

Financial Education and Asset-Building Programs for Welfare Recipients and Low-Income Workers: The Illinois Experience

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There is more to leaving poverty than finding a job. Aside from a regular paycheck, a whole set of skills are needed to make sound financial decisions, build savings, establish good credit, and achieve the American dream of owning a home, car, or small business, or pursuing higher education. Many welfare recipients entering the workforce for the first time, as well as low-income workers at risk of dependence upon public assistance, lack these skills. Confusing and administratively burdensome resource-counting rules in public benefit programs discourage savings and asset building and exacerbate asset poverty among welfare recipients and the working poor.

To address these issues, the Illinois Department of Human Services—in partnership with a diverse, statewide coalition called Financial Links for Low-Income People (Fllip)—used its flexibility under the Temporary Assistance for Needy Families (TANF) program to create innovative financial education and asset-building programs for welfare recipients and low-income workers. Fllip participants learned money management skills, accessed important work supports, and built savings through regular bank accounts and through restricted, matched savings accounts called Individual Development Accounts. Graduates saved enough to buy or repair a home or car, start a business, or pursue postsecondary education or training.

Increasingly policymakers are recognizing the need to promote financial literacy. Federal agencies announced a new Financial Literacy and Education Commission on January 29, 2004.¹ As Congress considers reauthorization of federal welfare legislation and policymakers explore ways to promote greater self-sufficiency, they would do well to maintain the funding and state flexibility needed to implement initiatives such as the Fllip financial education and asset-building programs. States should eliminate or align resource rules, promote use of direct deposit, and support financial education, free tax counseling, Individual Development Accounts, and car ownership programs. Congress and regulators can complement these efforts through strengthened enforcement of the Community Reinvestment Act.

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¹Press Release, U.S. Department of the Treasury, Secretary Snow Highlights the Importance of Financial Literacy and Education (Jan. 29, 2004), www.ustreas.gov/press/releases/js1122.htm.

I. Fllip Coalition Attracted Broad-Based Support for Financial Education and Asset-building Programs

Advocates for women and low-income persons had an opportunity to present policy recommendations to the welfare-to-work committee of the Governor's Commission on the Status of Women in Illinois on September 1, 1999. The committee's cochair and other participants embraced a suggestion from the Sargent Shriver National Center on Poverty Law that the Illinois Department of Human Services should incorporate financial education in its welfare-to-work programs.² Commission and committee members of both parties knew that women were more likely than men to be poor, receiving welfare, without assets, and without financial independence. A working group that formed to flesh out the recommendations later christened itself Financial Links for Low-Income People, or Fllip.

Representatives of organizations participating in Individual Development Account programs suggested, and other members of Fllip agreed, that, in addition to financial education, Fllip should include such accounts for low-income workers as part of the recommendation for a pilot project.³ Under the Illinois Individual Development Accounts law at the time, low-income workers participating in such account programs funded by TANF could receive public and private matching funds for saving in such accounts toward first-time home purchase, small business start-up, or post-secondary education or training. Car

purchase or repair and home repair were not options.⁴

Fllip members hail from both well-established and new organizations, faith-based and secular groups, and include representatives from legal and social service agencies, community groups, Individual Development Account programs, banks and credit unions, investment and insurance firms, state and federal agencies, and foundations, adult educators, financial planners, certified public accountants, researchers, and volunteers. Anyone may participate; there are no fees or membership requirements. Community affairs staff of the federal banking agencies actively acts as advisors.⁵ This diverse group shares the belief that low-income people, including welfare recipients entering the workforce for the first time, need and can benefit from well-designed financial education and asset-building programs.

The commission's committee cochair knew from personal experience that when she left welfare for work she was not equipped with the skills needed to handle her new paycheck. Others could relate from their personal experience how money problems could cause stress and marital conflict.

Legal and social service providers knew from their direct service experience that low-income workers and welfare recipients frequently lived from check to check, had little or no savings, used check cashers rather than banks, often carried debts from abusive lenders, were unaware of consumer rights and protection, and sometimes felt trapped in

²The prototype for this model was a financial education program developed jointly by LaSalle Bank and the Chicago CRA Coalition and piloted at the Chicago Commons Employment and Training Center as part of a life skills class for people making the transition from welfare to work in November 1999. See *Community Bank Partnerships Creating Opportunities for the Unbanked*, REINVESTMENT ALERT (June 2000), <http://woodstockinst.org/document/alert15.pdf>.

³Individual Development Accounts are tools used to help low-income persons save toward a major asset goal (e.g., buying a home, starting a small business, or pursuing postsecondary education or training) by providing matching funds as an incentive; many Individual Development Account programs also include a mandatory financial education component. See www.cfed.org and http://gwbweb.wustl.edu/csd/Areas_Work/Asset_building/IDAs/index.htm.

⁴Public Act 90-0783, 305 ILCS 5/12-4.103 (2004). Illinois's Individual Development Account statute requires that private funds match state contributions.

⁵The Federal Reserve Bank of Chicago, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

domestic violence situations for lack of financial independence.⁶ These providers also knew that many eligible persons did not receive public benefits that could support their work efforts. Many caseworkers do not understand the various and confusing rules for benefit programs and erroneously inform applicants and recipients that they may not have savings.⁷ Empirical evidence suggested that asset limits might reduce savings by low-income families.⁸

Implementation of welfare reform was well under way in 1999, and Illinois had already significantly reduced caseloads.⁹ TANF recipients were required to complete thirty hours a week of approved work activities in order to continue receiving benefits.¹⁰ Fllip members that had opposed some of the methods, including severe sanction policies for failure to comply with “work activity” assignments, that the Department of Human Services had used to reduce caseloads did not want participants in the proposed Fllip programs to face those sanctions.

