Financial well-being: At the convergence of people and place – reflections from a Chicago conversation

by Susan Longworth

This brief collection of writings is based on a convening, hosted by the Federal Reserve Bank of Chicago, to have a local conversation about financial well-being. This gathering was motivated by "What It's Worth," a joint publication of the Corporation for Enterprise Development (CFED) and the Federal Reserve Bank of San Francisco, collecting insights from thought leaders across the country on the topic of financial capacity for families and communities.[1]

As our "chapters" illustrate, financial well-being is often about making optimal choices at critical moments. One's stage of life (factors that impact financial well-being begin at birth) determines the kinds of financial decisions that arise. For many, seasonal variations in income and expenses – such as school supplies, winter heating bills – make for difficult trade-offs. Tax season is also a pivotal time – for many, the Earned Income Tax Credit (EITC) is a significant boost to family income, which brings opportunities, but also sometimes difficult choices. Finally, even 'normal' economic cycles lead to fluctuations in credit access that can vary widely across communities; the Great Recession and policy implemented in its aftermath have led to unprecedented changes in the financial landscape for lower-wealth households.

The Chicago discussion made the connection between people and place stressing that interventions depend largely on residents' adoption of options, but also that they are intrinsically rooted in a place. The data presented by Chicago Federal Reserve economists, Gene Amromin and Leslie McGranahan, and summarized in *The When, What and Where of Consumer Debt: The View from Cook County*, illustrate that economic conditions of households tend to aggregate in places. It is intuitive, unfortunately, that poor people live in (resource, amenity) poor neighborhoods. However, the impact of this condition is multi-faceted and nuanced, and pathways to change are complex. Overarching these community-based nuances are national trends illustrating the shifts in types of non-mortgage debt that occur across economic cycles. Where this debt exists, and for whom, introduces challenging policy questions.

Lucy Mullany, senior project manager, Financial Empowerment Policy, Heartland Alliance, in writing about *Universal CSAs in Illinois: Addressing the racial wealth gap*, stresses that the financial journey is life-long and that early (at birth) investments can yield life-long returns. Even small amounts saved can alter perceptions and expectations about what can be achieved. As the leader of the Illinois Asset Building Group, a project of Heartland Alliance, she shares concrete examples of the practice and impact of Childhood Savings Accounts (CSAs) and makes the case for universal adoption of this tool. Practitioners and policymakers working to break a cycle of poverty or chronic financial instability struggle to identify a single point of intervention that will make an impact, particularly on the racial wealth gap. CSAs make the case that birth is as good a time as any to set a different path.

The essay contributed by David Marzahl, president and CEO of the Center for Economic Progress (CEP), *Tax-time savings: An antidote to financial insecurity*, illustrates that across annual cycles, there are key moments of opportunity to engage individuals and families in financial decision making. For CEP, that moment is at tax time when many of their constituents receive a significant financial infusion in the form of EITC. Marzahl writes about efforts to motivate savings at this critical time of the year. His essay also captures a theme running through all contributions: that many factors influence financial conditions, decisions, and outcomes, and interventions require consistent evaluation and assessment.

Maria Kim, CEO of The Cara Program, in *The roadmap to financial resilience is about the journey*, focusses the discussion on the individuals her organization assists as they navigate their way from poverty (and the issues/conditions that led them there) to a better financial future. As the destination is a moving target – financial decisions and goals will shift depending on circumstances – managing the journey becomes essential. Kim illustrates this journey in the context of one year: the amount of time it generally takes for an individual to stabilize in a job and begin to reap the benefits of consistent employment. Surrounded by an intricate network of supports, an individual can move seamlessly from season to season on their journey to financial stability.

At the opening of the Chicago gathering, Alicia Williams, vice president of the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago, set the tone for the discussion by referring to Federal Reserve Chair Janet Yellen's forward to *What It's Worth*, which describes the extreme financial vulnerability faced by many American families every day. Williams echoed the Chair's call to the Federal Reserve Banks, as both conveners and researchers, to promote ideas that can ultimately "encourage families to take small steps that over time can lead to the accumulation of considerable assets." We hope these essays contribute to the discussion.

Notes

1. What it's Worth: Strengthening the financial future of families, communities, and the nation. Available at http://www.strongfinancialfuture.org/.

Biography

Susan Longworth is a senior business economist in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.