A FRAMEWORK FOR MEASURING FINANCIAL RESILIENCE OUTCOMES

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Most people face short-term financial emergencies at some point, ranging from an unexpected decline in income to a major expense that is too much to cover in any given month. Programs that aim to build wealth have a long-term time horizon. However, financial security in the long term is not possible without the ability to withstand financial shocks in the short run.

What helps people avoid financial emergencies and bounce back from them? What interventions are effective, and how do we know? Measurement matters to invest in strategies that work to increase the financial resilience of economically vulnerable households, especially those who have been left out of opportunities and experienced inequities due to structural racism. Evidence-based strategies are important to funders, policymakers, nonprofits, employers, financial service providers, communities, and other stakeholders in designing and delivering programs and policies that further financial security and economic equity.

This brief on assessment strategies offers a framework to help funders and practitioners design and measure the effectiveness of short-term financial resilience programs with specific interventions in mind. Not meant to be prescriptive, the brief includes a range of metrics associated with different interventions to bridge financial setbacks that can shape understanding of program success along the course of delivery. Those four interventions include:

BUFFERS

BORROWING

BENEFITS

BACKSTOPS

This paper and the accompanying brief, *Achieving Financial Resilience in the Face of Financial Setbacks*, are designed to inform community-based strategies to help economically vulnerable families better manage financial setbacks, shortfalls, and shocks.

QUESTIONS FOR FUNDERS TO ASK THEMSELVES AND THEIR GRANTEES

- *What is the problem we are trying to solve?*
- *What is the best solution for the problem?*
- *What are the goals of the intervention?*
- *How long will the relationship with the customer be?*

This framework offers funders and practitioners a starting place to explore these questions in the context of financial resilience programs.

DEFINING SHORT-TERM FINANCIAL EMERGENCIES

All families will face episodic financial shocks at some point, where either their income is less than expected or their expenses are greater than planned—from losing a job to having to cover a major car repair. The goal of short-term interventions is to provide a "bridge" to get people over the shortfall and back on the road toward their financial goals, but not expose them to repeated financial risks.

INTERVENTIONS

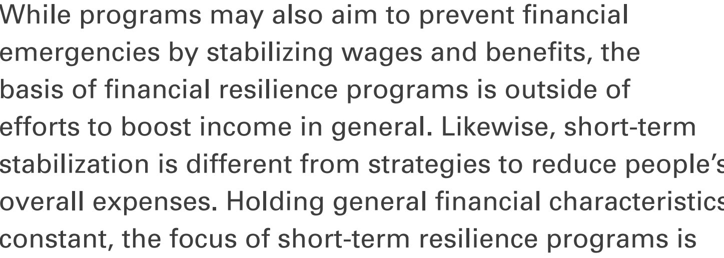
Programs use a variety of approaches to help people manage financial shortfalls, including:

A **Buffer** of money earned in the past and stored as savings or assets.

Borrowing money that will be earned in the future but borrowed affordably to use sooner.

Accessing cash **Benefits**—additional resources provided as direct aid from the government, charity, or from social networks and family members.

Using insurance—contracts that pay out based on certain criteria—as a **Backstop.**



While programs may also aim to prevent financial emergencies by stabilizing wages and benefits, the basis of financial resilience programs is outside of efforts to boost income in general. Likewise, short-term stabilization is different from strategies to reduce people's overall expenses. Holding general financial characteristics constant, the focus of short-term resilience programs is to help people navigate a financial emergency that results in a financial shortfall and get back on track toward their financial goals after this event. While narrower in scope, this approach facilitates a more precise emphasis on the role of short-term stabilizers, as opposed to the myriad factors that affect family finances.