Several of the Fllip members had used the federal Community Reinvestment Act to encourage banks and banking regulators to increase access to mainstream

financial services to underserved, low-income communities.¹¹ Regulators periodically examine and grade banks on compliance with the Act’s obligations to meet the lending, investment, services, and community development needs of the low- and moderate-income people in their service areas.¹² Fllip members, bankers, and regulators knew that large segments of the population were “unbanked” (did not have a bank account) and that banks often struggled to market products and services and even offered free workshops to persons unfamiliar with mainstream banking.¹³

The banks were eager to find ways to meet Community Reinvestment Act obligations; supporting financial education for low-income individuals and Individual Development Account programs was one way to do so.¹⁴ Banks and credit unions were also looking for opportunities to help existing customers and to expand their customer base and market share by reaching out to untapped markets. Community affairs staff at the federal banking agencies welcomed the opportunity to share their expertise and to connect banks to unbanked and underserved populations through community-based

⁶ The Corporation for Enterprise Development’s State Asset Development Report Card shows that 20 percent of Illinois households are asset poor (lack sufficient net worth to sustain living at the federal poverty level for three months if their income were to be disrupted) and 15 percent have zero or negative net worth. State Asset Development Report Card: Benchmarking Asset Development in Fighting Poverty (Corporation for Enterprise Development 2002), sadc.cfed.org.

⁷ Under current rules, a family of three receiving Temporary Assistance for Needy Families (TANF) benefits in Illinois can have up to \$3,000 in countable assets.

⁸ Peter R. Orszag, *Asset Tests and Low Savings Among Lower-Income Families* (Center on Budget and Policy Priorities 2001), www.cbpp.org/4-13-01wel.htm.

⁹ Welfare caseloads in Illinois declined from 642,644 in August 1996 to 161,318 by September 2001. Administration for Children and Families, U.S. Department of Health and Human Services, www.acf.hhs.gov/programs/ofa/welfare.

¹⁰ Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub. L. No. 104-193, 110 Stat. 2105; 42 U.S.C. § 407(a)(1), § 407(b) (2004).

¹¹ Under the Community Reinvestment Act, “regulated financial institutions have continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered,” including specifically low- and moderate-income people and communities. 29 U.S.C. §§ 2901 (2004).

¹² Failure to make a satisfactory grade can limit banks’ efforts to open or close branches, acquire or merge with another institution, or take other action. These regulations give community groups and advocates opportunities to negotiate agreements and gain more services for underserved populations.

¹³ John P. Caskey, *Defining the Market*, in *FINANCIAL ACCESS IN THE 21ST CENTURY: PROCEEDINGS OF A FORUM 3* (Office of the Comptroller of the Currency, Administrator of National Banks, 1997).

¹⁴ Robin Newberger, *Financial Institutions as Stakeholders in Individual Development Accounts*, CHICAGO FED LETTER, Dec. 2002, www.chicagofed.org/publications/fedletter/2002/cfldec2002_184.pdf.

organizations and advocates for low-income people.¹⁵

Some Fflip members were familiar with the Department of Human Services' program for delivering cash assistance and food stamp benefits electronically via the Illinois Link debit card. These members knew that only 5 percent of cash recipients used the option to have their benefits directly deposited into a bank account, even though advocates had persuaded the agency to publish a brochure detailing the advantages of direct deposit.

Other Fflip members offered free tax-counseling services and knew that few clients used the option to have the earned income tax credit and other refunds directly deposited into a bank account. Many taxpayers lost money through high-cost tax services and refund anticipation loans.¹⁶

Some banks, adult educators, government agencies, and nonprofit organizations had begun to develop financial education materials, but no one was really sure what topics and methods would be most effective for this target population of welfare recipients and low-income workers. Banks reported great difficulty in recruiting participants for free workshops and lacked expertise to answer questions about the effect of savings on eligibility for public benefits or about the earned income tax credit.

Banking regulators and some Fflip members were aware of the growing research on the unbanked, Individual Development Accounts, and the need for research on

effective financial education programs. People with bank accounts are more likely than those without accounts to have a credit card, own a car or a home, and have retirement savings and investments and other assets related to a higher standard of living.¹⁷ But research on the unbanked revealed that many poor people believed that they could not save or were distrustful of banks.¹⁸ Research on Individual Development Accounts showed that even very low-income people could and would save and accumulate assets if offered the right combination of incentives, access, and institutional support (such as matching fund incentives, direct deposit, and financial education).¹⁹ Early research on such accounts showed that each hour of financial education up to twelve hours resulted in increased savings, but little was known about knowledge gains or other behavior changes attributable to financial education.²⁰

The Shriver Center pledged to incorporate Fflip members' ideas into a solid recommendation to the commission by the November deadline. A consensus among Fflip members was that partnering with the Department of Human Services would be fruitful because of its obvious ties to the target population and because it was a logical source of funding.

In November the Shriver Center presented the Fflip recommendation to the commission. Fflip proposed that the commission adopt a recommendation that the state agency establish, fund, and evaluate a two-year pilot project in multiple Chicago and downstate sites including financial education, Individual

¹⁵The Federal Deposit Insurance Corporation's Money Smart financial education program is modeled on Financial Links for Low-Income People (Fflip). Ben Jackson, *Powell Hits Road to Plug Program for Hispanics*, *AMERICAN BANKER* 3 (June 26, 2002); For information on Money Smart, see www.fdic.gov/consumers/consumer/moneysmart/index.html.

¹⁶Alan Berube & Anne Kim, *New Brookings-PPI Report Finds Tax Refund Dollars for Low-Income Workers Benefiting Tax Preparers* (Brookings Institution 2002).

¹⁷FEDERAL RESERVE SYSTEM, 1995 SURVEY OF CONSUMER FINANCES.

¹⁸Caskey, *supra* note 13.

¹⁹Ray Boshara, *Building Assets: A Report on the Asset Development and IDA Field* (Corporation for Enterprise Development 2001).

