FINANCIAL EDUCATION AND ASSET BUILDING PROGRAMS FOR WELFARE RECIPIENTS AND LOW INCOME WORKERS: THE ILLINOIS EXPERIENCE

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BY DORY RAND[1]

I. INTRODUCTION

There's 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. Additionally, 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 (IDHS)—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, or IDAs. IDA 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.[2] 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, IDA, and car ownership programs. Congress and regulators can complement these efforts through strengthened enforcement of the Community Reinvestment Act.

II. 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

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[2] "Secretary Snow Highlights the Importance of Financial Literacy and Education," available at http://www.ustreas.gov/press/releases/js1122.htm (March 2004).

Women in Illinois on September 1, 1999. The committee's co-chair and other participants embraced a suggestion from the Sargent Shriver National Center on Poverty Law (Shriver Center) that IDHS should incorporate financial education in its welfare-to-work programs.[3] Commission and committee members of both parties knew that women are 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 IDA programs suggested, and other members of FLLIP agreed, that, in addition to financial education, FLLIP should also include IDAs for low-income workers as part of the recommendation for a pilot project.[4] Under the Illinois IDA law at the time, low-income workers participating in TANF- funded IDA programs could receive public and private matching funds for saving in IDAs toward first-time home purchase, small business start-up, or postsecondary education or training. Car purchase or repair and home repair were not options.[5]

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, IDA 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 can participate; there are no fees or membership requirements. Community affairs staff of the federal banking agencies actively acts as advisors.[6] This incredibly 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 co-chair 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 can cause stress and marital conflict.

Legal and social service providers knew from their direct service experience that low-income workers and welfare recipients frequently live from check to check, have little or no savings, use check cashers rather than banks, often carry debts from abusive lenders, are unaware of consumer rights and protections, and sometimes feel trapped in domestic violence situations due to lack of

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[3] The 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 transitioning from welfare to work in November of 1999. See "Reinvestment Alert No. 15", available at http://woodstockinst.org/document/alert15.pdf (Chicago: Woodstock Institute, 2000).

[4] IDAs 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 IDA 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.

[5] Public Act 90-0783, 305 ILCS 5/12-4.103. Illinois's IDA statute requires that private funds match state contributions.

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

financial independence.[7] These providers also knew that many eligible persons do 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.[8] Empirical evidence suggested that asset limits might reduce savings by low-income families.[9]

Implementation of welfare reform was well under way in 1999 and Illinois had already produced significant caseload reductions.[10] TANF recipients were required to complete 30 hours a week of approved work activities in order to continue receiving benefits.[11] FLLIP members that had opposed some of the methods that IDHS had used to achieve caseload reductions, including severe sanction policies for failure to comply with "work activity" assignments, did not want participants in the proposed FLLIP programs to face those sanctions.

Several of the FLLIP members had experience using the federal Community Reinvestment Act (CRA) to encourage banks and banking regulators to increase access to mainstream financial services to underserved, low-income communities.[12] Regulators periodically examine and grade banks on compliance with CRA obligations to meet the lending, investment, services, and community development needs of the low- and moderate-income people in their service areas.[13] FLLIP members, bankers, and regulators knew that large segments of the population were "unbanked" (did not have a bank account) and that banks often experienced difficulty in marketing products and services and even free workshops to persons unfamiliar with mainstream banking.[14]

The banks were eager to find ways to meet CRA obligations; and supporting financial education for low-income individuals and IDA programs was one way to do so.[15] Banks and credit unions were also looking for opportunities to help existing customers and to expand their customer

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[7] 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, available at sadrc.cfed.org/ (Washington: Corporation for Enterprise Development, 2002).

[8] Under current rules, a family of three receiving TANF benefits in Illinois can have up to $3,000 in countable assets.

[9] Peter R. Orszag, "Asset Tests and Low Savings Among Lower-Income Families," available at www.cbpp.org/4-13-01wel.htm (Washington: Center on Budget and Policy Priorities, 2001).

[10] Welfare caseloads in Illinois declined from 642,644 in August 1996 to 161,318 by September 2001. U.S. Department of Health and Human Services, Administration for Children and Families.

[11] Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), Pub. L. No. 104-193, 42 U.S.C. §407(a)(1), §407(b).

[12] Under CRA, "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 et seq.

[13] 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.

[14] 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).

