

# Asset Building Indicators Measures

## Standardizing Data Collection

The asset-building field is struggling to define specific and concrete evidence of its impact. Anecdotes of clients who have developed savings are compelling, but financial counseling, coaching, and longer-term behavior change are harder to define in terms of a bank statement. To the extent practitioners and funders can agree to focus on a small number of indicators that use information collected in a standardized way, these measures might provide credible evidence for a broader set of asset-building strategies.

## Categories of Indicators

Five categories of indicators were defined by key informants nationally. These five areas include a series of illustrative questions, but lack specific analysis of methods of data collection or types of data. While metrics exist for each of the five aspects of financial well-being, few of these metrics rely on data that is easy to collect, or have been proven to be of value in predicting future financial well-being and the ability to weather financial shocks.

### 1. Financial Capacity

Many organizations are tracking data in the financial capability category, but these data are among the least standardized. This category has also been defined as “Financial Services” or even “Banking.” This category includes items that may be derived from self-reports, credit reports, and internal bank or employer/human resources data. However, much of these data are based on self-reported responses. This is most likely the category of measures with the greatest need for standardization in the field, and also the category with the largest number of potential indicators to track.

### 2. Credit

Credit score data is one of the most discussed categories of indicators, but is one of the least used in practice as an outcome measure. Many organizations are working with clients to obtain free annual credit reports, or gathering credit reports at intake as part of financial counseling, services or lending. A few organizations are using credit reports as ongoing measures of various credit outcomes. The credit score itself is controversial. Changes in the score are non-linear—that is a 30 point movement from 520 to 550 is not the same as a 30 point movement from 650 to 680. Accessing reports with credit scores involves payments to credit information providers (the ‘bureaus’) and involves technical and legal issues. The Credit Builders Alliance has developed innovative techniques to facilitate the collection of credit data, but also is aiding organizations to better understand how to increase credit scores. While this is laudable, it emphasizes the reasons that a single FICO score measure may be misleading. Of course, because FICO scores are used in so many contexts, it may itself be viewed as an asset. But as a proxy for overall financial conditions, FICO scores are not enough.

In general, credit data is also a lagging indicator of reality and ideally will be pulled through multiple draws at standardized time increments. Key informants complained that scores are too slow to move even as people’s behavior improves (credit reports are like a grade point average—

it takes time for positive performance to outweigh past mistakes). Rather than look at raw scores, one strategy is to document changes in a credit score of at least 50 points, as well as various data from the report, such as a reduction in consumer revolving debt or whether or not clients have opened new lines of credit. There is very little investigation into how well credit report data reflects other asset-building indicators, although the consensus among practitioners is that it is likely that credit report data is consistent with measures of financial capacity, income, assets and risk management. This is an area which has great promise as an indicator in theory, but prompts many concerns and questions in practice. In particular, the current credit crisis may result in changes in how credit is accessed and reported, imposing limitations on how much clients could improve or weaken their credit report if they wanted to (for example, credit limits may be lowered unilaterally by lenders, which will by definition change ratios in the report).

### **3. Net Worth or Savings.**

In many ways this topic is at the core of asset building—do participants in programs have in total more in assets than debt and is that ratio increasing? However, this is not a simple calculation. First, these data are difficult to obtain. When the Survey of Consumer Finances and other government-sponsored phone surveys ask about assets, dozens of questions are required. Every category and type of asset must be reviewed, including liquid financial assets such as bank accounts, as well as hard to value property and esoteric assets. Likewise, debt can also be hard to measure, especially if revolving debt, personal loans, and loans with variable rates and terms are included. Simple and unambiguous measures such as ownership of a home or car have merit, but are not universally applicable. Even a simple indicator like a bank or investment account balance may be problematic since account balances will vary over time and need to be averaged over multiple periods to provide accurate data. Discussions of possible measures in this category have a tendency to devolve into subjective judgments about which assets are ‘real’ and which debt is ‘good.’ These types of considerations are steeped in assumptions and biases and should be approached with great caution.

### **4. Buffers against Risk (or Risk Management, or Safety Net/ Insurance)**

Buffers against risk is an important category, particularly in light of the credit crises and economic downturn in 2008. This is among the least-utilized category of measures among practitioners, although one that is of growing interest. There are few sources of administrative or behavioral data in this category; instead practitioners rely strongly on self-reported measures of insurance coverage, access to public or private benefits, and reliance on social networks. Program participants’ perceptions of their ability to weather a crisis may be a reliable indicator, but there has been little field testing about how well these indicators predict current or future behavior.

