FINRA Investor Education FOUNDATION

Insights: Financial Capability

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What's Inside:

This paper summarizes the findings from a FINRA Investor Education Foundation-funded white paper titled *The Financial Welfare of Military Veterans: Descriptive Evidence from a National Survey*, which can be found at *www.USFinancialCapability.org* or by contacting the author.

The Financial Welfare of Veteran Households

Summary

Using data from the FINRA Investor Education Foundation's National Financial Capability Study, this analysis finds that after controlling for important demographic variables veterans are experiencing slightly better financial outcomes than non-veterans, but there are some areas where veterans could improve. Veterans have better overall financial standing and better savings outcomes, but they also have more problems with spending relative to comparable non-veterans. Veterans also experience better employment and health care outcomes, but worse housing outcomes. Within the veteran population, military retirees fare better than military non-retirees. In addition, veterans who separated from military service longer ago (described as early separation era veterans) are less satisfied with their financial condition than those who separated more recently, despite reporting more stable income.

Background

There are more than 22 million U.S. military veterans in America, representing more than 8 percent of the U.S. population.[1] And while this number is down relative to previous decades, it still constitutes a sizable group. Interest in this group arises from a public commitment to recognize, honor and provide for the individuals who have served their country, and the desire to ensure veteran well-being as part of maintaining the military's All-Volunteer Force. Importantly, public policies designed to help veterans succeed financially are a critical element in the nation's long-term national security. Despite this interest and motivation, there remains surprisingly little evidence on the financial conditions or financial well-being of veterans.[2] Using data from the 2015 National Financial Capability Study[3], this paper provides descriptive evidence on veterans' household finances using a large national survey.[4]

This paper investigates the following research questions:

- How do financial outcomes and behaviors differ between veteran and non-veteran households?
- How do financial outcomes and behaviors differ within veteran households by military service, military retiree status, and military separation era?

The 2015 National Financial Capability Study (NFCS) contains data on a number of financial outcomes of interest to researchers and policy-makers. Using this data, I analyze a relatively large set of outcomes that can provide insight into the financial standing of veterans.

I analyze the financial decision-making and well-being of veterans and comparable non-veterans in four areas that include 21 outcomes:

- Overall Financial Standing (satisfaction, difficulty covering expenses, unexpected income drop)
- Spending (spending greater than income, household has a budget, adverse credit behavior)
- Saving and Investment (has a three-month emergency fund, has an employer retirement plan, has other than employer retirement plan)
- Conditions Related to Veteran Programs and Policies (employment [unemployed, disabled, retired], health [covered by insurance, foregone medical treatment, unpaid medical bills past due], education [has student loans, late on student loan payments, attending a four-year college or university], housing [home owner, late with home payments, underwater on home]).

I also compare the overall financial standing outcomes among veterans along three dimensions: military service, military retiree status, and military separation era.

In addition to the rich outcome data, the NFCS also includes a sizable set of demographic characteristics that include:

- Gender, age, marital status, children and race/ethnicity
- Education level
- Military service experiences, including military service branch, military retiree status and military separation era

These demographics enable me to complete a regression analysis that controls for some of the many differences between veterans and non-veterans.

Findings

In this section, I provide the results for each of the two main research questions described above. Importantly, the evidence here is descriptive and not causal. They are more meaningful than unconditional comparisons between veterans and non-veterans, but they should not be interpreted as the causal effects of military service or veteran status, as the groups may differ on other unobservable dimensions. For each question, I highlight the differences in the demographic characteristics of the groups and summarize the findings.

How do financial outcomes and behaviors differ between veteran and non-veteran households?

There are a number of statistically significant differences in the demographic characteristics of veterans and non-veterans. In brief, the veteran respondents are: more likely to be male, older, more likely to be white and less likely to be a minority (except black), more educated, more likely to be married and more likely to be divorced, and they have fewer dependents on average. The comparative analyses conducted below will control for these differences, but they highlight that the groups may differ on other, unobservable dimensions as well. These differences are unsurprising given the voluntary nature of military service.

> ***"These overall measures suggest that veterans appear to be experiencing slightly better financial outcomes than non-veterans."***

In Figure 1, I provide evidence on the financial condition of veterans compared to non-veterans in three areas: overall financial conditions; spending; and saving and investment.

In terms of overall financial conditions, I find that relative to non-veterans, veterans are:

- 5 percent more likely to be satisfied with their current financial condition;
- 4 percent less likely to report having difficulty in covering their expenses and paying their bills; and
- no more or less likely to have experienced an unexpected income drop in the past 12 months.