[15] Robin Newberger, "Financial institutions as stakeholders in individual development accounts," available at www.chicagofed.org/publications/fedletter/2002/cfldec2002_184.pdf (Chicago Fed Letter, 2001).

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 organizations and advocates for low-income people.[16]

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

Other FLLIP members offered free tax counseling services and knew that few clients used the option to have Earned Income Tax Credit (EITC) and other refunds directly deposited into a bank account. Many taxpayers lost money through high-cost tax services and refund anticipation loans.[17]

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 EITC.

Banking regulators and some FLLIP members were aware of the growing research on the unbanked, IDAs, 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.[18] But research on the unbanked revealed that many poor people believe they cannot save or are distrustful of banks.[19] Research on IDAs showed that even very low-income people can and will 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).[20] Early IDA research showed that each hour of financial education up to 12 hours resulted in increased savings, but little was known about knowledge gains or other behavior changes attributable to financial education.[21]

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[16] The FDIC's Money Smart financial education program is modeled on FLLIP. Ben Jackson, "Powell Hits Road to Plug Program for Hispanics," American Banker, June 26, 2002, p. 3. For information on Money Smart, see www.fdic.gov/consumers/consumer/moneysmart/index.html.
[17] Alan Berube and Anne Kim, "New Brookings-PPI Report Finds Tax Refund Dollars for Low-Income Workers Benefiting Tax Preparers" (Washington: Brookings Institution, 2002).
[18] Federal Reserve System, 1995 Survey Of Consumer Finances.
[19] Ibid, John P. Caskey, Defining the Market.
[20] Ray Boshara, Building Assets: A Report on the Asset Development and IDA Field (Washington: Corporation for Enterprise Development, 2001).
[21] Margaret Clancy, Michal Grinstein-Weiss, and Mark Schreiner, "Financial Education and Savings Outcomes in Individual Development Accounts" working paper 01-2, available at http://gwbweb.wustl.edu/csd/Publications/2001/wp01-2.pdf (St. Louis: Center for Social Development, George Warren Brown School of Social Work, Washington University, 2001).

The Shriver Center pledged to incorporate FLLIP members' ideas into a solid recommendation to the commission by the November deadline. There was a consensus among FLLIP members that it would be fruitful to partner with IDHS 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 FLLIP recommendation to the commission. FLLIP proposed that the commission adopt a recommendation that IDHS establish, fund, and evaluate a two-year pilot project in multiple Chicago and downstate sites including financial education, IDA, and benefit screening/follow-up services components.[22] Participation would be optional, and program activities would count as an authorized "work activity" for TANF purposes. IDA 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 IDHS 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.

III. IDHS Had Flexibility and Funding Necessary for Innovative Public/Private Partnership with FLLIP

By 2000, IDHS had already drastically reduced its welfare caseload and had no difficulty in meeting federal work participation requirements.[23] 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, made it possible for IDHS to consider new approaches to helping welfare recipients and low-income workers.

With the Commission's endorsement, the FLLIP group began conversations with IDHS 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 IDHS officials and requested IDHS 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 IDHS.

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[22] The post-employment benefit screening and follow-up services would have used a computer-based method to insure 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, healthcare, and other financial issues as a complement to IDHS' existing follow-up and retention services.

[23] PRWORA, 42 U.S.C. §407(a)(1), §407(b).

IDHS knew that cash assistance recipients, who now received benefits electronically via debit cards, had mastered use of the Illinois Link debit cards at ATMs but that very few had their own bank accounts or used direct deposit. Having previously passed an IDA statute and funded part of the American Dream Demonstration, IDHS knew that IDAs provided a strong incentive to remain employed and to build savings and assets.[24] IDHS was also aware that many residents struggled to pay high rents and needed stable housing and transportation to support their work efforts.

IDHS was very receptive to the proposed financial education program and suggested that it should be implemented statewide. IDHS also supported the proposed evaluation. Everyone agreed that it would be important to document what worked, what didn't, and why, 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. IDHS did not see the need at that time for the proposed benefit screening and follow-up services program; and FLLIP agreed to proceed without that component.[25]

IDHS was particularly interested in FLLIP's suggestion that participants be allowed to use IDAs 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.[26] Helping people get cars for work would further bolster IDHS' strong work participation rate and help to keep caseloads low. Although some IDA programs do not allow IDAs to be used for purchase of a vehicle because it is a depreciating, not appreciating, asset, or because of environmental concerns, IDHS and FLLIP members agreed that, for many, vehicles are a necessity that cannot be ignored.[27]

IDHS already was funding free tax counseling programs and EITC outreach and realized that the proposed financial education and IDA programs could complement those efforts. IDHS agreed with FLLIP's proposal to make EITC deposits into IDAs eligible for matching funds, even though some IDA programs match only regular deposits from monthly earnings.