### **5. Income**

Collection of income data is ubiquitous in the asset-building field. This is somewhat ironic since the asset-building movement is rooted in Michael Sherraden’s *Assets and the Poor*, in which Sherraden argued that social policy should deemphasize income-based subsidies and place a greater emphasis on savings and assets. One reason that income dominates data collection is that verifying income at program intake or meeting income qualifications at various milestones is common across programs and often required by public funders.

As they do with assets or debt, professional survey takers generally ask a battery of questions to verify whether or not all income sources are included. Collecting income data near tax time (the Current Population Survey March Supplement is run in March for a reason) is a proven strategy for obtaining more reliable income figures from program participants. But even taxed income may neglect non-taxed benefits, tax credits, and under- or unreported income. Income measures are generally biased downwards and will be systematically biased based on time of year and even demographic group. Of course, income generally needs to be measured relative to the local market area and adjusted for household size. The most important indicator may actually not be income amount or changes in income over time, but income relative to spending, or even how the program participant perceives the stability of his or her income. Having an income that is viewed as steady and keeping up with the cost of living may be a better indicator of financial security and asset building. In the end, data on income is a measure that is very easy to understand, and changes in income can be a good proxy for financial security. More importantly, income provides a benchmark for various financial ratios regarding assets, debt and budgeting.

## Selecting Data Points

The most basic decision criteria regarding data collection is simple: the benefit of collecting an additional piece of information should just equal the costs of collecting that information. For most organizations such a formula is a luxury as data points are dictated by outside funding sources. From the perspective of establishing a key set of aggregated measures, however, this is an important concept. The benefits of collecting data include how influential that evidence will be. Does it provide information that answers a critical question for public policy or practice? Is it the best and most credible form of information relative to other viable alternatives? Does the information lead to the potential for improvements in service delivery? The costs include not only the direct cost of acquiring the information on a paper or electronic form or survey, but also the cost of maintaining the data—managing errors, missing records and edits over time. Costs also include training organizations and staff to collect data, enforcing standards, checking/auditing data and dealing with staff and agency turnover. They also include costs to clients in terms of time, frustration and personal privacy. In the extreme case, programs might collect so much data that the effects of the intervention are ruined. Many of the programs interviewed view current reporting standards as burdensome and too costly to the client.

In addition to the costs and benefits, the degree of potential biases in the data collected must be considered. Reliability refers to how consistently data is collected or how participants respond across program locations, and/or over time. Carefully designed standardized indicators will reduce the bias introduced by variations in how and when data is collected. To the extent a common procedure or protocol can be used, including standardized wording of survey questions and administration, reliability can be increased. Validity refers to how true the data measure is relative to reality. Both validity and reliability are required in order to collect unbiased data. All data has some form of bias or error; however, the degree of bias can be reduced by carefully implementing collection procedures, testing methods and careful observations.

The problematic bias is that which is systematic across program participants such that some groups will have a tendency to deliver information that deviates from the truth in a predictable yet unobserved way. The fact that all clients under-report income creates biased data. It may not be

a problem if all clients under-report in a similar way; however, it can be problematic if certain groups under-report to a greater or lesser degree and that is not measured. More worrisome for longitudinal data are patterns of bias that vary by time of year such that if income is measured in April in one year and July the next, clients will under-report more in the latter than the former. The influence of desirability is another common type of bias, where some clients will provide the answers they think are most appropriate as opposed to those that reflect their current situation. Procedural bias is another problem. Clients may ‘learn’ how to respond to questions over time, or staff may even begin to coach clients on how to respond in order to boost outcome indicators.

