Financial Wellbeing of Households

Findings of the 2021 household survey
by the Centrale Bank van Aruba

July 2021

Centrale Bank van Aruba

Financial Wellbeing of Households:
Findings of the 2021 household survey
by the Centrale Bank van Aruba

For more information, please contact Ryan R. Peterson, PhD (rpeterson@cbaruba.org), Division Manager Economic Policy & Financial Stability at the Centrale Bank van Aruba. This report, including the key findings, reflect the perception of the surveyed households. They are not meant to represent the position or opinions of the CBA nor its staff members.

Outline

List of basic terms and definitions

Household	A household consists of one or several persons who live in the same dwelling by sharing the same living accommodation, who pool some, or all, of their income and wealth, and who consume certain types of goods and services collectively.
Financial wellbeing	The extent to which households both perceive and enjoy a financial position to meet their financial obligations, have the financial freedom to make choices and control their finances, and experience financial security now, in the future, and under adverse circumstances.
Financial position	The status of a household's total assets, liabilities, and equity, including the stability and level of income, savings, investments, and debt.
Financial resilience	The household ability to cope financially when faced with a sudden fall in income or manifest surge in expenditures, and recover quickly from periods of financial adversity.
Financial savings	The process of setting income aside for future spending. Saving provides ready cash for emergencies and short-term goals, and funds for investing.
Financial debt	The entire amount of money owed to lenders.
Debt burden	Share of income that is used to pay off debt, including mortgage payments and loan repayments. The debt burden is measured by the debt service-to-income ratio (total debt payments divided by total household income).
Household income	*Gross household income* measures the total gross household income (wages and salaries, self-employed income, social benefits, etc.) before taxes and other social contributions. *Disposable household income* measures the income of households after the payment of taxes and social contributions.
Household expenditures	*Fixed expense*: A necessary expense in your budget with a set monthly cost. These are must-pays in your budget that usually have the same cost, such as mortgage or rent payments, and car loan payments. *Flexible expense*: This is a necessary expense in your budget that does not have a set monthly cost because the expense varies from month to month based on usage. This includes groceries, utilities, and gasoline. *Discretionary expense* isn't necessary for you to subsist, and it doesn't have a set monthly cost. Discretionary household expenditures change regularly depending on circumstances and needs, including recreational and leisure expenses.
Minimum subsistence level	The minimum amount of household income required to ensure a livelihood and other basic needs.
Relative income poverty	Relative income poverty is defined and measured by total household income that is less than 50% of the median household income.

Introduction

It is a truism that the COVID-19 pandemic hit at the heart of our economy, being the services sector. Besides the plunge in tourism, the wellbeing of households was especially afflicted by the rise in lay-offs, furloughs, significantly reduced wages, and the sudden shortfall in income, in addition to the loss of lives. This report provides a summary of the key findings based on a national investigation conducted on the financial wellbeing (FWB) of Aruban households by the Centrale Bank van Aruba (CBA).

Household consumption is readily recognized as one of the key drivers for economic development. More than half of Aruba's gross domestic production (GDP) depends on the financial position and wellbeing of households. However, the financial wellbeing of households is shaped by more than simply the sum of, for instance, household income, expenditures, savings, and consumption. It is readily acknowledged that while income level is important, two households can have different perceptions of their financial situation despite enjoying the same level of income. Likewise, different households can be satisfied with their financial situation even though they may have different income levels.

In general, FWB is a state of experiencing financial stability and security. It's the understanding that your household is in financial control, today and tomorrow. It isn't necessarily about the amount of household income, but rather that you are confident that your household can meet current and future financial needs. The FWB of households encompasses two important dimensions:

1) The **financial *position* of households**, including *objective measures*, such as the level and stability of income, the access to financial services, the saving, borrowing, and spending patterns of households, as well as the share of income spent to pay off debt.

2) The **financial *behaviors* of households**, covering the *subjective perception* or *experience* of households with regard to their current finances, expenditures, debt levels, in addition to their financial concerns and outlook.

While much is known about the financial position of households in Aruba, the perceived or *experienced* FWB of households remains less well understood, despite clear indications of its growing importance, particularly in the wake of the COVID-19 pandemic.

With the objective to explore the FWB of households and describe the changing conditions and drivers of FWB, this report addresses the following general questions:

- *What is the financial position of households?*
- *How financially resilient are households in the wake of the COVID-19 pandemic?*
- *What is the state of financial wellbeing of households?*

The results of this inquiry shed light on not only the financial vulnerability of households, but also on the ways in which households are adapting financially to the unprecedented demands of a post-pandemic reality. Although many face financial struggles, there is a hopeful prospect in uncovering the financial habits that build resilience and strengthen the FWB of households

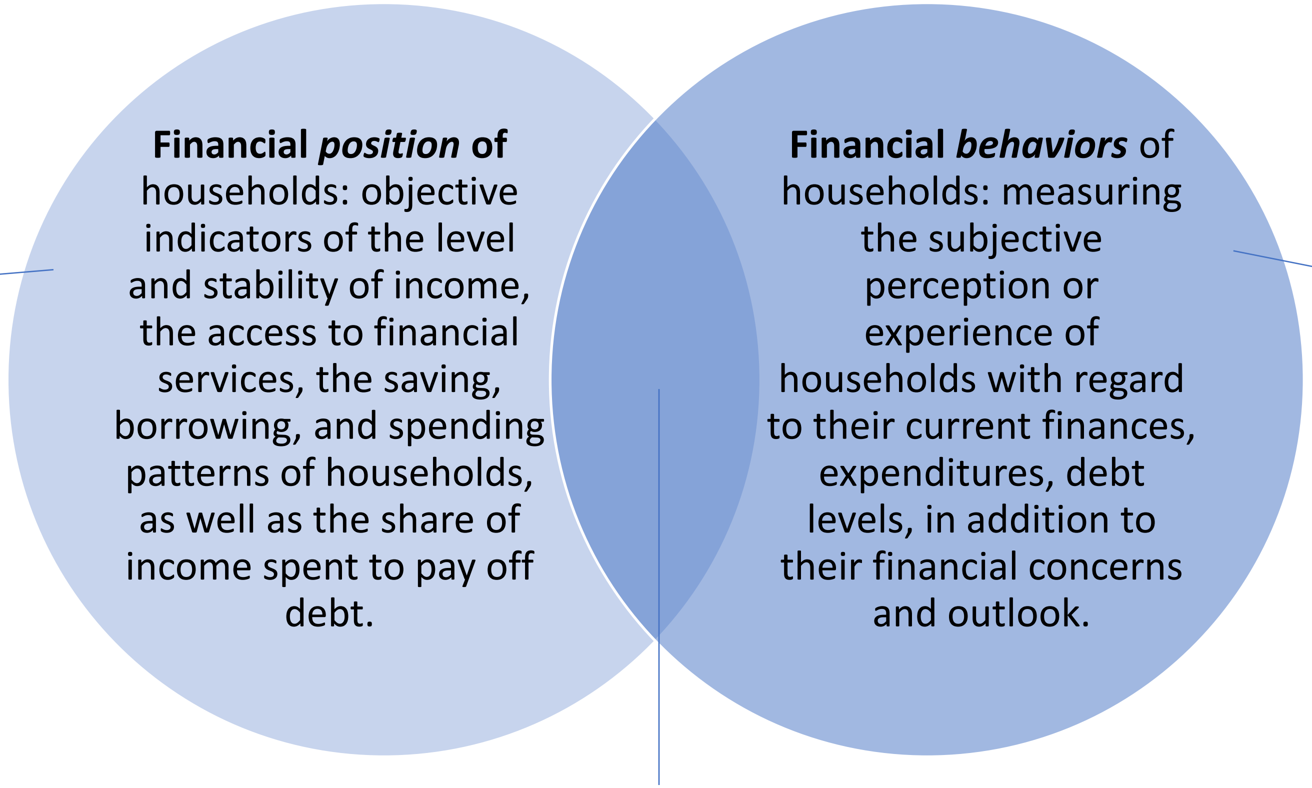
This study would not have been possible without the generous dedication and widespread participation of households in answering our questions and sharing their thoughts and sentiments. We are grateful and would like to thank everyone who contributed.