²⁰Margaret Clancy et al., *Financial Education and Savings Outcomes in Individual Development Accounts* (Center for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis, 2001) (Working Paper 01-2), <http://gwbweb.wustl.edu/csd/Publications/2001/wp01-2.pdf>.

Development Accounts, and benefit screening and follow-up services.²¹ Participation would be optional, and program activities would count as an authorized “work activity” for TANF purposes. Individual Development Account participants would receive matching incentives for deposit of earned income (including tax refunds), and asset options would be expanded to include cars. Fllip’s goals were to establish the need for and benefits of the programs and to lay the groundwork to expand the programs statewide. Fllip estimated the state agency’s share of the cost at not more than \$500,000.

The commission adopted the Fllip recommendation in December and included it in the commission’s 1999 annual report.

II. The Illinois Department of Human Services Had Flexibility and Funding Necessary for Innovative Public-Private Partnership with Fllip

By 2000 the Department of Human Services had already drastically reduced its welfare caseload and had no difficulty in meeting federal work participation requirements.²² The sustained federal funding under the TANF block grant, combined with the large caseload reduction and flexibility to use TANF funds for purposes other than cash assistance, enabled state agency to consider new approaches to helping welfare recipients and low-income workers.

With the commission’s endorsement, the Fllip coalition began discussions with the state agency in early 2000. Fllip representatives, including the Shriver Center coordinator, nonprofit Fllip members, and representatives of banks,

foundations, and bank regulators, met twice with high-level agency officials and requested funding and support. The banks, foundations, and regulators pledged to work with Fllip to develop and fund the program. The opportunity to use public funds to leverage private investments from foundations and financial institutions and to participate in a public-private partnership that would benefit all concerned appealed to the agency.

The Department of Human Services knew that cash assistance recipients, who now received benefits electronically via debit cards, had mastered the use of the Illinois Link debit cards at automatic teller machines but that very few had their own bank accounts or used direct deposit. Having passed an Individual Development Account statute and funded part of the American Dream Demonstration, the agency knew that such accounts were a strong incentive to remain employed and to build savings and assets.²³ The agency was also aware that many residents struggled to pay high rents and needed stable housing and transportation to support their work efforts.

The Department of Human Services was very receptive to the proposed financial education program and suggested that it should be implemented statewide. The agency also supported the proposed evaluation. Everyone agreed that documenting what worked, what did not, and why would be important so that we could use lessons learned from the pilot project to inform ongoing program adjustments, develop a model that could be replicated, and expand the programs statewide. The agency did not see the need at that time for the proposed benefit screening and follow-up services pro-

²¹The postemployment benefit screening and follow-up services would have used a computer-based method to ensure that participants leaving welfare for work take advantage of benefits and supports available to working families and provided telephone-based counseling to answer questions related to employee benefits, tax issues, health care, and other financial issues as a complement to the Illinois Department of Human Services’ existing follow-up and retention services.

²²Personal Responsibility and Work Opportunity Reconciliation Act, 42 U.S.C. §§ 407(a)(1), 407(b).

²³Mark Shreiner et al., Final Report: Savings Performance in the American Dream Demonstration of Individual Development Accounts (Center for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis, 2002–2003), <http://gwbweb.wustl.edu/csd/Publications/2002/ADDreport2002.pdf>.

gram; Fflip agreed to proceed without that component.²⁴

The Department of Human Services was particularly interested in Fflip's suggestion that participants be allowed to use Individual Development Accounts to purchase or repair a car. In many suburban and rural areas of Illinois, people do not have access to public transit and must have a vehicle to get to work. Even in urban areas, many workers need cars to access jobs in the suburbs or during nontraditional work hours.²⁵ Helping people get cars for work would further bolster the agency's strong work participation rate and help keep case-loads low. Although some Individual Development Account programs do not allow such accounts to be used for the purchase of a vehicle because it is a depreciating, not appreciating, asset, or because of environmental concerns, the agency and Fflip members agreed that, for many, vehicles were a necessity that could not be ignored.²⁶

The Department of Human Services already was funding free tax-counseling programs and earned income tax credit outreach and realized that the proposed financial education and Individual Development Account programs could complement those efforts. It agreed with Fflip's proposal to make earned income tax credit deposits into such accounts eligible for matching funds, even though some programs matched only regular deposits from monthly earnings.

During the interim between the Fflip meetings with the Department of Human Services and the agency's decision on the Fflip proposal, the Shriver Center's Fflip coordinator stayed in frequent contact

with the agency's liaison, formed a steering committee, and coordinated monthly Fflip meetings. Fflip members formed committees to develop ideas for the financial education curriculum, the Individual Development Account program, the evaluation, and agency issues, including TANF work activity and Individual Development Account rules. Fflip persuaded some high-profile individuals to write letters in support of the Fflip programs to the secretary of the Department of Human Services.

By May the Shriver Center had received its first foundation grant in support of the Fflip project, and other proposals were pending. This helped convince the Department of Human Services that Fflip could make good on promises to leverage private investments. Not until August 2000, however, did the agency finally allocate \$500,000 for the Fflip programs. The agency used unspent TANF "maintenance of effort" funds from the prior fiscal year; these funds would have otherwise reverted to the state's general revenue fund.

Although the Fflip proposal to the Department of Human Services envisioned that the agency would administer the Fflip programs (with input from Fflip members), the agency offered to release the funding to the Shriver Center to administer the Fflip programs, and the Shriver Center, with the Fflip leadership's consent, agreed. The Shriver Center then entered into a contract with the agency to administer the Fflip programs. Ultimately the Shriver Center leveraged the \$500,000 agency grant to raise over \$1 million in grants from foundations, financial institutions, and individual donors for the Fflip programs.²⁷

²⁴Advocates who had proposed the benefit screening and follow-up services component went on to develop what is now known as the Real Benefits program. Michael O'Connor, Using the Internet to Make Work Pay for Low-Income Families (Brookings Institution 2002), www.brookings.edu/es/urban/innovations/welfessay2.htm. A new governor and Illinois Department of Human Services administration saw the value of this idea and implemented an online benefit calculator and application protocol in January 2004. See www.dhs.state.il.us/ts/fss/pdf/IL444-2378b.pdf.