The presumption among all the key informants interviewed for this report is that data collection for outcomes in the asset-building field must be longitudinal. This results in an outcome specification in the form of:  $(\text{Baseline}) - (\text{Follow-up}) = + / - (\text{Change in Indicator})$ .<sup>1</sup> Of course baseline and follow-up are relative terms and might be over a period of a month or several years. More complicated multi-period panel models might also be considered, although this adds costs of complexity in analysis and interpretation which likely exceed the additional value created. Focusing on the simple two-period model, the assumption is that the same clients will provide baseline and follow-up data. The difference between the two is calculated for each client and then may be reported as a mean, median or even frequency distribution. Pooling clients and then calculating change is problematic because the mix of clients will shift. As newer clients enter the program the baseline mean will vary, and as clients graduate the follow-up will also differ. Thus, the same client needs to provide data for both periods. But what if clients disappear at follow-up? This creates the problem of non-response bias. If the clients who respond at follow-up are systematically different from non-responders, the results may be in doubt. A severe problem is that if only successful clients respond at follow-up, there is a selection effect such that ‘failures’ are purged from the data and the change in outcome indicators is profoundly higher than it would be if all baseline clients were included.

Another obvious problem with analyzing any form of the indicators suggested in this report is determining an appropriate comparison group in order to define causal effects; in other words, to whom might researchers compare program participants? In an experimental setting, clients would be randomly assigned to either receive asset-building services or be part of a control group whose members do not receive services but submit all required data during the period of study. The results of these two groups would then be compared. This is unlikely to occur even in a single program and certain not to occur across programs. However, there are several strategies to consider that may provide some methodological improvement. One is to collect additional demographic or other data so that the group of participants selected into asset-building services can be modeled. Then if a similar set of clients who did not receive services can be located, and their indicators tracked for a similar period of time, some comparisons can be made. A second approach is to collect information on what and how many services clients received. Then the marginal effect of one more hour of counseling or \$100 in matching funds can be analyzed, comparing clients who receive varying levels of services. A final approach is to conduct small-scale randomized assignment experiments, or exploit a natural experiment. For example, some programs have waiting lists such that some clients are randomly slotted to receive services in the

---

<sup>1</sup> An alternative is the so-called ‘retrospective’ approach where participants are asked how much they credit a particular program or intervention for specific outcomes. This often becomes more of a satisfaction indicator, however, than an outcome measure.

current year, while others will receive them next year. If the two groups both collect data over a two year period they may be compared. Often, there are opportunities to develop such research, although administrators mired in day-to-day operations may not recognize these opportunities. When a trained researcher takes the time to truly understand how a program operates, these types of opportunities may be unearthed—but more often than not they are not discovered.

## **Self-Report vs. Administrative Data**

Discussions of outcome indicators tend to divide the world of measures into two categories: (1) self-reported and (2) actual behavior pulled from administrative or other secondary records. Among self-reported data there is a mix of data which is based on factual recall (e.g., “How much do you save?”) and that which is based on perceptions (e.g., “How easy or hard would it be for you to obtain a mortgage?”). A common perception is that administrative data is superior in terms of its accuracy and costs less to use for outcome measurement. Meanwhile, self-report is viewed as being costly to administer and rife with many forms of bias. Both views may be overly generalized, however. Informants interviewed for this report often suggested these perceptions, but also offered examples of each type of data being superior.

### *Administrative Data*

Administrative data has several advantages. First, these are data collected for other purposes. Using the data for outcomes measurement has little additional costs. Second, these data tend to be collected in similar ways across programs and over time. Finally, it exists for most clients without needing to prompt clients to complete a survey or respond to incentives for cooperation. However, in practice, these data present some challenges. The collection of data at client intake is generally well standardized and relatively complete for most clients. Intake forms are remarkably similar across programs and many employ techniques to verify income and assets using pay stubs, tax forms and bank records. For programs with regular re-certification intervals, especially if clients must remain in compliance with income or other guidelines, ongoing data collection may remain reliable. But for many organizations, information collected after intake is far less robust because it relies on client cooperation in sharing forms or staff diligence in verifying information. Some forms of data are relatively ‘invisible’ to clients, such as bank account balances or credit reports. These data can be pulled at regular intervals and used to track changes over time. But even in this case how and when that data is transferred may be important. For example a client may have a \$3000 savings account balance. He or she then uses that savings to shore up a checking account, depleting half the balance at the end of the month. But then in the middle of the next month transfers \$2000 into the account. Depending on when the data is pulled, a positive or negative change may be measured. On average, this kind of ‘noisy’ data will move towards a central tendency across a larger number of clients and a longer time period, but at the level of smaller organizations it may look erratic. A further complication is the best administrative data tends to be owned by entities outside of the service provider. Bank accounts and credit reports require data sharing agreements and legal disclosures, and may be expensive to acquire, unlike data collected at program intake. Therefore, the apparent cost advantages of such data are weaker than may be assumed.