Centrale Bank van Aruba

July, 2021

In recent years, there is growing interest and policy attention for the importance of the financial wellbeing of households, particularly in the aftermath of the COVID-19 pandemic (Center for Financial Capability, 2020; Consumer Financial Protection Bureau, 2019; Institute for Fiscal Studies, 2021, EU, 2020; CARICOM, 2020; US Census Bureau, 2020; IDB, 2020; World Bank, 2020)

What is the financial position of households?



What is the state of financial wellbeing of households?

How financially resilient are households in the wake of the COVID-19 pandemic?

"Financial wellbeing is about a sense of security and feeling you have enough money to meet your needs. It's about being in control of your day-to-day finances and having the financial freedom to make choices.

Consumer Financial Protection Bureau

Household demographics

Who participated in the Financial Wellbeing household survey?

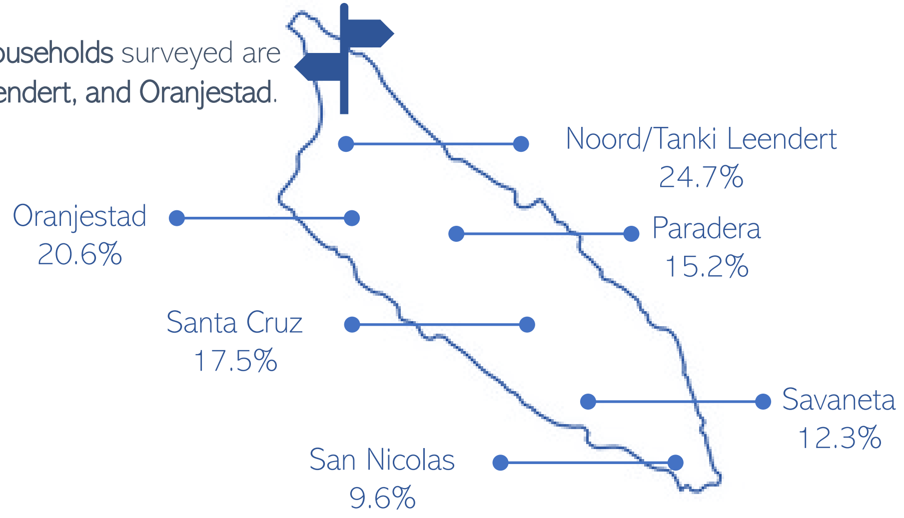
1,287

households participated in the financial wellbeing survey*, of which 55% are home-owners and 42% are tenants that rent.

63%

of participating households are represented by female respondents.

Almost **50% of households** surveyed are in **Noord, Tanki Leendert, and Oranjestad**.



The median household consists of **2 adults and 1 child** (under 18 years); 44% of participating households have no children, whereas 31.5% have more than 2 children.

The average age of household respondents is **42 years** and **84% achieved a secondary level education**; 2% have a primary level education and 14% enjoyed tertiary (college and university-level) education.

* The survey was conducted between April 15 and May 28, 2021. The response rate was 62% out of a sample of 2,063 households. The confidence level of the results is 95% with a margin of error of 2.7%.

Financial position of households

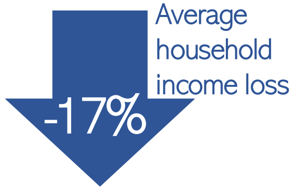
"A budget is telling your money where to go instead of wondering where it went.

Dave Ramsey

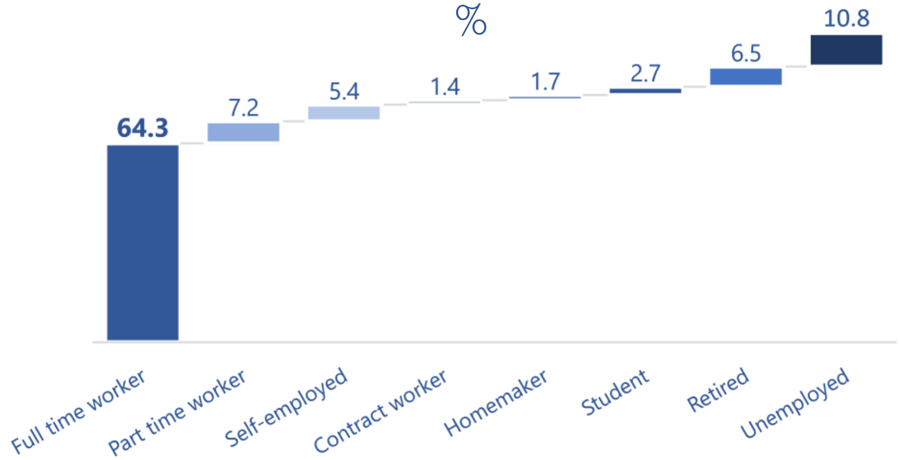
How much income does your household enjoy?

Almost 80% of surveyed households enjoy a steady income, which is 15%-points less compared to previous household surveys (CBA, 2019). The average total household income (before taxes) - consisting of 2 income earners - is Afl. 4,211 per month (median: Afl. 4,000) and Afl 2,100 per household income earner. Compared to pre-COVID-19 household income estimates (CBS, 2019; CBA, 2019), this constitutes a loss of at least 17% in average household income.