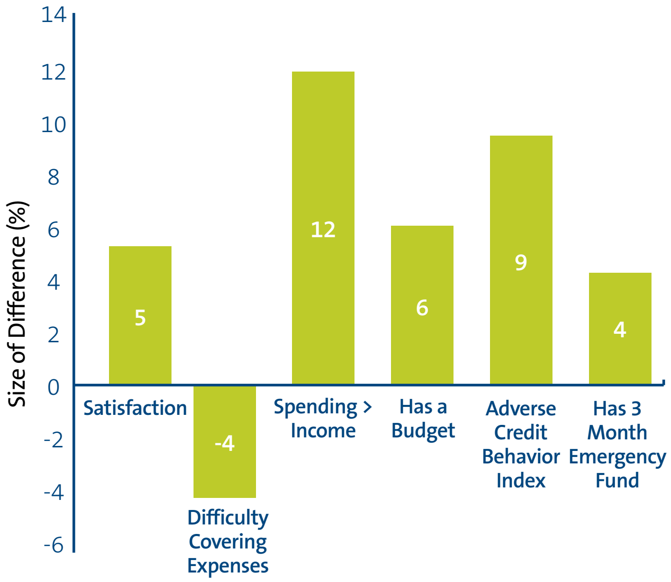
In terms of their spending outcomes, I find that veterans relative to non-veterans are:

- 12 percent more likely to report that their spending is greater than their income;
- 6 percent more likely to report having a household budget; and
- 9 percent more likely to have problematic credit behaviors.

In terms of their savings and investment outcomes, I find that veterans relative to non-veterans are:

- 4 percent more likely to have a three-month emergency fund; and
- equally likely to have an employer retirement plan and other than employer retirement plan as their non-veteran counterparts.

Figure 1. Veteran vs. Non-Veteran Differences in Overall Financial Standing, Spending, and Saving and Investment Outcomes



Source: 2015 National Financial Capability Study (State-by-State Survey)

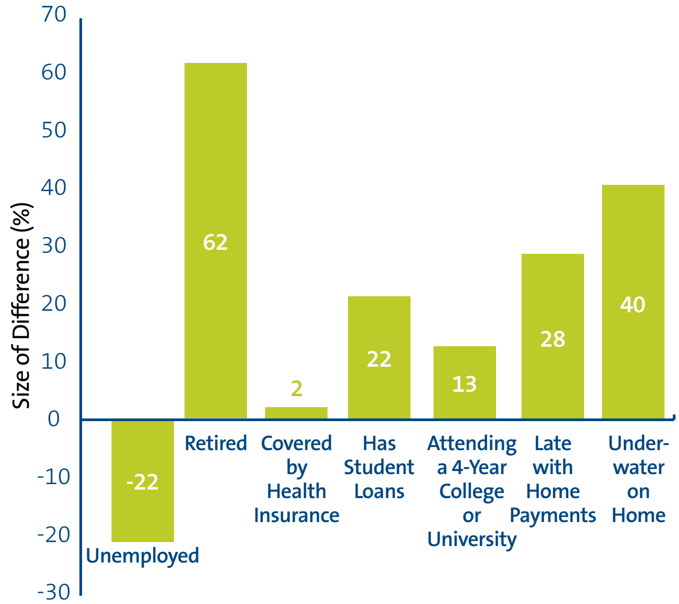
Note: The graph depicts multivariate regression results comparing the difference between veterans and non-veterans for each of the outcomes on the x-axis. The y-axis depicts the size of the difference between veterans and non-veterans, which is the regression coefficient divided by the mean outcome for the non-veteran group.

These overall measures suggest that veterans appear to be experiencing slightly better financial outcomes than non-veterans. An interesting aspect of these findings is that veterans express higher levels of satisfaction with their finances while also acknowledging more problematic spending behaviors. The spending and saving results for veterans are consistent with earlier research, which finds that current military service members have better savings outcomes and worse spending/credit outcomes than comparable civilians.[5]

In Figure 2, I provide evidence on the financial conditions of veterans compared to non-veterans for several areas related to veteran programs and policies. Here I find that veterans are:

- 22 percent less likely on average to be unemployed;
- equally likely to be disabled as the result is statistically insignificant;
- 62 percent more likely to be retired;
- 2 percent more likely to be covered by health insurance;
- comparably likely to have forgone medical treatment and to have unpaid medical bills past due;
- 22 percent more likely to have student loans;
- are equally likely to be late on payments (among veterans and non-veterans with loans);
- 13 percent more likely to be attending a four-year college or university (among those attending school);
- comparably likely to own a home as non-veterans;
- 28 percent more likely to have made a late home payment in the past year; and
- 40 percent more likely to be underwater on their home.