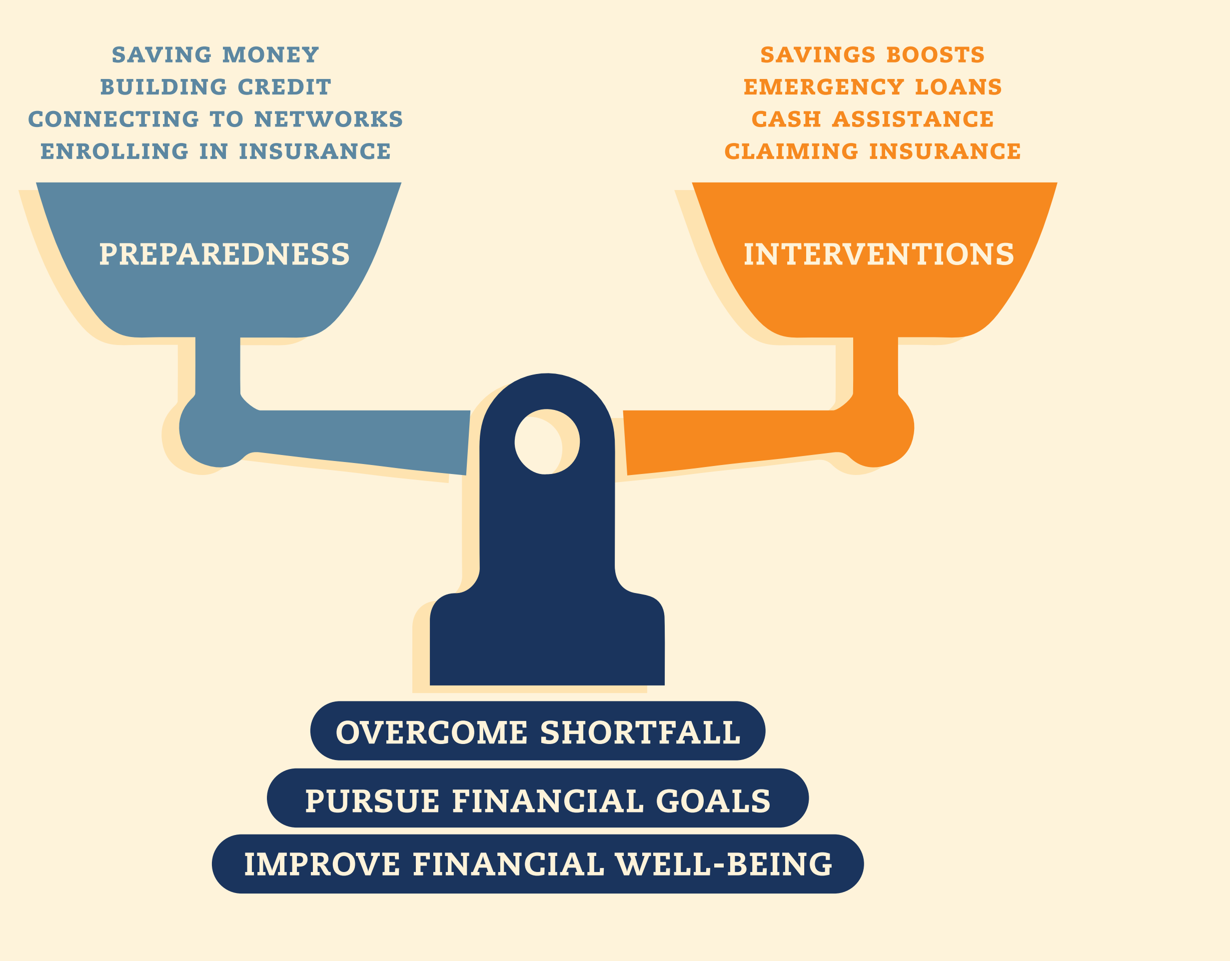
THEORY OF CHANGE

When people do not have any of the four intervention options—Buffer, Borrowing, Benefits, and Backstop—and cannot increase their income through work or other legitimate means, they will:

- Reduce spending on discretionary items.
- Reduce spending on necessities such as food, shelter, child care, health care, or medicine.
- Stop paying bills or making loan payments, or pay less than the amount due.
- Resort to costly loans or other potentially risky practices.