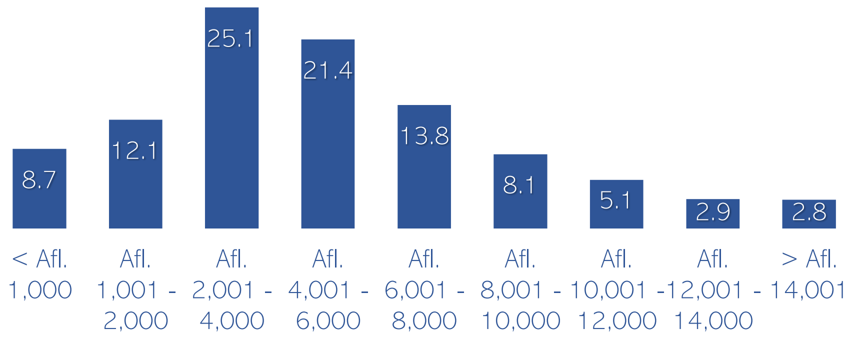
In terms of relative income poverty and income inequality, the top 20% of households earns at least 5 times more than the bottom 20% of households. Almost 50% of surveyed households have a gross income of less than Afl. 4,000, well below the minimum subsistence level*. Alternatively, almost 20% enjoy an average household income of more than Afl. 8,000 per month. The findings show that 1 in 5 households earns less than half of the median household income, indicative of relatively income distress.



Main economic activity status



Household income distribution (%)



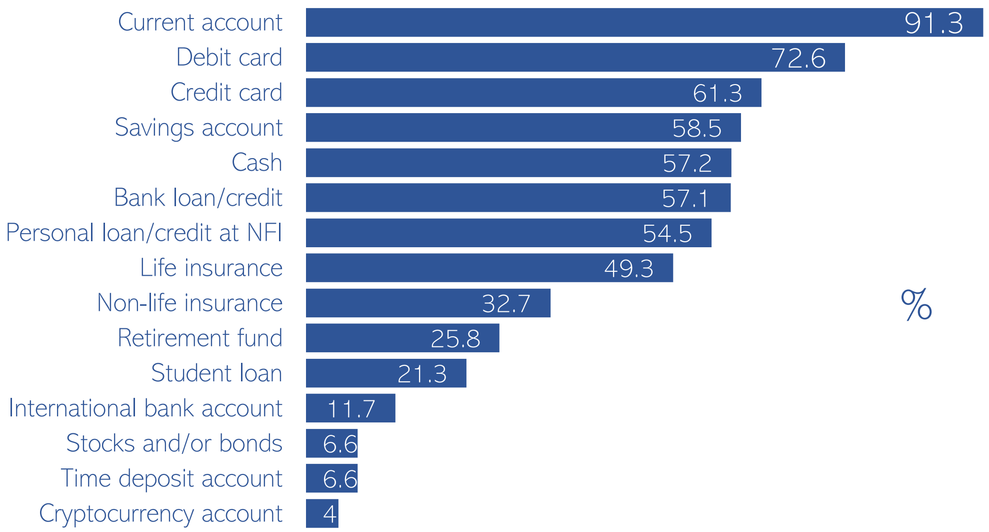
Of the surveyed households, **almost two-thirds (64.3%) indicate that they enjoy full-time work**, with 7.2% being a part-time worker, 6.5% retired, and at least 5% self-employed. An estimated 11% of households report experiencing unemployment, down by 3%-points from 14% in 2020.

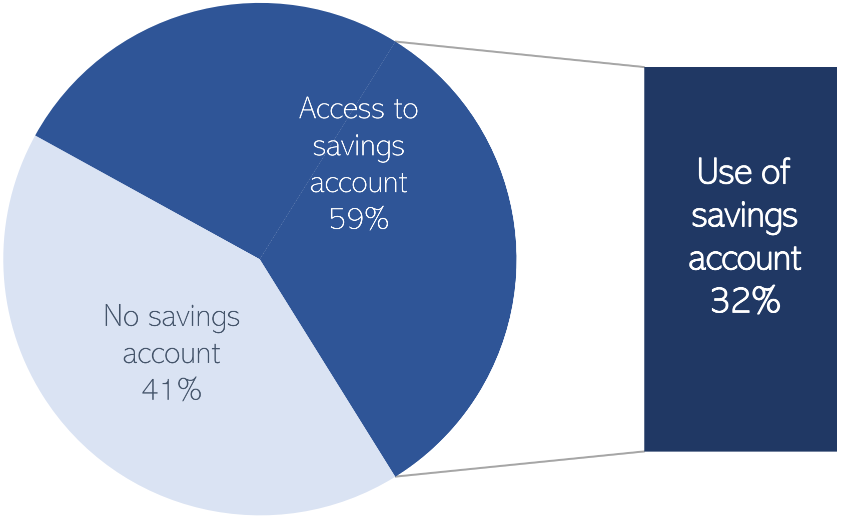
* The minimum subsistence level, also known in Dutch as the 'bestaansminimum', is estimated by the Central Bureau of Statistics (CBS) at Afl. 4757 for a household and Afl. 2265 per adult (CBS, 2020).

How much financial access does your household have?

At least 50% of surveyed households have access to basic financial services, including a current account (91.3%), a debit card (72.6%), a credit card (61.3%), and a savings account (58.5%); 1 in every 4 households has a retirement fund. In terms of borrowing money, 57.1% of households report having a loan and/or credit at a bank or financial institution, whereas 54.5% report having a (personal) loan at a non-financial institution (NFI*). Almost 12% of those surveyed, have an international bank account. With reference to insurance, 49.3% and 32.7% of households report having life and non-life insurance, respectively. Less than 10% of surveyed households own stocks, bonds, or have a time deposit and cryptocurrency account.

Percentage (%) of households reporting having a financial instrument.





Although almost 60% of surveyed households indicate that they have a savings account, only 1 in 3 households (32%) essentially saves on a regular basis. These households enjoy an average income of Afl. 6,000 or more per month and have an estimated total savings of Afl. 15,000 (per household); good for covering at least 3 months of income. Of the households that do save, the majority (65%) report saving Afl. 250 or less on a monthly basis.

* A non-financial institution is a business that provides credit and personal loans, although it is not officially qualified as a credit or monetary organization. Usually, this includes retail and/or wholesale businesses that provide personal loans and/or credit to customers (at higher-than-average interest rates).

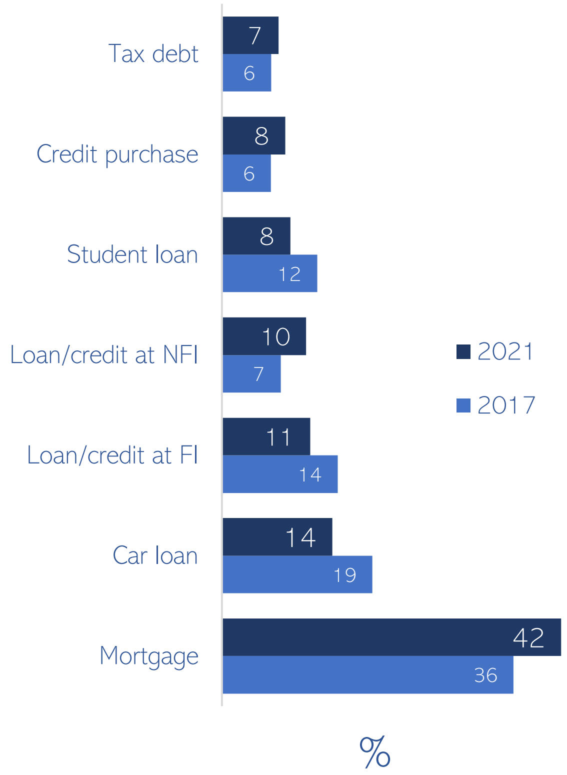
“Beware of little expenses;
a small leak will sink a great ship.