²⁵Research on TANF leavers documented major work barriers due to transportation problems. G. Julnes et al., Illinois Study of Former TANF clients: Final Report, Submitted to the U.S. Department of Health and Human Services (Institute for Public Affairs, University of Illinois at Springfield, 2000).

²⁶Evelyn Blumenberg & Margy Waller, The Long Journey to Work: A Federal Transportation Policy for Working Families (Brookings Institution 2003), www.brook.edu/dybdocroot/es/urban/publications/20030801_Waller.pdf.

²⁷For a list of Fflip supporters, see www.povertylaw.org/advocacy/community_investment/join_fflip.cfm.

III. Flip Programs Are Implemented

With funding from the Department of Human Services and input from Flip members, the University of Illinois Extension developed the Flip curriculum, including a revision of the university's *All My Money* and creation of eight new chapters entitled *Your Money and Your Life*. The combined sixteen-chapter Flip *Your Money and Your Life* curriculum was finalized in June 2001 and used in both the Financial Education Program and the Individual Development Account program.²⁸ Focus groups validated the proposed curriculum topics that Flip members had generated.²⁹

A. The Flip Curriculum

Although many financial education curricula have sprung up in recent years, *Your Money and Your Life* is distinctive for several reasons. Most participants can easily understand the materials because they are written at a fifth-grade literacy level, lower than most similar curricula. The public benefits chapter, which advises participants about benefits for which they might be eligible and about related resource-counting rules, is not found in most similar curricula. The Flip curriculum also includes information about employee benefits, insurance, tax issues, and money traps (high-cost lending by fringe financial institutions) that are not always in similar curricula.

The University of Illinois Extension and the Shriver Center periodically host train-the-trainer sessions for staff of nonprofit organizations and financial institutions. Flip instructors learn to use interactive teaching methods that make classes interesting, especially for less-educated participants who might not have excelled in regular academic settings.

Flip participants engage in class activities such as drawing a picture of a long-

term financial goal; working as a team to create a family budget; playing a game about insurance; role playing about opening a bank account; learning how to understand a paycheck, select employee benefits, and apply for the earned income tax credit and other tax credits; obtaining and reading a credit report; determining which bills to pay first; taking a self-administered quiz on public benefits and resource limits; discussing the importance of avoiding money traps such as payday loans; and sharing tips on how to save money on a tight budget.

During tax season, instructors refer Flip participants to local free tax-preparation programs and encourage them to use direct deposit of refunds into bank accounts and save as much as possible. Instructors also encourage Flip participants to use direct deposit of paychecks and automatic saving mechanisms to facilitate saving.

B. The Flip Financial Education Program

Flip selected five nonprofit organizations throughout Illinois through a competitive request for proposal to offer Flip classes and collect evaluation data (Financial Education Program sites). Extension educators conducted a four-day train-the-trainer session for instructors. Extension educators also conducted a one-day orientation for liaisons from the Department of Human Services to encourage understanding of the Flip program and facilitate referrals.

Financial Education Program sites offered a free, twelve-hour financial education course consisting of a required core curriculum covering most of the *Your Money and Your Life* material. Sessions took place monthly, usually in two-hour segments over several weeks. Program sites had flexibility to determine class dates and times that would be most convenient for their participants

²⁸For complete list of Flip curriculum topics, see www.povertylaw.org/advocacy/community_investment/flip_curriculum.cfm.

²⁹Mercer Human Resource Consulting donated about \$200,000 in in-kind consulting services. See Flip Financial Literacy program: Key Stakeholder Focus Groups Report of Key Findings (Jan. 2001), www.povertylaw.org/advocacy/community_investment/publications.cfm.

and bore responsibility to recruit and graduate a minimum of ten participants per session. Program sites used Flip marketing materials or developed their own methods to recruit participants. Program instructors might invite bankers or other outside experts to make presentations to Flip classes, but instructors were prohibited from endorsing any particular institution or product.

Illinois Department of Human Services recipients and other adults with a minor child and incomes up to 200 percent of the federal poverty level were eligible to participate in the Financial Education Program. The agency was the biggest source of referrals to program sites. It agreed to count hours spent in Flip classes toward TANF “work activity” requirements. It also agreed not to sanction persons who chose not to complete the session and reassigned them to other activities.

When one Financial Education Program site attempted to conduct Flip classes at a local office of the Department of Human Services, participants reacted negatively due to the risk of sanctions associated with most TANF activities and negative feelings about caseworkers. Flip instructors learned from this experience and decided not to conduct sessions at agency offices.

One key result from the focus groups was that child care and transportation subsidies would increase the likelihood that the target audience would be able to attend the free Flip classes.³⁰ The Department of Human Services added funding for child care and transportation subsidies, which Financial Education Program sites distributed on an as-needed basis to TANF recipients attending Flip classes. Flip used contributions from financial institutions to

subsidize transportation and child care for non-TANF participants in some sites.

Most Financial Education Program sites held a graduation ceremony in which participants received a certificate of completion and celebrated with modest refreshments. Sometimes local financial institutions donated calculators or other items for use as graduation gifts or offered fee waivers or small deposits to Flip graduates who opened new accounts.