Figure 2. Veteran vs. Non-Veteran Differences in Financial Outcomes Related to Veteran Public Policies



Source: 2015 National Financial Capability Study (State-by-State Survey)

Note: The graph depicts multivariate regression results comparing the difference between veterans and non-veterans for each of the outcomes on the x-axis. The y-axis depicts the size of the difference between veterans and non-veterans, which is the regression coefficient divided by the mean outcome for the non-veteran group.

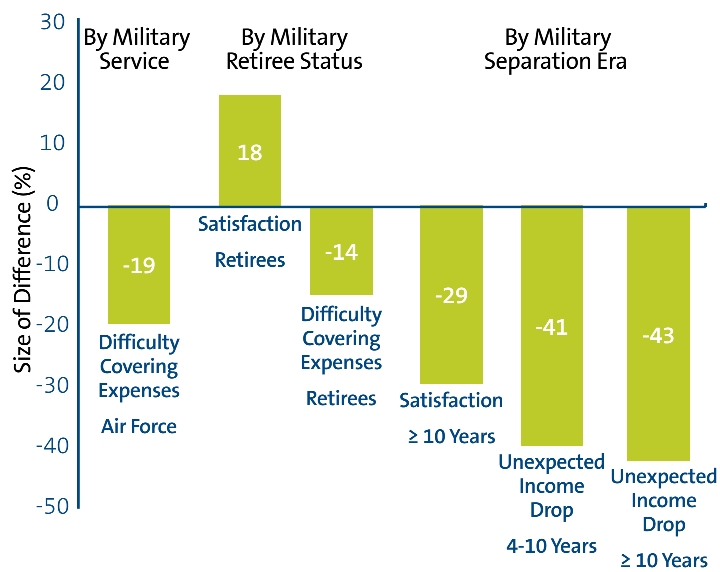
How do financial outcomes and behaviors differ within Veteran households by military service, military retiree status, and military separation era?

Having analyzed the differences between veterans and non-veterans, I now turn to the analysis of financial outcomes within the veteran sample. This analysis can provide initial insight into whether there are any subgroups faring especially better or worse than their counterparts. I make these comparisons along three potentially important dimensions: Military Service (*i.e.*, Army, Navy, Air Force, Marine Corps, and Coast Guard), Military Retiree Status (*i.e.*, those who retired from the military vs. those who did not), and Separation Era (*i.e.*, 0-1 years ago, 1-3 years ago, 4-10 years ago, and 10 or more years ago). I focus my analysis on the outcomes related to overall financial conditions. For each analysis, I choose the following reference group: the Army for the Military Service analysis; the military non-retirees for the Military Retiree Status analysis; and the separations from 0-1 years ago in the Separation Era analysis. I then compare the other groups in each category to these omitted groups.

> ***"Within the veteran population, military retirees fare better than military non-retirees, and earlier separation era veterans are less satisfied with their financial condition despite more stable income."***

In Figure 3, I depict evidence on the overall financial condition within the veteran sample. As before, I scale the regression result differences by the mean outcome for the reference group.[6]

Figure 3. Within-Veteran Differences in Overall Financial Outcomes by Military Service, Military Retiree Status, and Military Separation Era



Source: 2015 National Financial Capability Study (State-by-State Survey)

Note: The graph depicts multivariate regression results comparing different types of military veterans. The y-axis depicts the size of the difference between the depicted group and the reference group (*i.e.*, Army veterans, non-military retiree veterans, and veterans who separated from 0-1 years ago). The difference is the regression coefficient divided by the mean outcome for the reference group.

Comparing veterans by their Military Service, I find that:

- there are no statistically significant differences by service for overall financial satisfaction;
- Air Force veterans are 19 percent less likely to report having difficulty covering their bills and expenses than Army veterans; and
- there are no statistically significant differences by service in the probability of experiencing an unexpected income drop.

The lack of many differences may occur due to the smaller samples or due to the fact that the different military service experiences do not translate into large differences in financial outcomes.[7]

Comparing veterans by whether they were a military retiree or not, I find:

- veterans who are military retirees are 18 percent more likely to be satisfied with their current financial condition;
- veterans who are military retirees are 14 percent less likely to report difficulty with covering bills and expenses; and
- there are no statistically significant differences by retiree status in the probability of experiencing an unexpected income drop.