Benjamin Franklin

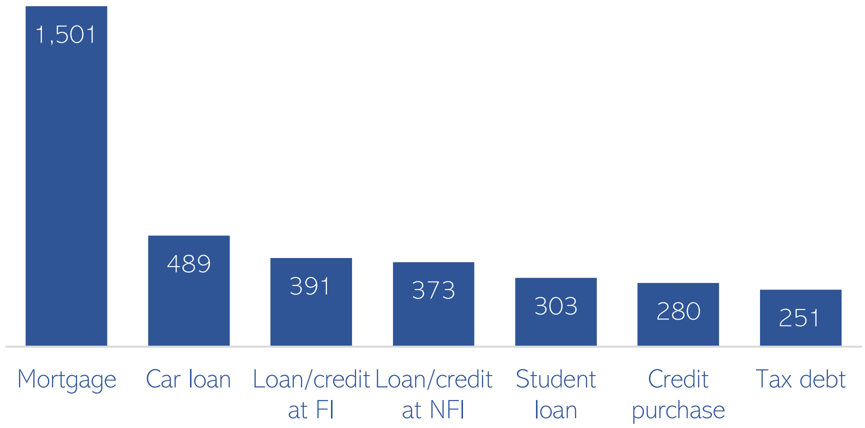
How much does your household spend on debt payments?

Surveyed households report that they spend, on average, an estimated Afl. 1,900 on monthly debt payments. Mortgage (Afl. 1,501; 42%) and car loan payments (Afl. 489; 14%) are good for at least 50% of the total monthly debt payment. The findings indicate a shift in recent years in the relative share of household debt payments. Whereas mortgage payments increased from 36% to 42%, a decrease is noticeable in debt payments for car loans (19% to 14%), commercial bank loans (14% to 11%), and student loans (12% to 8%). Minor increases are also apparent for loans/credit at non-financial institutions (NFI; 7% to 11%) and for purchases on credit (6% to 8%). These trends corroborate reports by financial institutions of increasing demand for (housing) mortgages and less appetite for consumer credit and (car) loans by households over the past couple of years. The impact of the COVID-19 pandemic on the uptick in loans and credit from NFI, as well as purchases made on credit, cannot be discounted.

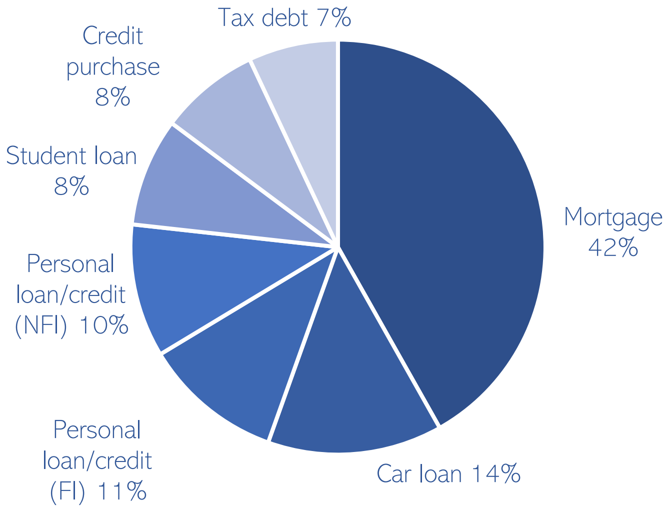
Share of debt payments (%) in 2017 and 2021.



Average household debt payments (estimates per month in Afl.)

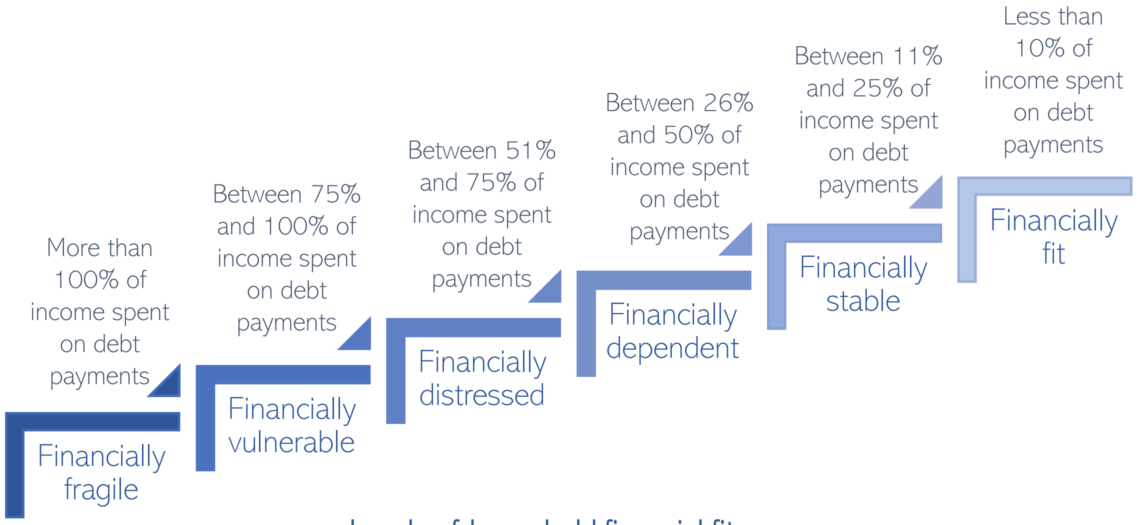


Share of household debt payments (%)



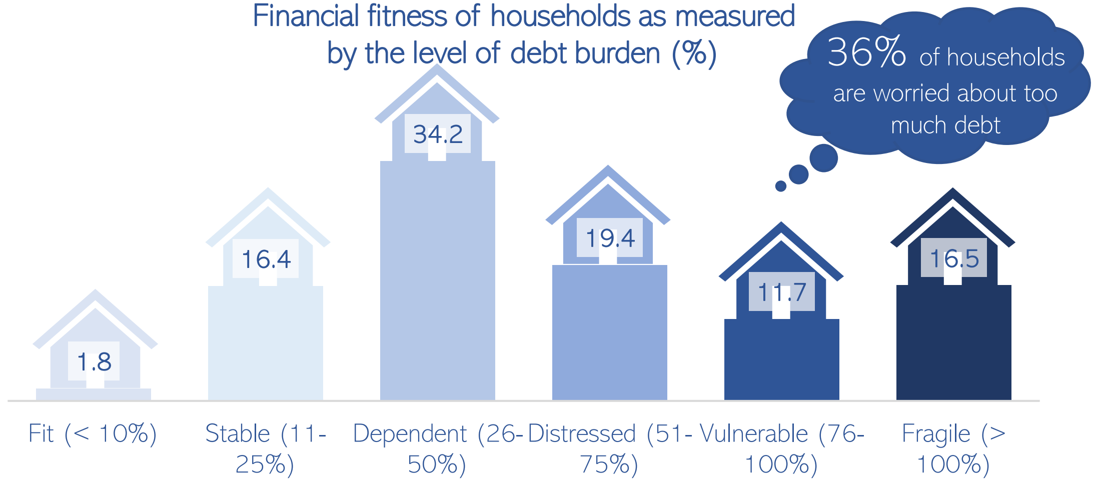
How financially fit is your household?