C. The Flip Individual Development Account Program

After conducting a statewide outreach campaign to raise awareness about Individual Development Accounts and encourage nonprofit organizations throughout Illinois to submit competitive proposals, Flip selected three nonprofit organizations to offer the Flip Individual Development Account program and collect evaluation data (Individual Development Account sites). Illinois had about ten such programs at the time, most of them in Chicago, so Flip selected sites in Moline, Wheaton, and Champaign.³¹ Each site recruited one or more financial institution partners (banks and credit unions) to hold the accounts and report account information to the sites.

The Individual Development Account sites offered a ten-hour financial education course consisting of the same core curriculum used in the Financial Education Program-only sites and six hours of asset-specific training related to the participant’s asset goal. For example, persons saving toward the purchase of a car visited a mechanic to learn some basic information about car maintenance and learned how to research and buy a used car.³²

³⁰*Id.*

³¹As of January 2004, there were about thirty Individual Development Account sites throughout Illinois.

³²Some of the asset-specific material on cars developed for Flip Individual Development Account participants was later incorporated into Buying and Keeping a Used Car, illinoislawhelp.org/index.cfm?fuseaction=home.dsp_content&contentID=1368.

The Department of Human Services secured passage of changes in Illinois Individual Development Account regulations to expand the range of allowable asset purchases and to exempt all assets in such accounts funded by TANF from resource-counting rules.³³ Fllip Individual Development Account participants were allowed to save toward buying or repairing a home, buying or repairing a car, starting or expanding a small business, or pursuing postsecondary education or training.

Employed persons with a minor child and income up to 200 percent of the federal poverty level were eligible to participate in the Fllip Individual Development Account program. Participants had to complete the training requirements and save some of their earned income each month in a restricted account with a local financial institution. They had up to two years in which to accumulate sufficient savings toward their asset goal but could graduate as soon as six months after enrollment if they completed all program requirements.³⁴ Instructors had time to work with participants over many months, sometimes one-on-one, to resolve credit problems, establish regular savings habits, use direct deposit or other tools for saving, and ultimately prepare them to purchase and maintain their asset.

As in the Financial Education Program, instructors referred Fllip Individual Development Account participants to local free tax-preparation programs and encouraged them to use direct deposit of refunds into such accounts and save as much as possible. Instructors also encouraged participants to use direct deposit of paychecks and automatic saving mechanisms to facilitate saving.

Consistent with Illinois's Individual Development Account law, Fllip matched participants' savings from earned income or earned income tax credit refunds up to \$1,000 on a two-to-one basis, \$1,000 from the Department of Human Services and \$1,000 from private funds. For example, a participant who saved \$1,000 toward a down payment on a home was eligible for \$2,000 in matching funds. The matching funds were intended as an incentive to remain employed, complete training, and continue saving each month.

The Shriver Center assumed responsibility for raising the private matching funds from financial institutions and individual donors. This task proved to be the most difficult and time-consuming part of administering the Fllip programs. Many banks were unfamiliar with Individual Development Accounts or with the Fllip organizations. Banks familiar with the Shriver Center through other activities seemed most inclined to make large contributions. Some felt constrained to award grants only to groups providing services in their immediate Community Reinvestment Act service area, even though banking regulators assisted Fllip by advising that contributing to financial education and Individual Development Account programs that were regional or statewide and included a bank's service area were eligible for favorable consideration under the Act.³⁵ That banking examiners typically pay scant attention to the Act's service test, which counts for only 25 percent of a large bank's grade under the Act, or use it to bolster weak performance in other areas, makes it more difficult to leverage the Act to expand access to financial education and asset-building programs targeted to low-income people.³⁶

³³89 ILL. ADM. CODE § 112.151 (2004).

³⁴Although the goal in most savings and asset-building programs is to stimulate ongoing and long-term savings and asset accumulation, funding constraints and the desire to produce fairly quick results limit the time that participants have to complete the program.

³⁵12 C.F.R. § 25.24(b) (2004).

³⁶ Michael A. Stegman et al., *Toward a More Performance-Driven Service Test: Strengthening Basic Banking Services Under the Community Reinvestment Act*, 9 GEORGETOWN JOURNAL ON POVERTY LAW AND POLICY (Summer 2002), available at www.kenan-flagler.unc.edu/assets/documents/CC_ServiceTest.pdf.

IV. Results Show that Flip Programs Are Needed and Effective

The goals of the Flip evaluation were to document the need for financial education and knowledge gains achieved by program graduates, determine differences between Financial Education Program-only and Individual Development Account participants, improve program administration and facilitate replication or expansion, establish best practices, assess long-term behavior changes, and measure the impact of Flip participation on savings and asset accumulation.³⁷

A. Need for and Benefits of Financial Education

The Flip evaluation includes data from sixteen sites and 1,198 participants in a total of eighty-five financial education sessions. Financial Education Program sites experienced challenges in recruiting and retaining graduates. Although the TANF “work activity” credit and child care and transportation subsidies helped attract recipients to the program sites, most sites had a 40 percent dropout rate in the first year. Overall, 822 or 68.6 percent of the participants who began training graduated. Of the graduates, 652 attended education-only or Financial Education Program sites, and 170 attended Individual Development Account sites. Flip developed some marketing materials and added recruit-

ment and retention training for instructors; this helped improve completion rates in the second year. Flip also changed its contract with Financial Education Program sites from flat-rate to performance-based, rewarding sites for graduating more people.

