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Best and Worst States for Managing Money

Upper Midwest, New England Lead Way

New York – November 14, 2019 – South Dakota is the best state for managing money and Washington, D.C. is the worst, according to a new CreditCards.com report. The analysis compared the median annual household income and the average credit score in each state and the District of Columbia. The hypothesis was that states with higher incomes would have higher credit scores. It didn't always turn out that way, however.

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https://www.creditcards.com/credit-card-news/state-best-worst-money-management.php

South Dakota is a perfect example – its median household income of $56,274 ranks 33rd in the nation, but its average credit score (727) is tied for second-highest. That shows South Dakotans don't make as much as residents of many other states, but they manage their money well. Montana, Wisconsin, Maine and Vermont are other states where incomes rank in the middle of the pack or lower but credit scores are high, suggesting a high level of fiscal responsibility among those states' residents.

State	Median Income Rank	Average Credit Score Rank	Money Management Rank
South Dakota	33	T-2	1
Montana	39	T-11	2
Wisconsin	24	5	T-3
Maine	36	17	T-3
Vermont	23	4	T-3

At the other end of the spectrum are places where incomes are high but credit scores lag behind. The worst "state" in the ranking is the District of Columbia. Its median household income is the highest in the country ($85,203), however, its average credit score (703) ranks a middling 32nd. A very similar trend plays out in neighboring Maryland, which placed second-to-last in the money management ranking.

Texas is third-worst and its situation is a bit different. Its median income isn't nearly as high ($60,629, 25th-place) and its average credit score of 680 is much worse (tied for #48). While D.C. and Maryland mixed very high incomes with mediocre credit scores, Texas represents a case of a run-of-the-mill median income and a very low average credit score.

State	Median Income Rank	Average Credit Score Rank	Money Management Rank
Alaska	9	28	47
California	7	27	48
Texas	25	T-48	49
Maryland	2	31	50
D.C.	1	32	51

While the study only explicitly compared median incomes and average credit scores, it's instructive to dive deeper into the factors that comprise a credit score. The biggest factor in the FICO score formula is payment history (35%). It makes sense that Montana, South Dakota and Vermont (the three states with the lowest delinquent to total accounts ratios, according to Experian) fared so well in the study.

How much you owe (30%) is the next largest category. The five best states at managing money all rank in the bottom half of total debt per capita, per New York Fed data. This category has an even more dramatic effect at the bottom of the rankings, where D.C.'s total per capita debt ($86,730) is the nation's highest and eclipses its median household income. In South Dakota, meanwhile, the per capita debt figure is 26% lower than that state's median income. So even after factoring in their much higher incomes, D.C. residents face a much higher debt burden.

The third-biggest component of a FICO score is the length of your credit history (15%). Because longer track records are more valuable, this category works to the disadvantage of young people as well as immigrants (because even if they had great credit in their home countries, this information doesn't transfer to the U.S. except in special cases such as American Express' new partnership with Nova Credit).

To this point, two of the five best states for money management (Maine and Vermont) have the oldest median ages in America, according to the Census. Alaska, California, Texas and the District of Columbia are all in the bottom five for money management and among the seven youngest median ages. Plus, the Census found California, Texas, D.C. and Maryland have some of the largest foreign-born populations. These factors all help explain why each state ranks where it does.

The other categories are new credit (10% – you don't want to apply for too much all at once) and your mix of credit (also 10% – it's better to show that you can handle several different types of credit, such as a credit card, a student loan and an auto loan).

"You can build a solid credit score wherever you live, yet this data suggests it's easier in some places than others," said Ted Rossman, industry analyst at CreditCards.com. "What's surprising is that many of the highest-income states underperform in the credit score category. A high cost of living and lifestyle creep often combine to drag credit scores down."

Methodology:

The study compared the median annual household income and the average credit score in each state and the District of Columbia. The median annual household income data came from the U.S. Census (2018 estimates, the most recent data that is available), and the average FICO credit score information was published by Experian in 2019.

The 50 states and D.C. were ranked in each category (from highest income to lowest, and likewise for credit scores). Then the credit score ranking was subtracted from the income ranking. A baseline would be 0 – for example, if a state ranked 25th in both income and credit score. That would be right where one "expected" them to land.

In reality, most states differed from their "expected" ranking. The largest differences in absolute value were in D.C. (#1 in income minus #32 in credit score equals negative 31) and South Dakota (#33 in income minus tied for #2 in credit score equals 30.5).

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