There are two primary ways that financial resilience programs can prevent such negative outcomes and improve well-being when people have a financial emergency. The first is through preparedness. By setting up systems in advance of a financial shock, families are prepared to handle a shortfall when it occurs. The second is through intervention strategies. People can rely on both when a financial shortfall occurs. Ultimately, the outcome for families is that they are able to reach a higher level of financial well-being. Financial well-being means people feel confident that they can meet current and ongoing financial obligations, generally feel secure in their financial future, and are able to make choices consistent with their goals and priorities without feeling constrained by their financial situation.

FINANCIAL RESILIENCE PROGRAMS FOCUS ON PREPAREDNESS AND INTERVENTIONS



OUTCOMES MODEL

Financial resilience programs can be assessed using a general logic model. First, all programs have **inputs**—the resources that go into developing and implementing activities that people use in communities. Inputs include time, salaries, overhead, technological infrastructure, and other costs, but also efforts to build relationships and networks, as well as direct payments to clients. These inputs lead to the second column, **activities.** Each activity leads to **outputs**, shown in the third column. These outputs ideally lead clients to achieve **outcomes** that occur as the client works with the program.

For financial resilience programs, a common outcome is helping people manage a financial emergency. Longer-run outcomes include increased financial confidence and reduced incidence of financial hardships and stress, as well as fewer high-cost financial services and fees. When people feel more confident in their ability to manage financial setbacks, they will have less financial stress and will be more financially empowered. Ultimately, being able to manage financial setbacks will allow people to achieve higher financial well-being. The lessons learned from financial resilience programs can influence how systems change, including advocating for policies to reduce inequities in society.

FINANCIAL RESILIENCE LOGIC MODEL

INPUTS	ACTIVITIES	OUTPUTS	OUTCOMES
Program Resources	BUFFERS: Savings Accounts	Savings Deposits	✓ Shortfall Managed
Program Development	BORROWING: Emergency Loans	Loans Closed	↑ Savings
Client Communications	BENEFITS: Cash Assistance	Benefits Delivered	↑ Credit
Client Trust-Building	BACKSTOPS: Insurance	Insurance Claimed	↑ Steady Cash Flow
Financial Incentives			↑ Financial Empowerment
Technology Infrastructure			↑ Assets
			↑ Financial Well-being
			↑Systems Change
			↓ Financial Hardships
			↓ Financial Stress
			↓ Reduced Fees

> THIS IS REALLY ABOUT ACHIEVING SOME SEMBLANCE OF FINANCIAL SECURITY, which includes a set of buffers for disruptive events that occur throughout the life course—such as job loss, health emergencies, and emergency repairs—that can derail plans in the absence of tools and resources to cope. Financial security is not only important today but also for future generations, as it has the potential to influence children's outcomes.
>
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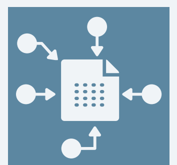
POTENTIAL OUTCOME MEASURES

While not an exhaustive list, funders and financial resilience programs can consider a limited set of potential outcome measures: Short-Term Measures and Long-Term Measures. These measures should be considered as illustrations and are not appropriate for all programs or settings. Evaluation methods and the measures that provide the strongest evidence of impact will vary based on the goals, context, and interventions used in each program. The burden of measurement is also an important factor to consider, including the cost of collecting data for the client and the community-based program.

SURVEY MEASURES ASKED DIRECTLY OF CLIENTS OR PARTICIPANTS THROUGH PAPER FORMS, VIA EMAIL, OR VIA TEXT MESSAGES.



ADMINISTRATIVE DATA COLLECTED WITH CONNECTIONS TO DATA SYSTEMS OPERATED BY FINANCIAL INSTITUTIONS OR SERVICE PROVIDERS.

SHORT-TERM MEASURES

SHORTFALLS AVOIDED

Perhaps the most direct measure of the outcome of any short-term financial stabilization program is helping people make ends meet in their current cycle of earning income and paying bills. This captures how well people manage a financial shock and are able to cover financial obligations. An example of a survey question that could be asked of clients is:

- "How difficult is it for you to cover your expenses and pay all your bills?" where the options include "Very difficult," "Somewhat difficult," or "Not at all difficult."