In addition to the levels and stability of household income, the proportion of total household income that is spent on paying off debt is an important benchmark for the financial health of households. Households can have anywhere from zero debt to spending well over 100% of their income on debt payments. In the latter case, households are highly overburdened with debt. In general, the following levels of 'financial fitness' are distinguished to measure household debt burden. In 2017, an estimated 10% of households reported being overburdened with debt (CBS, 2019).



Levels of household financial fitness

Financial fitness of households as measured by the level of debt burden (%)



Based on the responses of surveyed households, the average debt service-to-income ratio is 35%, up from 25% in 2017. More specifically:

- Less than **2%** of households are considered **financially fit.**
- 16% of households are **financially stable.** They have a debt burden between 11% and 25%, and earn at least Afl. 10,000 per month.
- The majority of households (**34%**) are deemed **financially dependent** with a debt burden of 26% to 50%.
- Close to **20%** of households are **financially distressed** with a debt burden between 51% and 75%.
- At least **25%** of households are considered **financially vulnerable** and **fragile** with debt burdens well over 75%. They earn less than Afl. 2,100 per month and, on average, lost at least 20% of their household income over the past year.

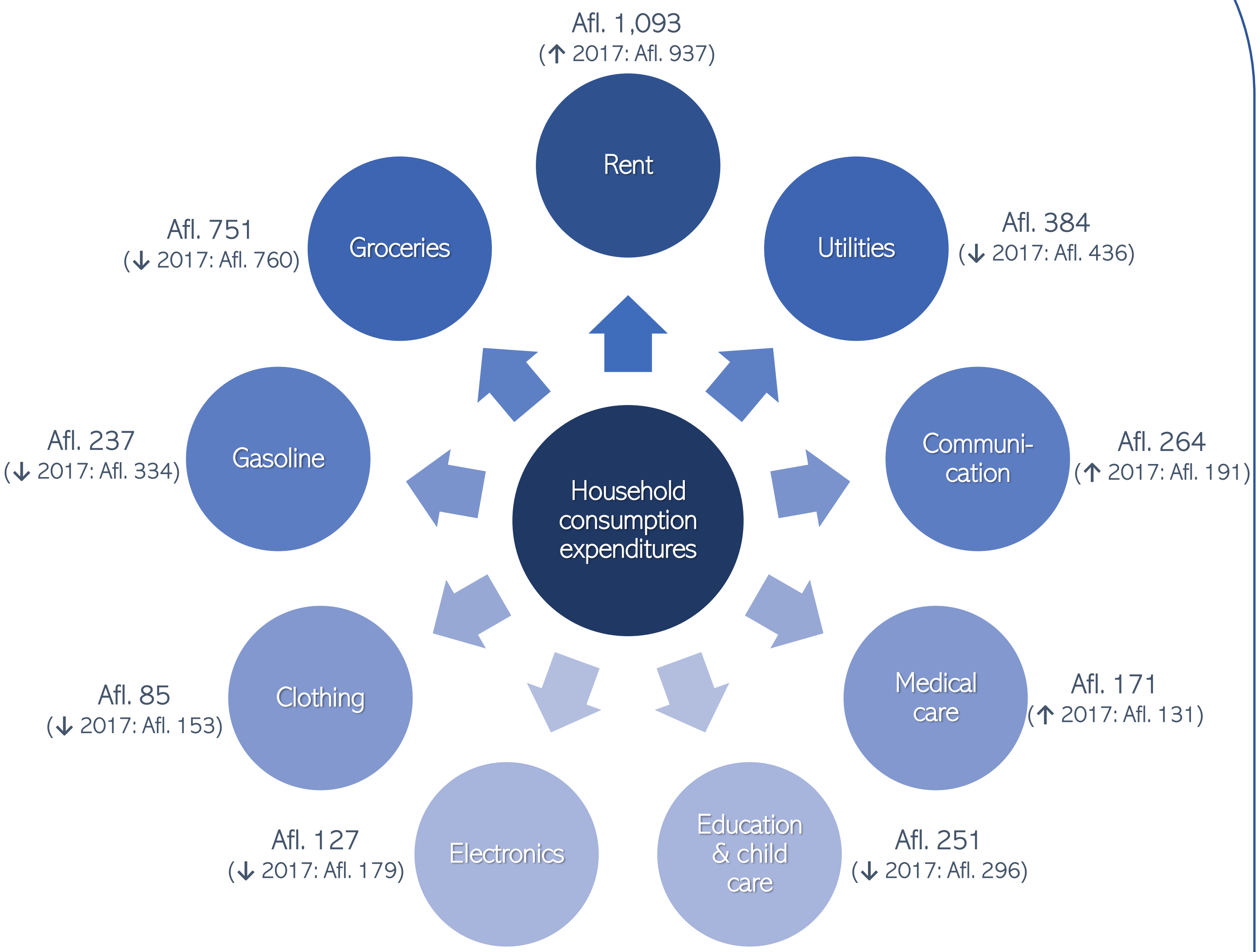
How much does your household spend monthly?

Surveyed households report spending at least 75% of their income on consumption. On average, monthly household expenses amount to an estimated Afl. 3,296, of which 61% is fixed (non-discretionary) and 39% is flexible (discretionary). Amongst fixed household expenditures, the costs of rent (Afl. 1,093) and utilities (Afl. 384), followed by communication (Afl. 264) and education (Afl. 251) rank the highest. In terms of flexible expenditures, most costs are related to groceries (Afl. 751) and gasoline (Afl. 237).

3 in 10 households spend more than they earn on a monthly basis. More than half of these households are also financially fragile and overburdened with debt.

Almost 70% of households live within their means, with 30% having less than Afl 500 left at the end of the month, which is put into savings.

The findings indicate that in recent years there has been a gradual shift in relatively higher (fixed) expenses – especially for rent and communication – and lower (flexible) expenses on gasoline, clothing, and electronics. It is likely that this shift stems from two forces: (1) the rise in real-estate prices and digital technologies, in addition to (2) the loss of household income over the past year, consequently pressuring households to cut their costs and discretionary expenses.



