



Security Matters

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The Impacts of Payday Loan use on the Financial Wellbeing of the OASDI and SSI

Research conducted by Haydar Kurban, Howard University

Practitioner applications provided by the Center for Financial Security, UW-Madison

Summary

Payday loans are high risk, high-interest, short-term loans. This is due to the use of postdated checks from the borrower as collateral. The recipients of Old-Age, Survivors, and Disability Insurance (OASDI), also known as Social Security (SS), and Supplemental Security Income (SSI) are attractive customers for the payday loan companies due to their monthly OASDI/SSI checks, serving as a secure and regular source of income. This makes SSI and SS recipients low risk in the eyes of payday loan lenders. Currently it is estimated that 1.8 million Social Security recipients use payday loans annually. Yet, frequent use of payday loans can have negative impacts on financial security in retirement.

Examining the use of payday loans between the general population and low wealth Social Security recipients allows for a better understanding of the financial behaviors of these economically vulnerable populations. This paper measures payday loan use and effects on borrowers using variables such as income, age, Social Security beneficiaries, Non-Social Security beneficiaries, and use of alternative financial services. Data collected from the Survey of Consumer Finance and the Current Population Survey to measure payday loan use and financial wellbeing are analyzed.

Key Findings

- SSI beneficiaries use payday loans at higher rates than the general population, while retirement beneficiaries use payday loans at lower rates than both SSI and the general population.
- A higher share of SSI recipients uses payday loans due to their lower incomes, as compared to SS recipients and the general population.
- SSI recipients use alternative financial services such as pawn shops or rent-to-own loans at higher share than SS recipients and the general population.

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- Results from surveys between 2010-2016 displayed the following regarding payday loan usage. For SS recipients, the top two reasons for using payday loans were “emergency/needed quick money” and “convenience.” The top two reasons for SSI recipients to use these loans were “pay other bills/loans” and “emergency/needed quick money.” This indicates that SSI recipients use payday loans to address financial hardship as a key reason for borrowing.
- Independent of length of pay period, during an economic downturn, demand for payday loans among social security beneficiaries will increase.

Both SS and SSI recipients are attractive economically vulnerable populations to payday loan companies. SSI recipients are the most likely to use payday loans and alternative financial services to address financial hardships, creating continuous hard-to-escape debt cycles for a group defined by their very low income. During economic downturns, this high-cost borrowing is likely to increase. These economically vulnerable populations may need more protections, especially in periods of cash flow timing issues. Further study into alternative financial services will help in addressing these financial risks.

Practitioner Ideas

The [Social Security Handbook](#) explains the Supplemental Security Income (SSI) is a needs-based program for people who are aged, blind, or disabled. SSI provides cash to meet basic needs for food, clothing, and shelter. The amount of benefits received is based partly on current income. Generally, the more income available, the less the SSI payment will be.

- Assist clients in completing a monthly spending plan that includes income, expenses, and existing debt. Because SSI is designed to provide minimum support, clients may find that their SSI benefits do not cover all monthly expenses. Discuss how much flexibility, if any, is in their monthly budget to pay down any current debts and set aside dollars for future needs. If discretionary funds or family financial support is available, note that funds contributed to an ABLE account will largely not affect eligibility for SSI, Medicaid, and other means-tested programs.
- Review additional resources that clients may be eligible for, such as Supplemental Nutrition Assistance Program (SNAP) or housing assistance. A recent change in household income or size may open up eligibility if the client was previously denied these benefits. Cash or in-kind items provided by a governmental social service program do not count as income for SSI.
- Discuss local options and supports available to supplement SSI income through paid employment. The Social Security Administration Ticket to Work provides access to employment support services for Social Security disability beneficiaries who want to work.

Key Resources

Supplemental Security Income (SSI) Home Page

<https://www.ssa.gov/ssi/>

Social Security Administration Ticket to Work

<https://choosework.ssa.gov/index.html>

ABLE National Resource Center

<https://www.ablenrc.org/what-is-able/what-are-able-accounts/>