A typical Financial Education Program participant was an unemployed, African American or Hispanic single mother, who was 31, had two children, had a high school or less than high school education, spoke English as a primary language, and did not have much in the way of savings. About one-fourth were receiving TANF. Only 25.4 percent of participants had a savings account, and 40.1 percent had a checking account.³⁸

Instructors administered pre- and post-training surveys tied to the core curriculum content to determine participants’ starting knowledge levels and knowledge gains and to obtain qualitative feedback. Results show that most participants had limited knowledge of the basic financial issues covered in the Flip curriculum.³⁹ After completing the course, however, most graduates gained significant knowledge across each category.⁴⁰ Participants demonstrated the least starting knowledge and substantial knowledge gains about public and work-related benefits.⁴¹ Over 71 percent of graduates rated the quality of Flip train-

³⁷Flip selected the School of Social Work, University of Illinois, Urbana-Champaign, to conduct a comprehensive evaluation of the financial education component of the Flip programs and Flip program administration. ShoreBank Neighborhood Institute provided Individual Development Account technical assistance and reported on Flip Individual Development Account program results. Evaluation results regarding knowledge gains, participant satisfaction, and behavior changes after training are derived from Steve G. Anderson et al., School of Social Work, University of Illinois at Urbana-Champaign, Executive Summary of Financial Links for Low-Income People (FLLIP): Final Evaluation Report (May 12, 2004). The full final report will be posted on the Sargent Shriver National Center on Poverty Law’s website, www.povertylaw.org/advocacy/communityinvestment/flip.

³⁸About 85 percent of the participants were female, and 15 percent were male; one-half were African American, and 18.1 percent were Latino. The mean age was 31.4, and mean number of children was 1.8. About one-third had not completed high school, one-fourth had a high school diploma or general equivalency degree, one-fifth had attended some college, about one-tenth had graduated from a junior or four-year college, and a few had attended graduate school. Among Financial Education Program-only participants, 56.8 were single (never married), 21.6 percent were married, and 16.9 percent were separated, widowed, or divorced. The median monthly income of participants was only \$800, and three-fifths were unemployed when they entered training. Anderson et al., *supra* note 37; personal communication from Jeff Scott, Graduate Research Assistant, School of Social Work, University of Illinois, Urbana-Champaign (Jan. 8, 2004).

³⁹Financial Education Program participants on average answered only 53.9 percent of test items correctly before training.

⁴⁰The average posttraining knowledge score for Financial Education Program participants was 68.2 percent, an increase of nearly 20 percentage points.

⁴¹See Flip Evaluation Project (University of Illinois, Urbana-Champaign, Dec. 2002) (first-year report), www.povertylaw.org/advocacy/community_investment/flip_report.cfm.

Bernita

When Habitat for Humanity began building Bernita Harris's new home in the fall of 2002, she realized that in order to take advantage of her new beginning, she had to take control of her finances. Habitat for Humanity introduced Harris to the *Your Money and Your Life* Individual Development Account program that was offered through Partnership Accounts for Individual Development, a not-for-profit, a Financial Links for Low-Income People Financial Education Program site in Champaign, Illinois. The program combines financial education classes with a savings program that matches each dollar a student saves. A family that saves \$1,000 on its own can accumulate up to \$2,000 in matching funds toward a chosen savings goal—money for a house, a small business, a car, or a postsecondary education.

"I had no savings account. I did put money into the bank, but I had to work just to keep the minimum balance," said Harris. "I needed to learn how to save for my children and for me."

The class taught Harris different methods of keeping track of her spending, such as writing down the money she spends, planning a monthly budget, and paying her credit card bills systematically to enable her to save money on finance charges. These habits, along with general financial education, have helped Harris become more disciplined with her money.

"The class taught me that there is always room to save, even if it is only \$5 or \$10 a month," said Harris. "You need money to live, it's like life—you have to be disciplined to get ahead."

Harris has used what she learned in the class to open a savings account at a credit union that deducts money out of her paycheck from her job as a library clerk and deposits the money directly into her savings account. With her Individual Development Account savings, Harris was able to pay the down payment on her new home and build a half-bath. She is currently saving to purchase a car.

ing and over 80 percent rated the trainer performance as "excellent."

Speaking English as a primary language turned out to be the most significant factor in predicting knowledge gains from completion of the Fllip curriculum. English was the primary language of three-fourths of participants, and Spanish was the primary language of over half of the participants who primarily spoke a non-English language. Instructors in some of the sites taught the course and administered the surveys in Spanish. Other Financial Education Program sites used the Fllip curriculum as part of English as a Second Language classes for immigrants. Participants spoke thirteen different non-English primary languages. Participants who spoke a primary language other than English were more likely to find the training material difficult (58 percent) than were primary English speakers (10 percent) and could have benefited from a glossary of terms and an even simpler curriculum.

During the second year of the Fllip evaluation, researchers conducted telephone interviews with a randomly selected group of Fllip graduates six to twelve months after completion of the course to determine whether they had made any long-term behavior changes. Results indicate that Fllip graduates are making many of the hoped-for positive behavior changes:

- 84 percent did a better job tracking expenditures;
- 83.5 percent changed how the household budgets;
- 82.4 percent did better managing credit card debt;
- 74.7 percent increased the amount of savings in a typical month;
- 64.6 percent changed the way they paid bills;
- 55.7 percent and 40 percent, respectively, used currency exchanges and payday loans less;

- 37.8 percent and 33.6 percent of participants who did not have accounts opened a checking or savings account, respectively, for the first time;
- 34.8 percent applied for or received public benefits that they were not receiving before;
- about 30 percent began saving toward a down payment, retirement, or other long-term investment;
- 19.6 percent purchased insurance; and
- 17.7 percent started receiving job benefits that they were not receiving before.

B. Results of the Fllip Individual Development Account Program

In the Fllip Individual Development Account program 126 persons graduated and made a total of 153 major asset purchases. Several participants saved toward buying a home but were unable to save enough to afford a home in their area.⁴² Some of these participants dropped out; others switched to car purchase or other asset goals. The Individual Development Account program had higher completion rates than the Financial Education Program—only sites that did not offer matched savings as an incentive.

A typical Fllip Individual Development Account participant was an employed African American single female, 30–39, with two or three children and some college education.⁴³ Individual Development Account participants had greater familiarity with banks and financial issues and scored higher than Financial Education Program—only participants on pre- and posttraining knowledge surveys. Both Individual Development Account and Financial Education Program participants had significant knowledge deficits about public benefit programs.