AVOIDED HARDSHIPS

One of the most important goals of short-term financial resilience programs is helping people avoid a hardship and instead be able to maintain needed consumption. The four main hardship areas people forgo when they have a financial shock are health care, food, housing, and utility bills. While some hardships can be measured using administrative data, these data are often difficult to obtain except in cases of severe hardships that are part of the court system, such as eviction or foreclosure. Instead, survey questions may be more feasible to track hardships. The following financial insecurity questions can be used to measure the extent people are able to avoid hardships:

- "In the past 12 months, was there a time when you needed health care but went without because you couldn't afford it?"
- "In the last 12 months, did you or other people in your household ever cut the size of your meals or skip meals because there wasn't enough money for food?"
- "In the last 12 months, was there ever a time when you were behind in making a rent, mortgage, or other housing payment?"
- "In the last 12 months, has it ever been difficult for you to pay your utility bills?"

REDUCED STRESS

People who have access to emergency financial supports are better able to make ends meet and also have reduced cognitive demands and emotional distress, which allows them to make and follow financial plans. Many low-income people are worried about their finances, but having the capacity to manage a negative shock may reduce financial worry levels. There are several questions that can be asked of clients to measure financial stress. For example:

- "Thinking about my personal finances can make me feel anxious," using a range of responses from "Strongly disagree" to "Strongly agree."
- "Overall, how satisfied are you with your current personal financial condition?" using a range from "Not at all satisfied" to "Extremely satisfied."

INCREASED SAVINGS

Savings accounts, especially liquid accounts useful in a financial emergency, are a measure of people's potential resilience in the face of a shortfall. One option for buffer

interventions is to track account balances using financial institution data. Since balances fluctuate, the average daily balance over a month provides a reasonable measure of people's savings levels. Tracking account balances, especially across multiple institutions, will not be feasible for most programs. Data aggregation firms offer account linkages with client consent, although programs have to be mindful of people's privacy concerns.

An alternative is to ask clients for self-reported savings. For example:

- "How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?" using a scale of "Certain," "Probably could," "Probably could not," and "Certainly could not come up with $2,000."
- "How would a $400 emergency expense that you had to pay impact your ability to pay your other bills this month?" where answers include "Still be able to pay all bills" or "Could not pay some bills."

Both the $2,000 and $400 benchmark have been used in prior surveys—the $400 level may be more appropriate given the typical financial shocks facing lower-income households.

CREDIT IMPROVEMENTS

Borrowing programs can work with clients to establish credit, including having positive payments reported to credit bureaus. Programs can help people to correct errors in credit reports and drop negative information that is out of date. Fixing these problems, while also helping people learn more about their credit record, can improve people's ability to borrow at lower interest rates and on more favorable terms. One way to measure this is by tabulating credit report items, such as the number of accounts in good standing, or number of items in credit reports that are corrected after services. Another approach is to ask clients a survey question such as:

- "How would you rate your current credit record?" where responses are along a scale of "Very bad," "Bad," "Average," "Good," and "Very good."

Credit scores are aggregate measures based on information in people's credit reports. Only people with a sufficient credit history have a credit score. The score captures a combination of on-time bill payments, credit usage, and a lack of derogatory accounts. People who manage financial shortfalls are less likely to have delinquencies on bills, which can prevent declines in credit scores. Since scores are based on a number of factors, they may be slow to respond or change, however.

Also, for many lower-income people struggling with regular short-term financial shocks, their credit scores may be at stubbornly low levels, or they may not have credit scores.

REDUCED USE OF HIGH-COST FINANCIAL SERVICES

Alternative financial services include payday loans, pawn loans, and automobile title loans. While these are all ways people can make ends meet to deal with a financial shock, they are often expensive ways to borrow. While data on the use of alternative financial services can be tracked using financial services reporting systems, these data are not widely available. Instead, borrowing programs can also ask clients a set of questions to measure alternative financial services use:

- "In the last 12 months, have you taken out an auto title loan?"
- "In the last 12 months, have you taken out a short-term payday loan?"
- "In the last 12 months, have you used a pawnshop loan?"

STEADY CASH FLOW

By managing financial shortfalls, people will be better able to sustain steady employment since they are more likely to be able to cover expenses and focus on what they need in order to work. With access to consistent transportation, child care, and other services, people will be better able to make ends meet. While income can be self-reported with a survey question, income can also be measured based on payments into bank accounts using secure data aggregation services.