### *Self-Reports: Validity of Factual Recall*

Clearly, self-reported data is costly to obtain in a reliable fashion. It requires the cooperation of clients, administrative procedures to follow-up with non-responders, and in many cases incentives (or sanctions) for client compliance (or non-compliance). Self-reported data also requires some testing to determine how well clients respond relative to reality. The tables below show results from two asset-building programs predominately serving low-income minority clients. One is part of a tax preparation program, the other a subsidized housing financial education self-sufficiency program. Both cases illustrate that responses deviate from actual administrative data, but the margin of error is not overly large. Table 1 shows responses are far more accurate at the tax site regarding refunds than self-reports of debt levels at the housing program. This is likely due to the information being fresh in the respondent's mind at the tax site. Clients had a hard time estimating debt levels relative to actual levels. Table 2 shows clients in the housing program self-reported estimates of credit report data. Credit score estimates, based on generic quality categories, suggest on average clients provided an adequate assessment of their credit situation.

**Table 1**  
**Comparison of Self-Report and Actual Data for Mean Amounts of Tax Refund Amount and Debt Level**

	Tax Site (n=378): How much was your refund?	Housing Self - Sufficiency Site (n=142): Amount of debt
Self-Report	\$1829	\$5000
Actual	\$1861	\$7736
	<i>Measured at tax site immediately after tax prep</i>	<i>Asked in a survey versus credit report</i>

**Table 2**  
**Comparison of Credit Quality Self-Report and Actual Mean FICO Score for Clients in Housing Program**

Self-Reported Credit Rating	Actual FICO
"Very bad"	540
"Bad"	562
"About average"	610
"Good"	630
"Very good"	696
n = 234	

Professional survey administrators, for example those conducting the Survey of Consumer Finances or Current Population Surveys, ask exhaustive questions about income, assets, debt and other measures. This approach will increase the accuracy of answers by verifying sources and double checking numbers add up when asked as components of the whole. But, such an interview might take 20 minutes or more, and is generally neither practical for most nonprofit organizations nor enjoyable for clients.

### *Self-Reports: Subjective Perceptions*

Survey questions regarding perceptions of current economic circumstances may have merit in many ways. First, people tend to behave based on their perceptions. Second, perceptions may be more accurate than snapshots of administrative data in terms of current or projected financial stability. Third, while people may have bias in how they respond, this bias could be consistent over time. Thus, a client who responds lower or higher than their actual condition will do so again at follow-up. Any change in response relative to baseline could be considered a valid indicator. The problem with perception-type indicators is a lack of research on which ones best reflect current or future financial security. There are hundreds of variations in the wording of subjective assessment questions and the context in which these questions are asked. Even if the procedures for collecting data were highly standardized, it would be important to test whether or not particular groups might systematically answer differently (e.g., Midwesterners tend to be more positive, minority group members more negative, etc). The category of subjective financial perception indicators is the area which seems to most strongly demand more formal research and testing.

### *Self-Reported (or Facilitated) Goal or Milestone Attainment*

Another approach is to track clients over time regarding whether or not they are reaching goals they established for themselves. This is complementary to the financial coaching method of behavior change and borrows from other fields in social services. This method can work if the staff is trained to collect these data and software systems make collecting such data easy. It also requires an ongoing relationship between the provider and client to be able to discuss and document goal attainment. This method can be easily influenced by staff members who facilitate conversations about progress towards goals and enter data into the database. But, of course, all data collection can be biased by staff stretching to show positive impacts.

### *Longitudinal Self-Report Surveys*

Another approach to measuring the outcomes of asset-building programs is to conduct the equivalent of standardized tests for clients over time. In this model clients complete a battery of factual, perception-based and behavioral questions at intake and then at regular intervals over time. Assuming non-responses and attrition can be managed appropriately, this strategy can provide consistent measures within individuals that produce useful estimates of changes from baseline levels.

### *Self-Report versus Administrative Data*

Any effort to develop asset indicators needs to include both self-reported and administrative data. Initially, pilot studies should be conducted to test how well factual and subjective survey questions match up with current and future administrative data. To the extent a collection of questions—or scale—can accurately represent financial security, reliable indicators may be developed. But conducting such research is not without costs, and implementing even a proven scale in a standardized way may prove challenging across a heterogeneous set of asset-building programs.

