

Financial knowledge not enough for low-income parents, says study

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Low-income parents of young children frequently face day-to-day difficulties in feeding and housing their families. Social services for such parents often include financial education designed to help build basic knowledge about financial matters such as budgeting and saving for the future. However, a study by University of Kansas researchers finds that financial knowledge may not be enough to reduce economic strain among low-income parents with young children. The study suggests that financial inclusion, or owning accounts in mainstream financial institutions, is necessary as well.

Deborah Adams, associate professor of [social welfare](#), and Alegnta Shibikom, doctoral student at KU, conducted a study exploring economic strain among more than 600 [low-income families](#), along with the connections between financial knowledge and bank accounts. They presented their findings at the Society for Social Work and Research conference in Washington, D.C., in January and have spread the findings internationally as well.

"Building financial capability for all people is one of 12 Grand Challenges issued at the conference," Adams said. "So our study, along with those of several colleagues at the KU School of Social Welfare, speaks directly to the Grand Challenges initiative, which is led by the American Academy of Social Work & Social Welfare with a goal of increasing social justice and well-being among individuals, families and communities."

The Adams and Shibikom study was based on data from a sample of more than 600 low-income parents of children who qualified for subsidized preschool. Survey data was collected on participants' financial knowledge, financial inclusion and household resources as the children starting preschool. Economic strain was measured using a standardized scale four years later when most of the children were entering second grade. Knowledge was measured by five basic personal finance questions, and ownership of bank accounts was used as the measure for financial inclusion.

Researchers found that participants who owned bank accounts reported feeling less economic strain. The importance of owning accounts was magnified by the fact that financial knowledge and financial inclusion interact to affect economic strain.

"In other words, financial knowledge plays a significant role in reducing economic strain only for those low-income parents who own [bank accounts](#)," Adams said.

Assets in the form of home ownership also proved important. When controlling for income, those who owned homes reported less economic strain.

The findings illustrate the importance of making basic financial services available to all, including low-income families living in economically distressed communities. Without access to such services, families who are already vulnerable end up using "fringe banking services" such as payday lenders, check cashing services or pawn shops that often charge exorbitant fees, Adams said.

Policy should encourage banks, credit unions and other mainstream financial institutions to provide services in low-income communities and accounts to people who may have low-balance accounts for some time.

Home ownership programs for low-income families should also not be overlooked in efforts to reduce economic strain which has been associated with multiple negative effects on family life.

The idea that true financial capability must include financial inclusion as well as financial knowledge seems to speak to social worker researchers, educators and practitioners beyond the United States. Adams recently spent part of a sabbatical in Taiwan working with social welfare colleagues. In appearances at two Taiwanese universities, she shared research from recent studies on financial capability and asset building. This approach is fairly new for social workers in Taiwan who, like social workers in the U.S., have not recently focused on making structural or institutional changes to increase societywide financial wellbeing.

"Some of my colleagues there have been researching various policies and programs designed to increase financial capability among low-income populations," Adams said of her work in Taiwan. "And one of the universities in Taipei is now establishing a concentration in financial capability for their [social work](#) students."

Such programs are also beginning to be established in the US, with a dual focus on increasing both [financial knowledge](#) and access to and inclusion in mainstream financial institutions, she said.

Provided by University of Kansas

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