FINANCIAL EMPOWERMENT

Another key subjective financial outcome for interventions that help people with financial emergencies relates to financial empowerment. When people know they can manage problems, they have stronger confidence in their ability to deal with their finances. One example of a survey question is:

- "If you were to set a financial goal for yourself today, how confident are you in your ability to achieve it?" where responses include "Not at all confident," "Not very confident," "Somewhat confident," and "Very confident."

Related to confidence is financial knowledge. People's financial knowledge levels can be measured as part of an objective set of quiz questions or using a subjective self-assessment. Quiz questions have to be tailored to the educational content and are often difficult to administer to clients. Subjective questions are more general and can be used as part of a short follow-up. For example:

- "How would you assess your knowledge of how to manage your finances?" followed by a 1 to 7 scale where 1 is low and 7 is high.

LONG-TERM MEASURES

More longitudinally, programs can assess the impact of interventions on clients' financial status and well-being, as well as systems change that leads to better financial conditions for all.

ASSET BUILDING

Net assets are a measure of total wealth accounting for financial and non-financial assets, after subtracting loans and debt. Net assets are often the outcome that programs and funders care about, but measuring net assets is challenging, especially since even determining the value of non-financial assets is difficult. People who are investing in their future, including students borrowing to attend universities, or entrepreneurs borrowing to start a business, will have a negative net worth, even though these types of investments will likely contribute to upward financial mobility. One strategy is to have people self-report their assets and debt, then calculate net wealth. For programs with access to data aggregation services connected to account information, these data could be pulled from administrative data, subject to data limitations. Regardless, it is important to keep in mind that people facing financial emergencies may need to spend down assets and take on debt, and therefore should not be compared to a general population not facing a financial shock. Another strategy is to measure subjective levels of net assets using a survey question such as:

- "I am on track to having the financial assets I need to achieve my goals."

FINANCIAL WELL-BEING

The final potential measure is financial well-being. This is a subjective measure based on self-reported survey items. A version of a financial well-being scale has five questions with five-point responses of level of agreement:

- "Because of my money situation, I feel like I will never have the things I want in life."
- "I am just getting by financially."
- "I am concerned that the money I have or will save won't last."
- "I have money left over at the end of the month."
- "My finances control my life."