## Figure 2: Sample Self Report Survey Form

Read each statement below carefully, and then decide how well it describes you AT THIS TIME. If the statement describes you very well, circle the "7", if it doesn't describe you at all, circle the "1". You may score yourself anywhere in between.

		Does not describe me			Describes me very well			
		1	2	3	4	5	6	7
1.*	I know what to do to budget my finances.	1	2	3	4	5	6	7
2.*	I have a financial plan for myself/ my household.	1	2	3	4	5	6	7
3.*	I am comfortable making most financial decisions.	1	2	3	4	5	6	7
4.	I understand the overall economy.	1	2	3	4	5	6	7
5.*	I know how to keep a record of income and expenses.	1	2	3	4	5	6	7
6.	I have the power to change things in my life.	1	2	3	4	5	6	7
7.*	I have savings and checking accounts.	1	2	3	4	5	6	7
8.*	I have compared income and debts for myself/my household.	1	2	3	4	5	6	7
9.*	I have set goals for myself/ my household.	1	2	3	4	5	6	7
10.	I have a budget.	1	2	3	4	5	6	7
11.*	I manage my personal budget well.	1	2	3	4	5	6	7
12.*	I save money on a regular basis.	1	2	3	4	5	6	7
13.	I have the knowledge I need for my spending plan.	1	2	3	4	5	6	7
14.	I have the skills I need to plan my financial future.	1	2	3	4	5	6	7
15.	My financial goals are clear	1	2	3	4	5	6	7
16.	I know how to shop for credit.	1	2	3	4	5	6	7
17.*	If I need credit, I know how to apply for it.	1	2	3	4	5	6	7
18.	I have all the resources I need to succeed with my goals.	1	2	3	4	5	6	7
19.*	I know how much money I need to get out of debt.	1	2	3	4	5	6	7
20.*	I feel confident about my ability to succeed financially.	1	2	3	4	5	6	7



## Recommendations

It is not clear that a cohesive set of measures that can be used in the asset-building field currently exists. This suggests it would be beneficial to develop a standardized set of measures, as well as procedures for collecting these measures. It also means more research is required to test and validate which subset of indicators are technically accurate and reliable across demographic groups and over time. There is also analysis needed regarding which measures will deliver the most expected benefits in terms of influencing public policies or program practices, compared to the costs of collection.

### *Methods*

Clearly, any data collection tool developed needs to be longitudinal. In general, data should be collected annually; contacting clients every month or quarter is too complex and costly. In order to calculate changes in client status from the baseline over time, clients need to participate in data collection. The methods used to collect and verify baseline data should be followed consistently at each later data collection point (for example, tax-based income at baseline should not be compared to self-reported income at follow-up). Client cooperation may require in-person contact, phone interviews or postal or e-mail surveys. Participation rates can be increased by offering incentives, such as a \$1 bill placed in every letter or entry in a raffle for a Savings Bond.

One advantage to using administrative data is that with pre-approval, information can be pulled without requiring client cooperation. While this suggests administrative data may be superior in terms of collection procedures, these data are not necessarily more accurate. Self-reported data may be more valid than often assumed—there has not been sufficient testing of how self-reports of factual data compare with actual data. It appears the incidence of under- or over-reporting depends on the type of information and how and when it is collected.

Finally, one of the most important methodological considerations is finding or creating a control group to which asset-building clients can be compared. In the absence of an experiment with random assignment to conditions or a serendipitous (or clever) natural experiment, program administrators need to consider how they will describe the causal effects of their programs. Perhaps outcome indicators are simply descriptive; however, with some efforts to collect data from comparison groups and/or track exposure to various levels of service, researchers can estimate something closer to a counterfactual model.

### *Measures*

#### 1) FINANCIAL CAPABILITY / SERVICES / BANKING

##### Administrative:

- Utility bill payment with cash or money order (indicates no checking account)
- Check writing reports (ChexSystems, TeleCheck, Shared Check Authorization)
- Use of Direct deposit (employer HR records, bank records)

##### Self-report:

- Did you have your last paycheck directly deposited to your bank account?
- How many times have you used a check casher in the last month?
- Do you have a Savings account?
- Did you pay any late payment fees in the last month? More than one?
- How many times did you use a payday lender or pawn shop in the last month?