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[24] Mark Shreiner, Margaret Clancy, Michael Sherraden, "Final Report, Savings Performance in the American Dream Demonstration of Individual Development Accounts," available at http://gwbweb.wustl.edu/csd/Publications/2002/ADDreport2002.pdf (St. Louis: Center for Social Development, George Warren Brown School of Social Work, Washington University, 2002-2003).

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

[26] Research on TANF leavers documented major work barriers due to transportation problems. Julnes, G., Halter, A., Anderson, S., Frost-Kumpf, L., Schuldt, R., Staskin, F., and Ferrara, B. (2000). Illinois study of former TANF clients: Final report. Report submitted to the U. S. Department of Health and Human Services. Springfield, IL: Institute for Public Affairs, University of Illinois at Springfield.

[27] Evelyn Blumenberg and Margy Waller, "The Long Journey to Work: A Federal Transportation Policy for Working Families," available at www.brook.edu/dybdocroot/es/urban/publications/20030801_Waller.pdf (Washington: Brookings Institution, 2003).

During the interim between the FLLIP meetings with IDHS and the IDHS decision on the FLLIP proposal, the Shriver Center's FLLIP coordinator stayed in frequent contact with the IDHS liaison, formed a steering committee, and coordinated monthly FLLIP meetings. FLLIP members formed committees to develop ideas for the financial education curriculum, the IDA program, the evaluation, and IDHS issues, including TANF work activity and IDA rules. In addition, FLLIP persuaded some high-profile individuals to write letters in support of the FLLIP programs to the IDHS Secretary.

By May, the Shriver Center had received its first foundation grant in support of the FLLIP project and other proposals were pending. This helped to convince IDHS that FLLIP could make good on promises to leverage private investments. It was not until August of 2000, however, that IDHS finally allocated $500,000 for the FLLIP programs. IDHS 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 FLLIP proposal to IDHS envisioned that IDHS would administer the FLLIP programs (with input from FLLIP members), IDHS offered to release the funding to the Shriver Center to administer the FLLIP programs and the Shriver Center, with the consent of FLLIP leadership, agreed. The Shriver Center then entered into a contract with IDHS to administer the FLLIP programs. Ultimately, the Shriver Center leveraged the $500,000 IDHS grant to raise over $1 million in grants from foundations, financial institutions, and individual donors for the FLLIP programs.[28]

IV. Implementation of the FLLIP Programs

A. The FLLIP Curriculum

With funding from IDHS and input from FLLIP members, the University of Illinois Extension developed the FLLIP curriculum, including revision of the university's existing *All My Money* and creation of eight new chapters called *Your Money and Your Life*. The combined 16-chapter FLLIP *Your Money and Your Life* curriculum was finalized in June of 2001, and used in both the Financial Education Program (FEP) and the Individual Development Account (IDA) program.[29] Focus groups validated the proposed curriculum topics that FLLIP members had generated.[30]

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

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[28] For a list of FLLIP supporters, see www.povertylaw.org/advocacy/community_investment/join_fllip.cfm.

[29] For complete list of FLLIP curriculum topics see http://www.povertylaw.org/advocacy/community_investment/fllip_curriculum.cfm.

[30] Mercer Human Resource Consulting donated about $200,000 in in-kind consulting services. See FLLIP Financial Literacy program: Key Stakeholder Focus Groups Report of Key Findings, available at www.povertylaw.org/advocacy/community_investment/publications.cfm (January 2001).

materials because they are written at a fifth grade literacy level, lower than most similar curricula. The public benefits chapter, which advises participants of benefits for which they might be eligible and related resource-counting rules, is not found in most similar curricula. The FLLIP curriculum also includes important information about employee benefits, insurance, tax issues, and money traps (high cost lending by fringe financial institutions), that are not always included in similar curricula.