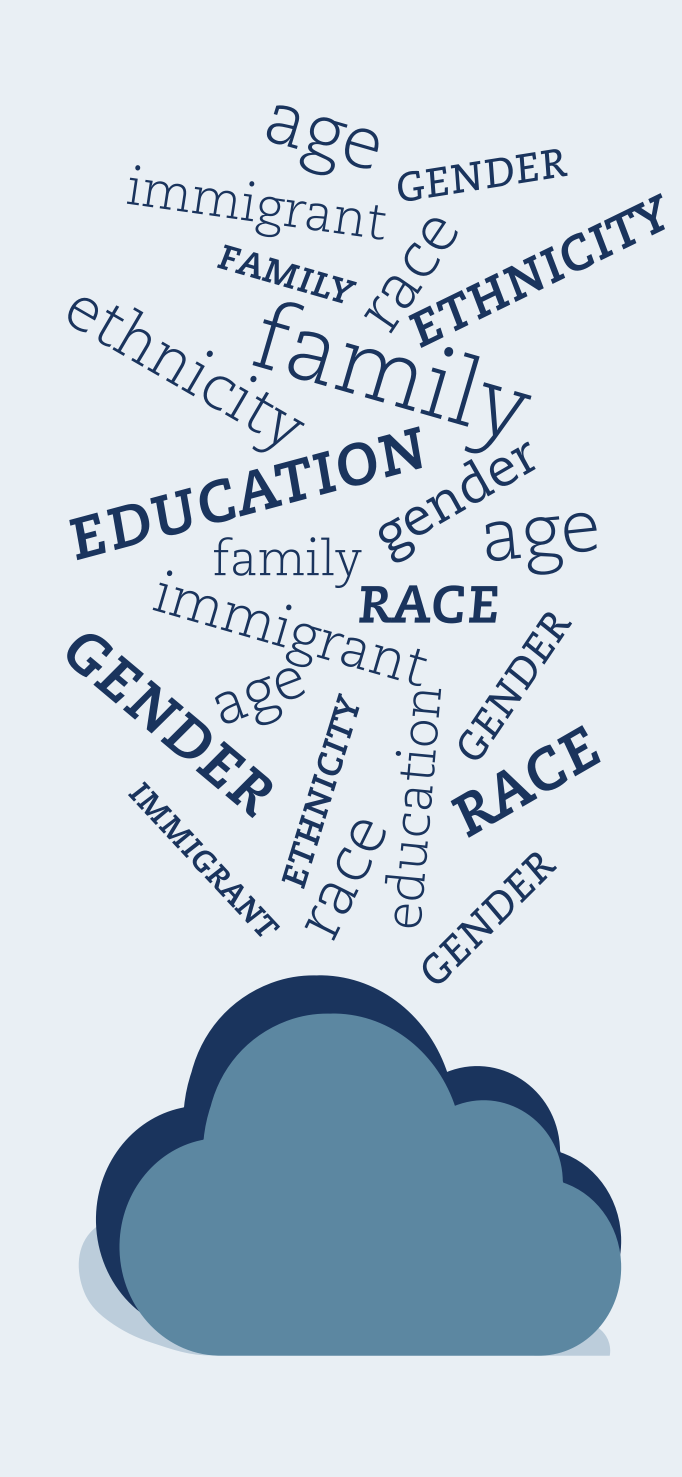
The Consumer Financial Protection Bureau has a scoring guide based on respondent age, although programs can also simply aggregate the scores 0-25 if this method of scoring proves cumbersome.

SYSTEMS CHANGE

While not directly measurable with surveys or administrative data, another outcome of financial resilience programs, individually and collectively, is to influence policies and programs at the local, state, and federal levels. To the extent that client stories and leaders from community-based programs have a voice in influencing policy decisions, financial resilience programs can change the landscape in ways that reduce the incidence of financial emergencies and increase supportive services that help people maintain financial security.

POPULATION MEASURES

Since racial equity is such an important consideration in the design of financial resilience programs, it is also critical to collect data on who is served by programs. In addition to race and ethnicity, gender, age, immigrant status, family type, and education level are also potential indicators of client backgrounds that may be useful to track. Comparing the outcomes across client backgrounds, as well as who is served relative to the population at large, can provide insights on program design and implementation, as well as highlight the impacts of strategies on key groups of people. These data can also be critical in advocating for systems change.



TRACKING AND REPORTING OUTCOMES

It is important for funders to keep in mind that many programs are relatively small in scale, providing interventions or supports that may not amount to more than a few hundred dollars per participant. Programs are unlikely to be able to administer costly outcomes measurement systems. Self-reported survey items can be collected relatively easily as part of service delivery, but following up with clients weeks or months later can be more challenging—non-response rates tend to be very high. Text message-based surveys have had some success, but can only collect answers to two or three questions. Data collection can also be completed through mobile applications, at least for regular users who have access to technology and connectivity.

Accessing administrative data from financial institutions can be a cost-effective way to track client outcomes over time without requiring ongoing responses from participants. However, many programs will not have the scale or infrastructure to connect to financial partners. Firms such as Plaid offer one way to gain access to account activities with client consent, but these tools may not be cost-effective for many programs.

Finally, funders need to use caution when interpreting outcomes measures. For example, with financial account data, higher savings balances may be a positive outcome, but the goal of emergency savings is for people to have funds available when needed. This means a positive outcome could be a savings balance that is spent down; while it may look like a negative outcome, it could actually mean an avoided financial hardship. Likewise, increasing use of debt might be viewed as a negative outcome. However, rising balances of low-cost loans could be a positive outcome if that credit helped manage a financial problem. The context of these account balance changes is important to consider.