### Discussion

The administrative data in this area tends to be challenging to collect except in the cases where an organization is a direct provider of financial services and can link to account information. Utility bill payment behavior—both timeliness and form of payment—may be instructive. These data have been used at the aggregate level, for example a census tract or zip code, to assess local access to banking services and financial sophistication. Accessing these data at the client level would require disclosures and may only be possible in an aggregated manner. Similarly checking account behavior can be monitored through ChexSystems or one of the other firms which monitor account usage for financial institutions. Like credit reports these data will incur a cost in the form of fees paid and these firms are not accustomed to working with nonprofits or conducting research. Programs with a banking relationship or in-house bank/credit union may have more success with this approach. Use of direct deposit can work if a large number of clients are employed with a single institution, for example a program linked to a hospital. Admittedly none of these sources are likely to be available consistently across asset building programs.

As a result, the financial services category of indicators will tend to rely on self-reported measures. Unfortunately the basic research about which of these self-reported indicators are more or less accurate in various applications and over client types and time does not exist. Based on a review of existing surveys and interviews with leaders in the field, these general types of questions may prove useful. The most powerful is likely to be the use of direct deposit (it could also be phrased for tax refunds in a similar fashion). Using direct deposit suggests (a) steady employment (b) the use of a bank account, and (c) a modest level of knowledge about financial services, including likely use of checks or debit cards. It is not a good indicator for the self-employed or people who cannot access banking services due to legal status or past account abuses. Use of check cashers is a straight-forward measure of lacking an account, although arguably these services are not always inferior to traditional banking services. Another form of this question is “did you pay your last bill with a check, cash, money order or something else?” Owning a savings account is a good general indicator of savings inclination or capacity. Use of the account may vary with business cycles, interest rates and viable alternatives. Late payment fees (which also may be included in the credit category) provide a financial budgeting indicator more than a use of services measure, although having a checking account should be correlated with on-time payments. Multiple late pays suggest more than a record keeping problem. Asking about use of a pawn shop or payday lender may be among the most telling indicators—using these costly forms of short-term credit suggests lack of access to banking, lack of knowledge of the costs of alternatives and issues around culture and trust with institutions. Yet these questions must be carefully tested in the field, as the negative connotations of these services will drive clients to respond in a socially desirable way.

## 2) CREDIT SCORE

Administrative:

Sources...

- Free annual credit report (by client)
- Single bureau report with credit score (soft pull inquiry by nonprofit)
- Tri-merged report (soft pull inquiry by nonprofit)

Indicators...

- FICO Score or similar score
- Number of delinquencies in last 12 months
- Number of judgments + deficiencies
- Total debt outstanding in the report in total as of report date
- Total revolving debt in the report in total as of report date (credit cards)

Self-report:

- How would you rate your current credit score?
- Have you requested a free credit report in the last year?

### Discussion

The sources of credit report data are progressively more complicated but more detailed. The self-pulled annual free credit report is the lowest-cost (in terms of fees) but least flexible. It requires cooperation with the client and may actually be more costly to arrange and enter into a database than simply buying the report outright. Pulling a single bureau report is sufficient for most data tracking. Having a credit score calculated (from FICO, Vantage, Beacon, etc) adds modestly to the costs. With consent, the report can be pulled invisibly to the client. Ideally data will be transferred electronically, not on paper, reducing data entry costs. Except for programs underwriting loans, a tri-merged report is not worth the costs.

Once data has been obtained, and obtained for a similar set of datapoints over time (eg. not comparing different types of credits scores), more than credit score should be used as an indicator. Scores involve algorithms involving available balances and repayment behavior, but components of the score may be more useful, especially given the non-linear movement in scores and current concerns that the use and standards for scores are shifting. Items such as delinquencies and judgments may prove as powerful as a score. Likewise total debt levels and total revolving debt may be useful. Of course debt levels are a snapshot – the time on month and payment cycle may differ. But on average they will provide useful data, especially as part of ratios.

Self-report data will be biased, but on average should perform reasonably well. Recent studies show perceived credit tends to be lower than actual among minority populations and immigrants, but it also should be a reliable indicator relative to baseline. These reported credit measures may also be influenced by economic conditions, much like a consumer confidence indicator. This cyclical response may prove a more serious problem in longitudinal data especially without a control group to which to compare.