Fllip Individual Development Account graduates saved about \$40 per month.

Fllip Individual Development Account sites and graduates reported that many participants followed instructors' advice to use direct deposit of savings and tax refunds. Total savings by participants amounted to \$116,395, which was matched by \$232,790 in public and private funds. Participants made the following types and number of asset purchases: car purchase (59); home repair (42); home purchase (34); postsecondary education or training (13); small business start-up (3); and car repair (2).

C. Lessons Learned and Best Practices

These are some of the lessons learned and best practice recommendations based on experience with the Fllip programs to date:

1. Use of incentives—such as TANF “work activity” credit, child care and transportation subsidies, and matching funds—improves recruitment and retention in financial education and asset-building programs.
2. The target audience of low-income working adults and welfare recipients responds favorably to classes using hands-on, interactive teaching methods in a community setting.
3. Use of direct deposit or automated savings and links to free tax-preparation services improve savings and asset outcomes.
4. Low-income people have a difficult time understanding complex resource-counting rules and accessing public benefit programs for which they are eligible.
5. Nonnative English speakers struggle with a financial education curriculum even written at a fifth-grade literacy level.

⁴²Although Fllip had proposed that the Fllip Individual Development Account program be open to persons with up to 80 percent of area median income, the Illinois Department of Human Services opted to limit eligibility to persons with income up to 200 percent of the federal poverty level.

⁴³Based on posttraining surveys completed by 75 of the 126 Fllip Individual Development Account graduates, 80 percent were female, 20 percent male; 26.9 percent were 20–29, 52.2 percent were 30–39, 19.4 percent were 40–49, and 1.5 percent were 50–59 years old. Personal communication from Jeff Scott, Graduate Research Assistant, School of Social Work, University of Illinois, Urbana-Champaign (Jan. 8, 2004).

6. The Flip research team suggested these “best practices” for financial education instructors:

- Describe any specific benefits that participants will receive and ongoing expectations for participants.
- When introducing a new topic, indicate why it is important to participants.
- Introduce and define any technical terms or jargon that the participants need to understand as the material is reviewed.
- Explain the purpose of interactive exercises, what the participants are expected to learn from the exercises, and reinforce the contributions of participants.
- Limit classes to periods of not more than two to three hours per day and serve refreshments during a short break.
- At the end of each session, discuss follow-up activities.
- Celebrate the success of participants in completing the session: thank them for their involvement, present a certificate of completion, have a small graduation ceremony.⁴⁴

V. Policy Has Implications for Flip Programs

State and federal policies can affect financial literacy and asset building programs.

A. Public Benefit Programs

As Congress considers reauthorization of federal welfare legislation, it should not reduce funding or restrict state flexibility

in ways that would preclude initiatives such as the Flip financial education and asset-building programs.⁴⁵ The Bush administration’s TANF reauthorization proposal limits flexibility such that implementing FLLIP-type programs in other states would be difficult, if not impossible.⁴⁶ Financial education classes would not count as a TANF “work activity,” for example. States forced to devote resources to welfare programs in order to meet higher work participation rates and weekly work hour requirements would have little left to devote to financial education and Individual Development Account programs.

Congress instead should earmark some TANF funds, in addition to the state’s normal block grant allocation, for financial education and asset-building programs and reward states for improvements in asset outcomes of welfare leavers. Congress should avoid prescriptive work activity mandates that make it difficult or impossible for states to include financial education in TANF programming. Adequate funding for program evaluation is critical to understanding how best to help welfare recipients and low-income workers move up the economic ladder.

The new federal Financial Literacy and Education Commission and other federal and state policymakers should actively promote direct deposit of public benefits, paychecks, and tax refunds.⁴⁷ Policymakers should support free tax-counseling programs and link them to financial education and asset-building programs.⁴⁸

Federal policymakers should eliminate complicated and counterproductive resource-counting rules for means-tested programs. At a minimum, raising asset limits and expanding exemptions

⁴⁴Classroom tips for instructors are included in the first-year Flip report, www.povertylaw.org/advocacy/community_investment/best_practices.doc.

⁴⁵The TANF Financial Education Promotion Act of 2003, S. 574, 108th Cong. (April 8, 2003), would allow states to count financial education as a work activity and require states to indicate in their TANF plans how they will promote financial education.

⁴⁶Personal Responsibility, Work, and Family Promotion Act of 2003, H.R. 4, 108 Cong. (Feb. 13, 2003).

⁴⁷Michael S. Barr, *Banking the Poor* (Brookings Institution 2003), www.brookings.edu/dybdocroot/es/urban/publications/20030715_Barr.pdf

⁴⁸The Senate Finance Committee chairman’s February 2, 2004, Mark on the Tax Administration Good Government Act of 2004, S. 882, 108th Cong. (2004), includes \$10 million for free tax counseling sites; see www.finance.senate.gov/sitepages/leg/leg012904mark.pdf.

would encourage rather than discourage asset building for recipients of public benefits governed by federal resource rules.⁴⁹ States should exercise existing authority to eliminate resource rules—or raise asset limits and expand exemptions—and align resource rules across benefit programs to simplify program administration and encourage asset building.⁵⁰ If funds formerly devoted to the administrative costs of enforcing resource-counting rules are freed up, states could reallocate them to financial education and asset-building programs and outreach to eligible low-income persons.

State and local social service agencies should consider using public funding for financial education as one of the support services offered to the working poor and public assistance recipients. The collaboration between the Illinois Department of Human Services and Fllip in counting financial education as a work activity and providing child care and transportation subsidies to attend financial education classes warrants replication in other states. Given findings that Fllip participants had low knowledge levels about public and work-related benefits, curricula on low-income benefits should be tailored to the jurisdictions in which the training is presented.⁵¹

Agencies that include adult basic education and English as a Second Language as part of workforce development and training should consider incorporating financial education into these programs. Doing so likely will require modifications of existing financial education curricula to serve the specific needs of the English-as-a-Second-Language population.