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

FLLIP 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 EITC 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 FLLIP 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 FLLIP participants to use direct deposit of paychecks and automatic saving mechanisms to facilitate saving.

B. The FLLIP Financial Education Program (FEP)

FLLIP selected five nonprofit organizations throughout Illinois through a competitive request for proposal process to offer FLLIP classes and collect evaluation data (FEP sites). Extension educators conducted a four-day train-the-trainer session for instructors. Extension educators also conducted a one-day orientation for IDHS liaisons to encourage understanding of the FLLIP program and facilitate referrals.

FEP sites offered a free, 12-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. FEP sites had flexibility to determine class dates and times that would be most convenient for their participants and bore responsibility to recruit and graduate a minimum of ten participants per session. FEP sites used FLLIP marketing materials or developed their own methods to recruit participants. FEP instructors could invite bankers or other outside experts to make presentations to FLLIP classes, but instructors were prohibited from endorsing any particular institution or product.

IDHS 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 FEP. IDHS was the biggest source of referrals to FEP sites. IDHS agreed to count hours spent in FLLIP classes toward TANF “work activity” requirements. IDHS also agreed not to sanction persons that chose not to complete the session; IDHS reassigned those persons to other activities.

When one FEP site attempted to conduct FLLIP classes at an IDHS local office, participants reacted negatively due to the risk of sanctions associated with most TANF activities and negative feelings about caseworkers. FLLIP instructors learned from this experience and decided not to conduct sessions at IDHS offices.

One key result from the focus groups was that childcare and transportation subsidies would increase the likelihood that the target audience would be able to attend the free FLLIP classes.[31] IDHS provided additional funding for childcare and transportation subsidies, which FEP sites distributed on an as needed basis to TANF recipients attending FLLIP classes. FLLIP used contributions from financial institutions to subsidize transportation and childcare for non-TANF participants in some sites.

Most FEP 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 FLLIP graduates that opened new accounts.

C. The FLLIP Individual Development Account Program

After conducting a statewide outreach campaign to raise awareness about IDAs and encourage nonprofit organizations throughout Illinois to submit competitive proposals, FLLIP selected three nonprofit organizations to offer the FLLIP IDA program and collect evaluation data (IDA sites). Illinois had about 10 IDA programs at the time and most were in located in Chicago, so FLLIP selected IDA sites outside of Chicago in Moline, Wheaton, and Champaign.[32] Each IDA site recruited one or more financial institution partners (banks and credit unions) to hold the accounts and report account information to the IDA sites.

The IDA sites offered a 10-hour financial education course consisting of the same core curriculum used in the FEP-only sites, plus an additional six hours of asset-specific training related to the participant’s asset goal. For example, persons saving toward 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.[33]

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[31] Ibid.
[32] As of January 2004, there are about 30 IDA sites throughout Illinois.
[33] Some of the asset-specific material on cars that was developed for FLLIP IDA participants was later incorporated into “Buying and Keeping a Used Car,” available at www.illinoislawhelp.org/index.cfm?fuseaction=home.dsp_content&contentID=1368.

IDHS secured passage of changes in Illinois IDA regulations to expand the range of allowable asset purchases and to exempt all assets in TANF-funded IDAs from resource-counting rules.[34] FLLIP IDA participants could 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 IDA program. Participants had to complete the training requirements and save some of their earned income each month in a restricted account (IDA) with a local financial institution. They had up to two years in which to accumulate sufficient savings towards their asset goal, but could graduate as soon as six months after enrollment if all program requirements were completed.[35] 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 savings tools, and, ultimately, prepare them to purchase and maintain their asset.

As in the FEP-only program, instructors referred FLLIP IDA participants to local free tax preparation programs and encouraged them to use direct deposit of refunds into IDAs and save as much as possible. Instructors also encouraged IDA participants to use direct deposit of paychecks and automatic saving mechanisms to facilitate saving.