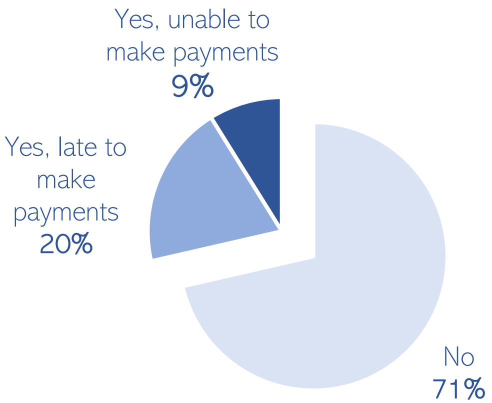
Financial impact of the COVID-19 pandemic

How has the COVID-19 pandemic impacted your household finances and expenses?

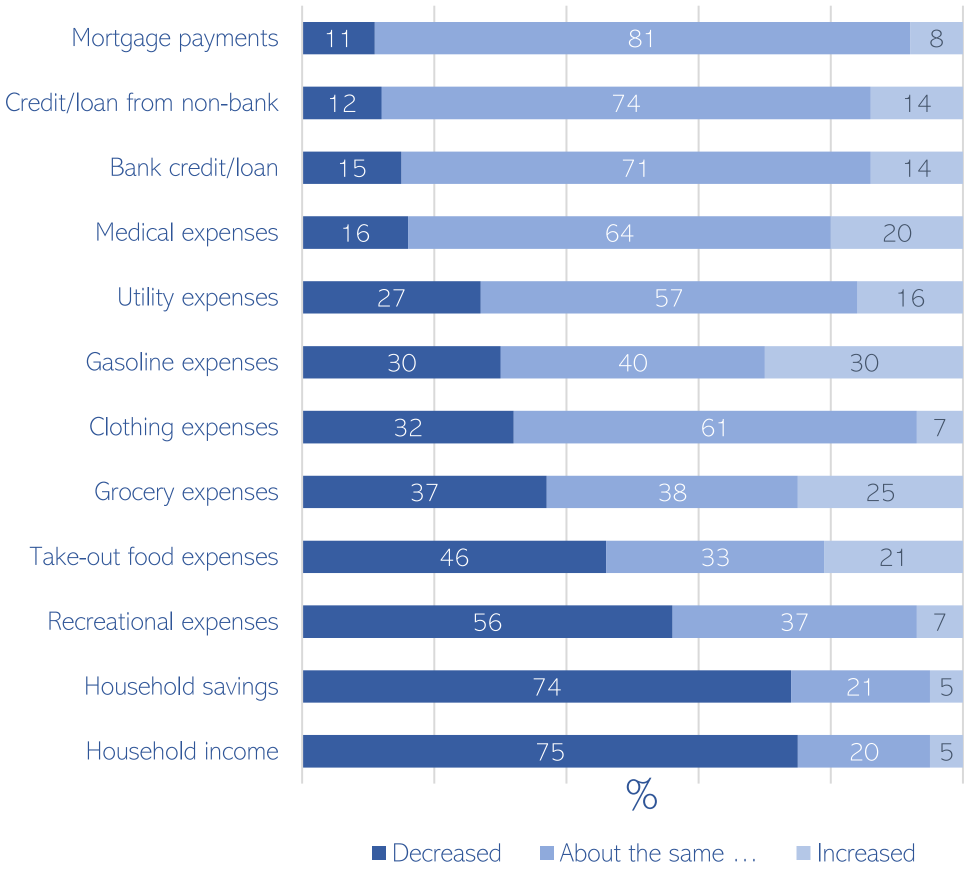
At least 2 out of 3 households report that the COVID-19 pandemic negatively affected their household finances due to a decrease in income (75%) and savings (74%), and a reduction in recreational (56%), take-out food (46%), grocery (37%), clothing (32%), gasoline (30%), and utility (27%) expenses. Medical expenses, mortgage payments, and loan repayments (banks and non-banks) remained largely the same, according to surveyed households.

At least 70% of surveyed households indicate that they are able to meet their payments obligations. Whereas 19.8% of those surveyed report that they are late to make payments, 8.5% state that they are not able to make payments. Findings indicate that personal loans and other types of credit – rather than mortgage payments – are more prone to late and non-payments.

Is your household late or unable to make monthly payments?



Percentage (%) perceived change in household finances and expenses



Is your household receiving any additional financial support or extra earnings?

An estimated 61 percent of households report that they received additional financial support or enjoyed extra earnings in the last 6 months. The findings show that of those surveyed, three financial channels stand out, including (1) *institutional assistance*, (2) *social support*, and (3) *additional earnings*. Whereas approximately one-third of households relied on wage subsidy and social emergency financial assistance from the government, at least 25% borrowed money from family or a friend. The latter finding highlights the importance of social networks during times of financial hardship. In terms of additional earnings, 17% state that they generated extra income from a side-job, while 13% report receiving supplementary income from real-estate rental activities. Lastly, about 12% of households relied on a loan from their employer or received financial transfers from abroad.

6 in 10

surveyed households report receiving some sort of (additional) financial support through one or more financial channels.

Institutional assistance

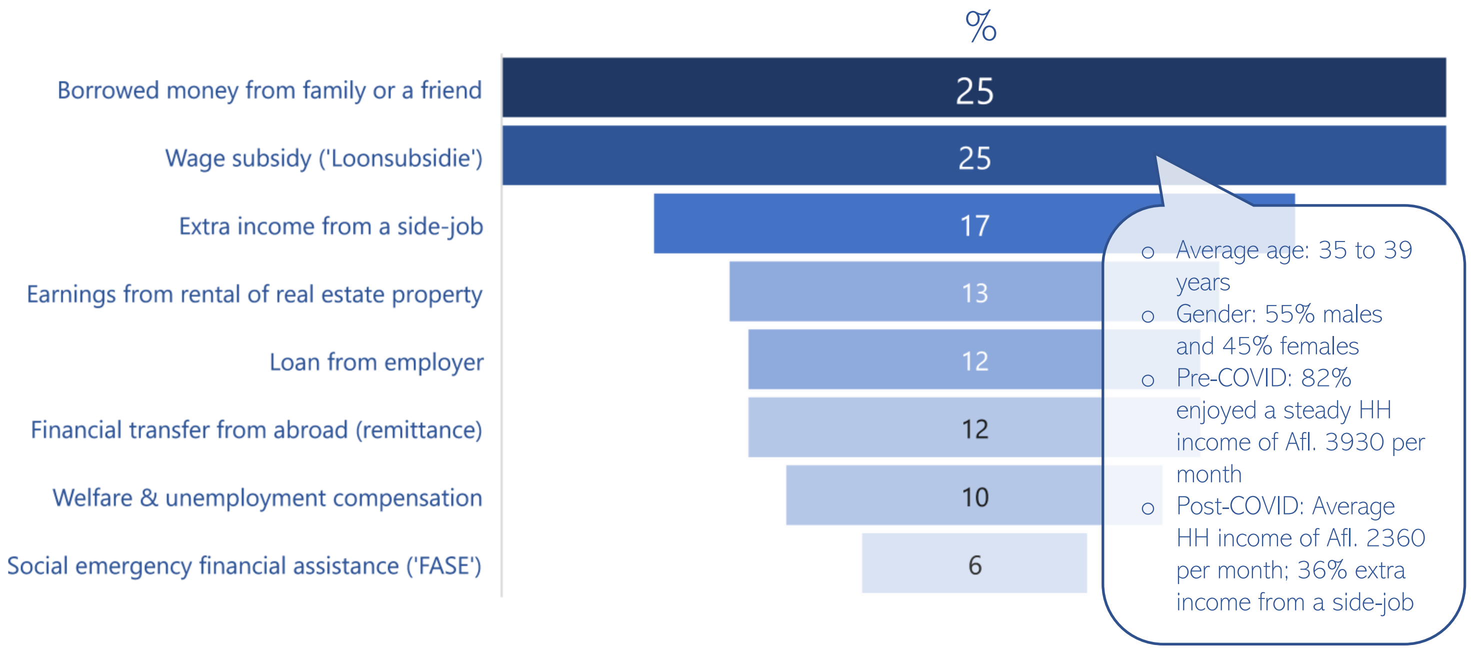
Financial assistance from government (e.g., 'FASE', 'Loonsubsidie') and/or a loan from employer.