### 3) NET WORTH

#### Administrative:

- Bank records – liquid accounts such as checking, savings and CDs under 18 months
- Asset certification data – if procedures at follow-up match the verification process at intake
- Credit report – revolving consumer or credit card debt

#### Self-report:

- In the last month did you contribute at least part of your income to a savings account, retirement plan, college account, IDA, savings bond, or other way to save for the future? Did you do so 2 months ago? 6 Months ago?
- How many credit cards do you regularly use? How many would you estimate had a balance close to the maximum credit limit last month?
- Did you pay more than the minimum payment all of your credit cards last month?

#### Discussion

The 'net worth' category title accurately suggests a consideration of debt and assets—one keen lesson of the credit crisis. But a single metric netting out all debt and assets is unlikely to be achieved. As a result, several variations are required. Bank (or credit union) records are ideal if accessible. Checking, savings and short-term CDs represent assets which families may tap in an emergency or to ride out income instability. For clients with relatively simple portfolios a single bank account may be informative. For clients with multiple accounts or who are chasing better returns, a single account balance may not be indicative of liquid assets. Other data collected at intake on financial and other assets at intake—often for program qualification purposes—may be useful. But to serve as a longitudinal indicator the form of data collection will need to be consistent over time, including verification procedures.

There is a strong argument for ignoring real estate, business and automobile assets. While each is valuable and may be an important source of family wealth over time, or deliver valuable shelter or transportation services, these are not ideal indicators of asset building from an asset building program. These assets tend to be highly leveraged and values will fluctuate cyclically. While a few years ago there would be strong arguments from practitioners about excluding home equity, recent events in the housing market have reinforced the precarious nature of relying on a single asset class as an asset building indicator. Most of the key informants interviewed agreed on this point, although many emphasized skills in managing home equity could be useful outcomes indicators.

On the debt side of the balance sheet, verified intake and follow-up data may be useful, but another source could be credit reports, which include most sources of debt. A key source for comparison to liquid assets (bank accounts) would be to specifically measure revolving consumer debt—a net working capital to revolving debt ratio.

The self-report indicators more tightly focus on consistency in savings rather than savings levels, a factor several key informants mentioned. The question about any savings 1, 2 and 6 months ago provides an indicator in this area. The number of credit cards in use provides a baseline against which to compare cards near the limit. The larger share of all cards near the limit

suggests households being closer to ‘maxed out.’ Paying more than the minimum balance is a simple indicator of how well households are managing revolving debt. Note none of these self-reported metrics truly provide net assets in an accounting sense. But these are suggestive proxies for net assets, especially the important liquidity-type ratios that may be important when assessing the financial security of low-wealth working families.

#### 4) BUFFERS AGAINST RISK

Administrative:

- Access to public benefits for clients eligible for services

Self-report:

- Do you have any form of life insurance?
- How likely would you be to come up with \$1000 if you had a financial emergency in the next 5 days?

#### Discussion

Few potential administrative data sources were identified in this area. Access to benefits is an important topic and many programs engage in benefits screening programs to help families take advantage of services that are available. Determining which clients *may be* eligible without actually undergoing an application for benefits can be challenging, especially for clients not in regular contact with a program, however. Use of services alone could be an indicator, although many programs viewing moving off of public programs towards self-sufficiency as a positive outcome.

There are many potential self-reported questions which could be used to measure risk mitigation behavior. Holding insurance is a strong indicator. Home or auto insurance are not always a product clients will choose—often external regulations force holding these products. Life insurance is a widely held product which clients do choose to buy. Of course term and whole life policies are quite different and may be perceived as less or more asset building-oriented. Rather than make subjective judgments or require details most clients cannot recall about their policies, simply asking if any policy exists will likely be a robust indicator. A question about precautionary savings is also an important measure. Note this includes not only the financial assets described in the NET WORTH section, but any financial help that could be tapped, including friends and family. \$1000 may be too low of an amount; forms of this question have been phrased as being as much as \$5000. This subjective measure of preparedness may capture the sense that a family is using assets to become more self-sufficient, although again it has not been verified against quantitative data. This could be a difficult measure to verify however, since preparedness for managing a financial crisis will be unclear for those who fail to experience a crisis.