Consistent with Illinois's IDA law, FLLIP matched participants' savings from earned income or EITC refunds up to $1,000 on a two-to-one basis, $1,000 from IDHS and $1,000 from private funds. For example, a participant that saved $1,000 toward a down payment on a home was eligible for $2,000 in matching funds. The matching funds were intended to provide a strong 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 IDAs or with the FLLIP organizations. Banks that already knew 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 CRA service area, even though banking regulators assisted FLLIP by advising that contributing to financial education and IDA programs that are regional or statewide and include a bank's service area are eligible for favorable CRA consideration.[36] The fact that banking examiners typically pay scant attention to the CRA service test, which counts for only 25 percent of a large bank's CRA grade, or use it to bolster weak performance in other areas, makes it more difficult to leverage the CRA to expand access to financial education and asset-building programs targeted to low-income people.[37]

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[34] 89 Ill. Adm. Code §112.151.
[35] Although 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 necessitate that participants have a limited amount of time in which to complete the program.
[36] 12 C.F.R. §25.24(b).
[37] Michael A. Stegman, Kelly Thompson Cochran, and Robert Faris, "Toward a More Performance-Driven Service Test: Strengthening Basic Banking Services Under the Community Reinvestment Act," Georgetown

V. RESULTS SHOW THAT FLLIP PROGRAMS ARE NEEDED AND EFFECTIVE

The goals of the FLLIP evaluation were to document the need for financial education and knowledge gains achieved by FLLIP program graduates, determine differences between FEP-only and IDA participants, improve program administration and facilitate replication or expansion, establish best practices, assess long-term behavior changes, and measure the impact of FLLIP participation on savings and asset accumulation.[38]

A. Need for and Benefits of Financial Education

The FLLIP evaluation includes data from FLLIP sites and about 500 participants in the FLLIP financial education classes. FEP sites experienced challenges in recruiting and retaining graduates. Although the TANF "work activity" credit and childcare and transportation subsidies helped to attract TANF recipients to the FEP sites, most FEP sites had a 40 percent dropout rate in the first year. FLLIP developed some marketing materials and added recruitment and retention training for instructors, which helped to improve completion rates in the second year. FLLIP also changed from a flat rate to a performance-based contract with FEP sites that rewarded sites for graduating more people.

A typical FEP participant was an unemployed, African American or Hispanic single mother, age 31, with two children, that 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.[39] About one-third of FEP-only participants were receiving TANF.

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 FLLIP curriculum. After completing the course, however, most graduates achieved significant knowledge gains across each category of knowledge. Participants demonstrated the

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Journal on Poverty Law & Policy, Volume IX, Number 2, available at www.kenan-flagler.unc.edu/assets/documents/CC_ServiceTest.pdf (Summer 2002).

[38] FLLIP selected the School of Social Work, University of Illinois, Urbana-Champaign, to conduct a comprehensive evaluation of the financial education component of the FLLIP programs and FLLIP program administration. ShoreBank Neighborhood Institute provided IDA technical assistance and reported on FLLIP IDA program results.

[39] Based on results from 454 FEP graduates, 85 percent were female and 15 percent were male; 53 percent were African American, 20 percent Latino, 20 percent Caucasian, and 5 percent were other. The mean age was 31.4 and mean number of children was 1.8. About 34.8 percent had less than a high school education, 26.2 percent had a high school diploma or general equivalency degree (GED), 20.9 percent had attended some college, 10.3 percent had graduated from a junior or 4-year college, and 2 percent had attended graduate school. Among FEP-only participants, 56.8 were single (never married), 21.6 percent were married, and 16.9 percent were separated, widowed, or divorced. Employed persons represented 27.8 percent of FEP-only recipients; 33 percent were receiving TANF. Personal communication from Jeff Scott, Graduate Research Assistant, School of Social Work, University of Illinois, Urbana-Champaign, January 8, 2004.

least starting knowledge and also substantial knowledge gains in the area of public and work-related benefits.[40] Over 78 percent of graduates rated FLLIP instructors and materials 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 for 68.9 percent and Spanish was the primary language of 17 percent of FEP-only participants. Instructors in some of the FEP sites taught the course and administered the surveys in Spanish. Other FEP sites used the FLLIP curriculum as part of English as a Second Language (ESL) classes for immigrants. Instructors reported that non-native English speakers had difficulty understanding parts of the FLLIP curriculum 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 6-12 months after completion of the course to determine whether they had made any long-term behavior changes. Preliminary results indicate that FLLIP graduates are making many of the hoped-for positive behavior changes:[41]

- 85% did a better job tracking expenditures
- 84% changed how the household budgets
- 76% did better managing credit card debt
- 74% increased the amount of savings
- 67% changed the way they pay bills
- 31% applied for or received public benefits that they were not receiving before
- 26% of participants that did not previously have accounts opened a checking or savings account for the first time
- 14% started receiving job benefits that they were not receiving before

B. Results of the FLLIP IDA Program

In the FLLIP IDA program, 125 persons graduated and made a total of 153 major asset purchases. Several FLLIP IDA 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 IDA program had higher completion rates than the FEP-only sites that did not offer matched savings incentives.