Social support

Financial support from family, a friend, and/or from abroad (i.e., remittance).

Additional earnings

Extra income from a side-job and/or earnings from property rental (e.g., apartment, house, commercial space, etc.).



Financial wellbeing and outlook of households

"Financial wellbeing is the measure of how financially fit and healthy you are. It means something different for everyone. Do you have enough money to meet your needs? Do you have the freedom to make the choices you want in order to enjoy your life? These are the kinds of things that measure financial wellbeing.

Marissa Geanette

How has your household coped financially during the COVID-19 pandemic?

In coping with the adverse effects of the COVID-19 pandemic and the subsequent loss of income, surveyed households report using different tactics to adapt to their financial circumstances. In general, households use three financial coping tactics of stretching their income, spending prudently, and saving sustainably.

1 in 4
surveyed households demonstrates financial resilience

Income stretching

Income stretching tactics describe the different ways households try to earn more income. An estimated 20% of households report using income stretching tactics, including, using their savings (25%), securing extra income (18%), selling financial assets (12%), borrowing more money (12%), or applying for financial assistance (10%).

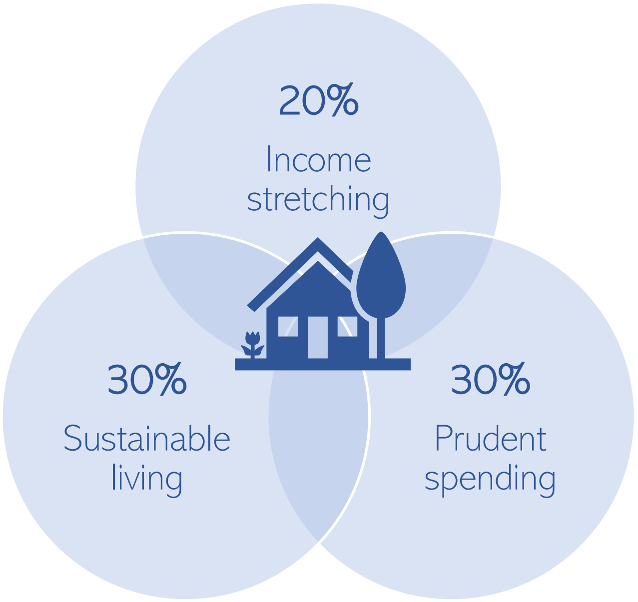
Prudent spending

Tactics of prudent or responsible spending are generally associated with rationing household income, postponing flexible expenses, and/or controlling expenditures. An estimated 30% of households report spending more prudently either by postponing going on vacation (59%) or by purchasing online (23%).

Sustainable living

These financial behaviors are geared at cutting household costs and living expenses, and usually target both fixed and flexible household expenditures. Of the surveyed households, 27% focus on reducing their utility expenses, 24% on re-using and/recycling products at home, 41% on curbing their grocery expenses, and 16% on home farming by planting vegetables and/or fruit.

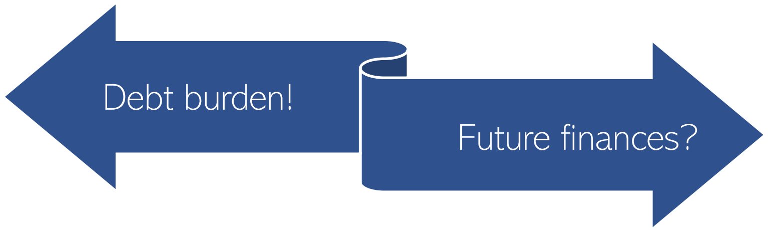
Share (%) of households applying financial coping tactics



How satisfied is your household with the financial situation?

At least 20% of surveyed households are satisfied with their current financial situation. These households also report an average income of at least Afl. 6,000 per month with less debt burden (< 50%). Alternatively, 40% of households indicate that they are not satisfied at all with their financial circumstances.

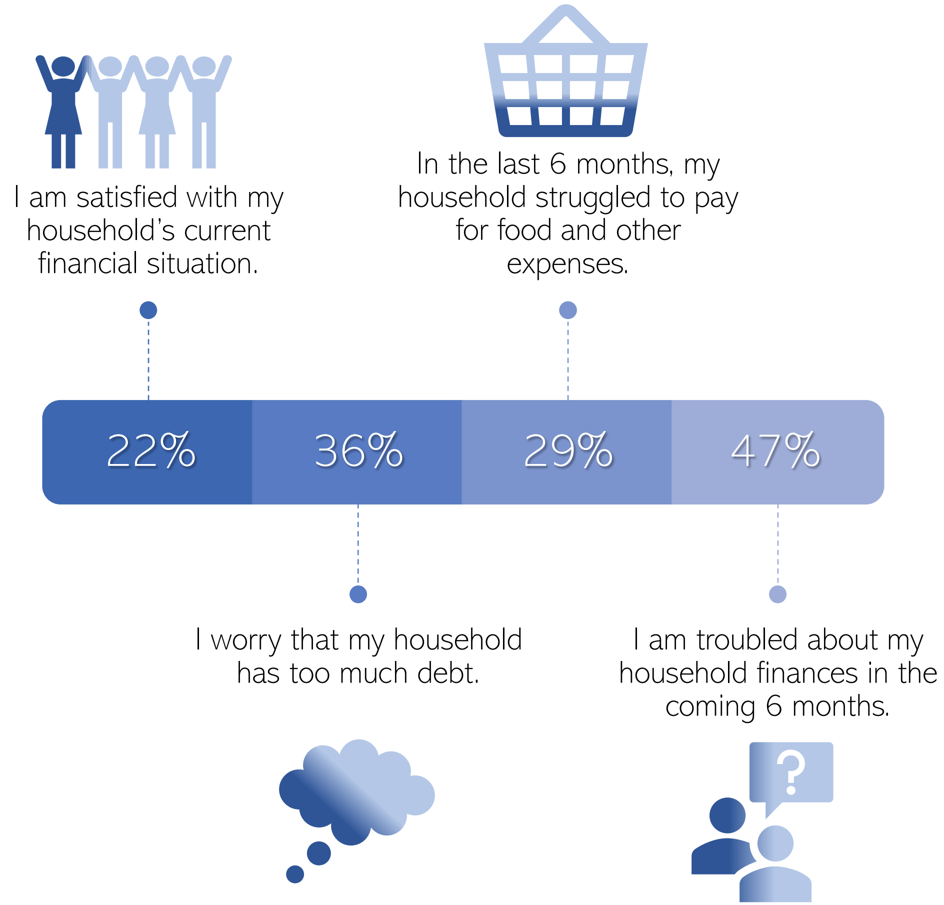
In the past 6 months, almost 30% of households report that they struggled to pay for food and other household expenses. An estimated 15% report depending on food donations, whereas 24% state that they were not strained for food or other basic supplies. The results corroborate national food donations programs that supported at least 7,000 households during the COVID-19 pandemic.



