that something inherent in financial anxiety leads to lower savings levels. Research has found that financial stress and anxiety can lead to a sort of “tunneling” in one’s financial life: Financial stress has been shown to result in shorter term thinking and an inability to focus on long-term goals, obligations, and eventualities.¹⁴ This tunneling may lead households to consume income that could be saved for emergencies or long-term considerations.

Moreover, this work has shown that financial anxiety is not just associated with total asset and debt levels, but also with the financial habits related to building assets and managing debt. Given that the incomes of households with above-average anxiety were similar to the incomes of those with average or below-average anxiety, it is interesting to see that the savings, spending, and budgeting behaviors of the more anxious and less anxious groups differed so markedly. The relationship between anxiety, budgeting, and household balance sheets should be explored further.

Additionally, experiencing financial hardship was significantly and substantially associated with the level of financial anxiety. This relationship is not surprising. It lends insight into the potential psychological toll of financial insecurity and the associated impacts on the lives of LMI households.

Taken in the context of other research showing the high levels of financial strain in the population and the associated harms, including degraded social, familial, health, and educational outcomes, this work has several implications for policy that could address the effects of financial stress and anxiety. First, it can be reasonably argued that households are anxious in part because of they lack a financial buffer. Anxious households lack both tangible assets and resources, such as credit products, that can provide liquidity if a health crisis, job loss, or other emergency occurs. Policy may alleviate this by supporting programs that are intended to help households build emergency savings or that provide low-cost, short-term credit products to distressed households.

Second, anxious households are also concerned about their debt levels and how to manage their financial obligations. This anxiety may stem from having to manage multiple debt payments and from the constraints that such payments impose on their incomes. To help households navigate these concerns, several nonprofit agencies (and some public ones) in the United States provide financial counseling and financial coaching. These agencies offer support for and training around budgeting, expense management, and using financial products. Under some circumstances, they can consolidate multiple debt streams into one payment and improve the terms of debt repayment. Such support is key for people who are vulnerable to financial anxiety and stress.

Research continues to show that the costs of financial strains go beyond simple balance-sheet concerns, and understanding the role that such strains play in LMI households is key to developing policies and programs aimed at improving the lives of these households. Steps taken to provide support for them will not only potentially improve their finances but may also improve their health, job security, and family life.

Acknowledgements

The Center for Social Development at Washington University in St. Louis gratefully acknowledges the funders who made the Refund to Savings Initiative possible: the Ford Foundation; the Annie E. Casey Foundation; Intuit, Inc.; the Intuit Financial Freedom Foundation; and JPMorgan Chase Foundation.

The Refund to Savings Initiative would not exist without the commitment of Intuit and its Tax and Financial Center, including the dedication of our collaborators, David Williams, Melissa Netram, Joe Lillie, Krista Holub, and many others on the Intuit team who have worked diligently in planning and implementing the experiment. Lastly, we thank the thousands of tax payers who consented to participate in the research surveys and shared their personal financial information.

Disclaimer

Statistical compilations disclosed in this document relate directly to the bona fide research of and public policy discussions concerning the use of the IRS “split refund” capability and promotion of increased savings in connection with the tax compliance process. All compilations are anonymous and do not disclose cells containing data from fewer than ten tax returns. IRS Reg. 301.7216

End Notes

1. Board of Governors of the Federal Reserve System (2016).
2. PricewaterhouseCoopers (2016).
3. Qian (2013).
4. American Psychological Association (2015).
5. Gyamfi, Brooks-Gunn, and Jackson (2001).
6. Jackson, Brooks-Gunn, Huang, and Glassman (2003).
7. Santiago, Wadsworth, and Stump (2011).
8. Shapiro and Burchell (2012).
9. Shapiro and Burchell (2012).
10. For more on the Free File program, see: <https://www.irs.gov/uac/about-the-free-file-program>.
11. The sample size in this brief may vary from question to question due to respondents having the option to skip questions. Responses from incomplete surveys are included to maximize sample size.
12. Shapiro and Burchell (2012).
13. Archuleta, Dale, and Spann (2013).
14. Shah, Mullainathan, and Shafir (2012).

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Suggested Citation

Roll, S. P., Taylor, S. H., & Grinstein-Weiss, M. (2016, October). *Financial anxiety in low- and moderate-income households: Findings from the Household Financial Survey* (CSD Research Brief No. 16-42). St. Louis, MO: Washington University, Center for Social Development.



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