Comparing veterans by the time since their separation from the military (*i.e.*, Separation Era), I find that veterans:

- who separated from the military 10 or more years ago are 29 percent less likely to be satisfied with their current financial condition than those who separated 0-1 years ago.
- who separated from the military 4 to 10 years ago are 41 percent less likely to report an unexpected income drop than those who separated 0-1 years ago; and
- who separated 10 or more years ago are 43 percent less likely to report an unexpected income drop than those who separated 0-1 years ago.

These findings run counter to the expectation that the initial transition may be the most difficult, but that eventually veterans' financial conditions stabilize. However, given that the NFCS is a cross-sectional survey, these separation tenures also reflect separation cohort effects. So, for example, the group who separated 10 or more years ago would have left the military just before the 2008 financial crisis, and they may have experienced more time in a poor macroeconomic environment. More recent separations may have found better prospects as the economy improved. Another possibility is that veterans with more tenure apart from the military have higher expectations for their financial standing, and so they judge comparable financial conditions more critically. This explanation cannot however, be attributed to age alone, since the regressions control for age levels. The results are consistent with previous research using the 2012 NFCS in which millennials report higher levels of satisfaction despite apparently worse financial outcomes and conditions.[8]

Discussion

Using data from the 2015 National Financial Capability Study and multivariate regression analysis, this brief evaluates the financial outcomes for veterans in four areas: overall financial standing, spending, saving, and policy-related outcomes. I find that veterans have slightly better financial standing and also fare better in their savings behaviors. However, veterans report more problems with spending. For outcomes related to targeted public policies, veterans experience better employment outcomes, slightly better health care outcomes, mixed education outcomes, and slightly worse housing outcomes.

Within the veteran population, I observe few differences by military service. However, veterans who are military retirees fare better than non-retirees. Finally, earlier separation era veterans are less satisfied with their financial condition than more recent separation era veterans despite reporting more stable income.

This analysis utilizes a well-designed and executed national survey, but its results should be interpreted carefully. Survey respondents may not be representative of the underlying groups and survey respondents may omit answers or answer with different biases. In addition, the observational nature of the data means that the results are only descriptive. These estimates do not provide an estimate of the causal effects of being a veteran (or being a certain type of veteran); instead, they tell us how veterans and non-veterans (or certain types of veterans) differ, on average. Finally, the sample sizes for the within-veteran comparisons are based on a relatively small sample (around N=3,000). This results in an inability to determine if the lack of statistically significant differences in many areas (*e.g.*, the differences by military service) is due to the sample size or if there are truly no differences between the comparison groups.

To my knowledge, this is the first analysis of the differences between veterans and non-veterans for financial decision-making and outcomes in the U.S. that controls for important demographic variables. The results highlight some of the primary areas where veterans appear to be faring better (*e.g.*, saving for an emergency) and worse (*e.g.*, credit card behaviors) than comparable civilians. This might motivate additional study of these areas and inform the examination of policies aimed at addressing these differences.

Future research could document any longitudinal trends in these differences as well as work to identify the reasons for the differences I observe. Nonetheless, these findings should inform researchers, practitioners, and policy-makers on the current financial standing of veterans and non-veterans and different groups of veterans in today's economy.

References

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Notes

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FINRA Investor Education Foundation

The FINRA Investor Education Foundation, established in 2004 by the Financial Industry Regulatory Authority (FINRA), supports innovative research and educational projects that give underserved Americans the knowledge, skills, and tools necessary for financial success throughout life. For details about grant programs and other FINRA Foundation initiatives, visit *www.finrafoundation.org*.

Endnotes

1. *See* Livingston (2016).
2. Ongoing efforts by the Social Security Administration will survey more veterans as part of the Understanding America Survey (*https://uasdata.usc.edu/surveys*) and make data available for research. The Consumer Financial Protection Bureau is also conducting related research into the financial well-being of veterans using its National Financial Well-Being Survey and a newly developed well-being measure.
3. For more information on the National Financial Capability Study go to *www.USFinancialCapability.org*.
4. For comparable evidence on the differences between civilian and currently serving military members, see Skimmyhorn (2016).
5. *See* Skimmyhorn (2016).
6. For all three dimensions, I flag individuals who did not respond to their status as having a missing status and include them in the regressions for completeness; I forego interpreting the results as I cannot determine the unobservable differences that these individuals might also have.
7. *See* Skimmyhorn (2016).
8. *See* Mottola (2014).

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