FIVE

TOP LESSONS FOR FUNDERS

1. Match Intent to Impact. The goal of financial resilience programs is stabilization in the face of financial emergencies. Stability can be achieved with supports that help prepare people in advance of a shortfall or intervene when a financial shock occurs. Outcome measures that capture people's level of security, confidence, and well-being are based on program participants' ability to manage current shocks, as well as their confidence in being able to handle the next one.

2. Extrapolate or Be Patient. While many funders and policymakers think about very long-run asset building and economic mobility outcomes, these trends may take years or even decades to measure. Short-term stability is a necessary foundation that allows people to pursue their financial goals, but it will be challenging to directly link to very long-term changes.

3. Be Judicious. While there is the potential to do extensive, in-depth evaluations and studies, many short-term financial resilience programs are relatively small interventions over a short period of time. Funders need to be aware of the costs and burdens of data collection and analysis. If the new information or insights that will be created will have important implications—especially for broader systems change or policy decisions—then more extensive outcomes measurement may be justified. But if the goal is general monitoring and assessment, basic outputs and activity measures may be sufficient, and far less administratively burdensome for program operations and for participants.

4. Support Data Collection. Data collection can be costly and burdensome for participants, but new technologies offer ways to collect transaction and other data that are more efficient. Funders can support data collection efforts, including new technology and "big data" approaches. These efforts may also be costly, but less burdensome to clients and offer the ability to follow program participants over time. These data can be powerful for understanding outcomes and program effectiveness, ultimately supporting evidence-based policy changes.

5. Listen to Clients. Programs and policies too often create structures, processes, and financial products in a vacuum, assuming what people should or should not do. An alternative is to make sure that systems better match the strengths of the communities they serve, building on individuals' insights and experiences. The outcomes and measures selected should reflect the goals and insights of participants.

CONCLUSION

Leaders of financial resilience programs can offer insights for policymakers, employers, and the public at large. Program data can provide evidence of patterns and results of financial shocks to inform best practices. Funders can use lessons learned across programs to address foundational issues of the social safety net, child care supports, labor markets, and others based on the experiences of people who have faced, and recovered from, short-term shocks. Strategically using evidence from programs may even lead to innovations that can reduce the incidence of financial shocks in the future.

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ACKNOWLEDGMENTS

The authors and AFN would like to thank the following people for sharing information about their short-term financial stability programs: Ashley White, *City of Boston Economic Mobility Lab*; Brian Gilmore and Jason Ewas, *Commonwealth*; Jesús Gerena, *Family Independence Initiative*; Jerry Byers, *Lending Link*; Leila Faucette and Shauntrice Martin, *LHOME*; Alexandra Altman, *Mission Asset Fund*; Kaylyn Kvochak, *National Domestic Workers Alliance*; Christy Finsel and Kristen Wagner, *Oklahoma Native Assets Coalition, Inc.*; Leigh Phillips, *SaverLife*

The authors and AFN would also like to thank the following people for graciously participating in focus groups or interviews, providing insights and advice to inform the project: Velvet Bryant, *The Annie E. Casey Foundation*; Genevieve Melford and Ida Rademacher, *Aspen Institute*; I-Hsing Sun, *Cities for Financial Empowerment Fund*; Ashley McIver, *Communities Foundation of Texas*; Ines Polonius, *Communities Unlimited, Inc.*; Liz Brister, *Entergy*; Sarah Willis and Sarah Bainton Khan, *JPMorgan Chase*; Evelyn Stark, *MetLife Foundation*; Alexandra Bastien, *The Imperative Fund*; Kelly Batson, *United Way Bay Area*; Sara Vanslambrook, *United Way of Central Indiana*; Lisa Price and Darlene Goins, *Wells Fargo*; Anna Beth Gorman, *Women's Foundation of Arkansas*; Rachel Schneider, *Canary*; Mae Watson Grote, *Change Machine*; Erica Bouris, *International Rescue Committee*; Helah Robinson, *LIFT*; Kate Bulger and Michelle Jones, *MoneyManagement International* (MMI); Christopher Starr, *Neighborhood Trust*; Hiba Haroon, *Prosperity Now*

SUPPORT FOR THIS PUBLICATION

JPMorgan Chase & Co. WELLS FARGO

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