Overall, while theoretically important, this is the weakest category of indicators in terms of defining and collecting data and could be considered as secondary to other measures.

#### 5) INCOME

Administrative:

- Income certification data – if procedures at follow-up match the verification process at intake

Self-report:

- How much was your total income as listed on your tax form (ask in April)

### Discussion

It is unclear that income is an adequate measure in itself, either in cross-section or as part of longitudinal data. Increases in income even compared with a control group may be hard to interpret for an asset building program. But income is a key descriptive statistic in terms of who is served, and income is useful for savings and insolvency ratios. Income should be collected in a consistent fashion based on tax or paystub information. Self-reported income should be collected at or near tax time and reference should be made to remind the respondent of the tax form.

### ***'Short' List of Potential Indicators:***

1. Did you have your last paycheck directly deposited to your bank account?
2. Do you have a savings account?
3. Did you pay any late payment fees in the last month?
  - 3.1. More than one?
4. FICO Score or similar credit score from report
5. Number of delinquencies in last 12 months from report
6. Total revolving debt in the report in total as of report date (credit cards) from report
7. How would you rate your current credit score?
8. Have you requested a free credit report in the last year?
9. Sum of balance for liquid accounts such as checking, savings and CDs under 18 months (self-report or verified intake/follow-up data)
10. In the last month did you contribute at least part of your income to a savings account, retirement plan, college account, IDA, savings bond, or other way to save for the future?
  - 10.1. Did you do so 2 months ago?
  - 10.2. 6 Months ago?
11. How many credit cards do you regularly use?
  - 11.1. How many cards would you estimate had a balance close to the maximum credit limit last month?
12. Did you pay more than the minimum payment all of your credit cards last month?
  - 12.1. How many cards did you pay the only the minimum?
13. Income– pay stubs or AGI from tax forms (similar verification at follow-up and intake)
  - 13.1. How much was your total income (AGI Line 37 on form 1040) as listed on your recent tax form? (asked in April)

## Works Cited

- Baek, E. and S. A. DeVaney (2004). "Assessing the Baby Boomers' Financial Wellness Using Financial Ratios and a Subjective Measure." *Family and Consumer Sciences Research Journal* 32(4): 321-348.
- DeVaney, S.A. (1993). An Empirical Analysis of the Predictive value of Household Financial Ratios. Unpublished doctoral dissertation. The Ohio State University.
- Greninger, S. A., Hampton, V. L, Kitt, KA & Achacso, L, . (1996). "Ratios and Benchmarks for Measuring the Financial Well-Being of Families and Individuals." *Financial Services Review* 5(1): 57-70.
- Harness, N. J., Chatterjee, S, Finke, M. (2008). "Household Financial Ratios: A Review Of Literature." *Journal of Personal Finance* 6:70 77.
- Hauser, R. M. and R. J. Willis (2004). "Survey Design and Methodology in the Health and Retirement Study and the Wisconsin Longitudinal Study." *Population and Development Review* 30: 209-235.
- Hong GS and Swanson PM (1995). "Comparison of the Well-Being of Older Women." *Financial Counseling and Planning*, 6, 129-138.
- Hurd, M. D. (1999). "Anchoring and Acquiescence Bias in Measuring Assets in Household Surveys." *Journal of Risk and Uncertainty* 19(1-3): 111-36.
- Juster, F. T. and R. Suzman (1995). "An Overview of the Health and Retirement Study." *The Journal of Human Resources* 30: S7-S56.
- Lyons, A. C. (2004). "A Profile of Financially At-Risk College Students." *Journal of Consumer Affairs*. 38: 56-80.
- Mason J.W. and Griffith R, (1998). "New Ratios for Analyzing and Interpreting Personal Financial Statements." *Journal of the Institute of Certified Financial Planners* 7: 71-87.
- McArdle, John J., James P. Smith, and Robert Willis (2009). "Cognition and Economic Outcomes in the Health and Retirement Survey". *National Bureau of Economic Research Working Paper Series* No. 15266.
- Smith, James P. (1995). "Racial and Ethnic Differences in Wealth in the Health and Retirement Study." *Journal of Human Resources* 30:S158-S183
- Winger, B. K. and R.R. Frasca (1993). *Personal Finance: An Integrated Planning Approach*, Third Edition. New York: Macmillan Publishing Company.