The findings reveal that households share two key financial concerns:

Debt burden: More than one-third of the surveyed households (36%) indicate that they worry that they have too much debt. These figures confirm earlier reports of financially vulnerable and fragile households. Alternatively, less than 20% of households – earning on average Afl. 6,000 per month – report that they are not worried about their debt.

Future finances: Almost 50% of those surveyed state that they are troubled about the future of their household finances. An estimated 15% report not being concerned, while 35% of households are cautious about the future of their household's financial situation.



“Every financial worry you want to banish and financial dream you want to achieve comes from taking tiny steps today that put you on a path toward your goals.

Suze Orman

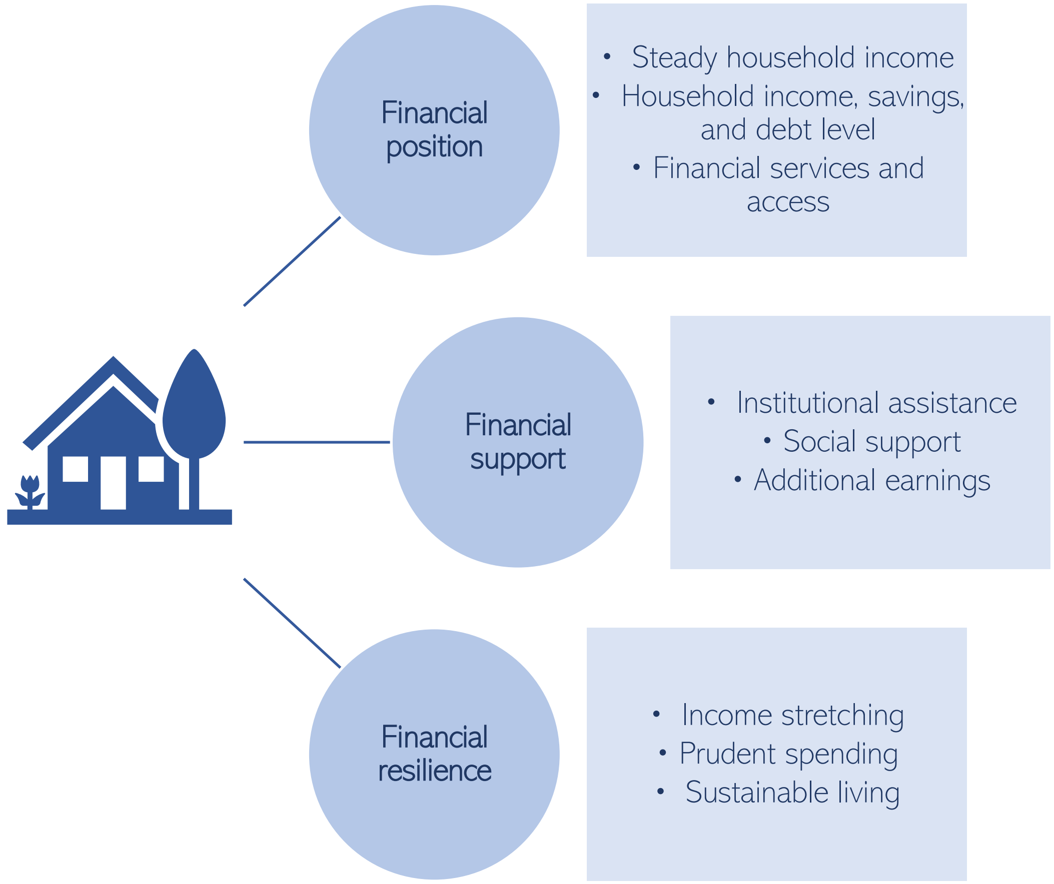
Conclusion

What is the state of financial wellbeing of households?

Unquestionably, the COVID-19 pandemic was an income shock that rocked the financial foundations of many households. In fact, this study indicates that the financial struggles that followed in the wake of the pandemic exposed and exacerbated the pre-pandemic financial vulnerabilities of households. Despite enjoying relatively high levels of income stability, the intensified financial vulnerabilities of households are characterized primarily by an increased debt burden, structural overspending, and limited savings. Furthermore, although households generally enjoy ample access to basic financial services, the depth of financial access for wealth generation remains shallow.

The current state of financial wellbeing is, however, also characterized by fostering financial support and financial resilience. In recovering from the financial crisis, many households relied on financial and non-financial institutional assistance. For the most vulnerable households in relative income poverty, this support remains a life-line for their subsistence. Likewise, the path to recovery is characterized by adaptive financial behaviors of (some) households to stretch their income, postpone unnecessary expenditures, and control their fixed expenses, while trying to build a more sustainable living.

Strengthening the financial wellbeing of households requires the continued and concerted efforts of both the government, financial institutions, as well as civic society and households. The findings of this study stress the relevance of *targeted and controlled* financial assistance, paired by *financial training and coaching* of households. Merely providing financial support without strengthening the financial skills of households will not suffice. Furthermore, the expansion of *financial education programs* (on, e.g., budgeting, spending, saving, investment opportunities) should be pursued forcefully, in addition to the urgency of re-employment and re-skilling (workforce) programs. The results also emphasize the (growing) importance of *establishing a household credit registry bureau* and *regulating the consumer credit market* to safeguard the financial stability of households. Our future is shaped by today's choices and decisions.



“The secret of getting ahead is getting started.

Mark Twain

Financial Wellbeing of Households

Centrale Bank van Aruba
J. E. Irausquin Boulevard 8
P.O. Box 18
Oranjestad
Aruba
www.cbaruba.org

Centrale Bank van Aruba