B. Individual Development Account Programs

Policymakers should expand flexibility and funding for Individual Development Account programs. Such programs offer opportunities for productive public-private partnerships and leverage matching funds that create incentives to recruit and retain participants.

Under current rules, states may automatically exempt all funds in Individual Development Accounts subsidized by TANF or “maintenance of effort” funds only if the accounts are used to buy a home, start a business, or pursue post-secondary education.⁵² Policymakers should expand states’ flexibility to exempt all such accounts from being counted as assets for all means-tested programs. This added flexibility would allow states to exempt funds in such accounts used to buy a car, for example, without additional legislation or rule making.

Congress should reauthorize the Assets for Independence Act, the federal Individual Development Account program that provides matching funds and some program operating costs.⁵³ Expanding allowable asset goals under the Act to include vehicle purchases would help many low-income participants meet critical transportation needs.

Congress also should pass the federal Individual Development Account credit and expand allowable asset goals to include vehicle purchase. The Senate passed the Individual Development Account tax credit, also known as the Savings for Working Families Act, as part of the Senate’s charitable giving bill.⁵⁴

⁴⁹Ray Boshara et al., Policy Options to Encourage Savings and Asset Building by Low-Income Americans (New America Foundation 2004), at www.newamerica.net/Download_Docs/pdfs/Pub_File_1464_1.pdf.

⁵⁰Sharon Parrott & Stacy Dean, Aligning Policies and Procedures in Benefit Programs: An Overview of the Opportunities and Challenges Under Current Federal Laws and Regulations (Center on Budget and Policy Priorities 2004), at www.cbpp.org/1-6-04wel.htm.

⁵¹Anderson et al., *supra* note 37.

⁵²2002 Federal IDA Briefing Book: How IDAs Affect Eligibility for Federal Programs (Corporation for Enterprise Development 2002), available at www.cfed.org/individual_assets/2002_Federal_IDA_Briefing_Book.pdf.

⁵³The Poverty Reduction and Prevention Act, S. 1786 108th Cong. (2003), which would reauthorize the Assets for Independence Act Individual Development Account program, is pending in the U.S. Senate. The House passed a similar bill as part of the Charitable Giving Act of 2003, H.R. 7 108th Cong. (Sept. 17, 2003).

⁵⁴The U.S. Senate passed the Care Act of 2003, S.476, 108th Cong. (April 9, 2003).

Lisa

Lisa Pollard, 30, is a mother of four living on the south side of Chicago. Since being on welfare in September 2002, she has found it difficult to support her children on the fixed income provided by Temporary Assistance for Needy Families. Without a savings account and not knowing how to budget her money, she was afraid her financial situation was never going to improve. She heard about *Your Money and Your Life* financial education classes held at Chicago Area Project through the Women In Transition program. Pollard wanted to learn how to save and budget her money and thought the class would be a good opportunity.

“With the help of my instructor, I have been able to open a checking and savings account,” said Pollard. “The instructor helped me with my financial problems and made me feel secure.”

In the class she also learned how to keep track of her money by writing down the cost of her purchas-

es. She also keeps track of her bills by keeping a written schedule of when they are due. “Now I’m smart about the money I spend,” said Pollard. “Before I go shopping I write a list of the things I need, and I estimate the cost of each. I usually spend less money than I thought, and the rest goes in the bank.”

“Before the class I didn’t know how to save money. I spent too much on things that I wanted, rather than things I needed,” said Pollard. “When you don’t have a lot of money, you need to budget to spend wisely.”

Pollard believes that financial education can help people improve their lives. With the skills that she learned in class, Pollard has been able to reconnect phone service to her home. She also plans to have her income tax refund deposited directly into her savings account.

The House version of the charitable giving bill did not include the tax credit, but the conference committee could include the tax credit in the conference report.⁵⁵ If approved, the federal tax credit would fund up to 300,000 new Individual Development Accounts through tax credits to financial institutions that contribute matching funds for such accounts.

C. The Community Reinvestment Act

Congress and regulators should strengthen, not weaken, enforcement of the Community Reinvestment Act, especially the service test used under the Act in examining large banks.⁵⁶ Policymakers should

reject proposals by banking regulators to increase the number of banks subject to the small bank examination, which does not include a separate service test.⁵⁷ Examiners should evaluate banks on the extent to which they increase participation by low-income consumers in financial education and asset-building programs and use of affordable mainstream financial products and services.⁵⁸ Banks should experiment with offering various types and levels of incentives to help recruit and retain participants in financial education and Individual Development Account programs.

⁵⁵The U.S. House passed the Charitable Giving Act of 2003, H.R. 7, on September 17, 2003.

⁵⁶Barr, *supra* note 47.

⁵⁷Notice of Proposed Rulemaking Regarding the Community Reinvestment Act of 1977, at www.fdic.gov/news/news/press/2004/pr0504.html.

⁵⁸Stegman et al., *supra* note 36.



Financial education and asset-building programs are needed and effective complements to traditional welfare, adult education, workforce development, and work support programs, providing participants with the tools needed to make sound financial decisions, participate in the mainstream financial system, move up the economic ladder, and achieve the American dream. Public-private partnerships such as those developed by the Illinois Department of Human Services and the Fllip coalition can leverage funding, expertise, and other support for these programs. With continued funding and flexibility in the TANF and other means-tested programs, an increased focus on helping low-income people save and build assets, and improved incentives for financial institutions to serve the financial needs of low-income consumers, replicating Fllip's efforts could help many more low-income workers and welfare recipients move

into the financial mainstream and eventually achieve financial security.

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