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[40] See first year report, “FLLIP Evaluation Project,” available at www.povertylaw.org/advocacy/community_investment/fllip_report.cfm (University of Illinois, Urbana-Champaign, December 2002). The final report will be released in 2004.

[41] These results are based on 115 responses and data summarized in Steven Anderson, “The Promise and Challenges of Financial Management Education: Results from the FLLIP Evaluation,” PowerPoint presentation at the Asset-building Innovations Conference (Chicago: September 25, 2003).

[42] Although FLLIP had proposed that the FLLIP IDA program be open to persons with up to 80 percent of area median income, IDHS opted to limit eligibility to persons with income up to 200 percent of the federal poverty level.

A typical FLLIP IDA participant was an employed African American single female, age 30-39, with two or three children, and some college education.[43] IDA participants had greater familiarity with banks and financial issues and scored higher than FEP-only participants on pre- and post-training knowledge surveys. Both IDA and FEP participants had significant knowledge deficits regarding public benefit programs.

FLLIP IDA graduates saved about $40 per month. FLLIP IDA 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 matching funds. FLLIP IDA 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

Some of the lessons learned and best practice recommendations based on experience with the FLLIP programs to date include:

1. Use of incentives, such as TANF "work activity" credit, childcare and transportation subsidies, and matching funds, improve 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 significant difficulty understanding complex resource-counting rules and accessing public benefit programs for which they are eligible.

5. Non-native English speakers experience significant difficulties even with a financial education curriculum written at a fifth grade literacy level.

6. The FLLIP research team developed suggested "best practices" for financial education instructors, including:

- Describe any specific benefits that participants will receive and ongoing expectations for participants.

[43] Based on post-training surveys completed by 75 of the 125 FLLIP IDA 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, January 8, 2004.

- 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.
- Clearly explain the purpose of interactive exercises, what the participants are expected to learn from the exercises, and positively reinforce the contributions of participants.
- Limit classes to periods of not more than 2-3 hours per day and provide refreshments during a short break part of the way through the session.
- 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]

VI. Policy Implications

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 FLLIP financial education and asset-building programs.[45] The Bush Administration's TANF reauthorization proposal would limit flexibility in ways that would make it difficult, if not impossible, for other states to implement FLLIP-type programs.[46] Financial education classes would not count as a TANF "work activity," for example. States forced to devote resources to workfare 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 should, instead, 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]

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[44] Classroom tips for instructors are included in the first year FLLIP report, available at www.povertylaw.org/advocacy/community_investment/best_practices.doc.

[45] The TANF Financial Education Promotion Act (S. 813), 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.

[46] Personal Responsibility, Work, and Family Promotion Act of 2003 (H.R. 4). 108th Congress, Second Session (February 13, 2003).

[47] Michael S. Barr, "Banking the Poor," available at www.brookings.edu/dybdocroot/es/urban/publications/20030715_Barr.pdf (Washington: Brookings Institution, 2003).

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 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.

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 to existing financial education curricula to serve the specific needs of the ESL population.

B. Individual Development Accounts

Policymakers should expand flexibility and funding for IDA programs. IDA programs offer opportunities for productive public/private partnerships and leverage matching funds that create strong incentives to recruit and retain participants.

Under current rules, states can automatically exempt all funds in TANF- or MOE-funded IDAs only if the IDAs are used to buy a home, start a business, or pursue postsecondary education.[51] Policymakers should expand states' flexibility to exempt all IDAs from being counted as assets for all means-tested programs. This added flexibility would allow states to exempt funds in IDAs used to buy a car, for example, without additional legislation or rule making.

Congress should reauthorize the Assets for Independence Act or AFIA, the federal IDA program that provides matching funds, as well as some program operating costs.[52] Expanding

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[48] The Senate Finance Chairman's February 2, 2004, Mark on the Tax Administration Good Government Act of 2004 (S. 882), available at finance.senate.gov/sitepages/leg/leg012904mark.pdf, includes $10 million for free tax counseling sites.

[49] Ray Boshara, Reid Cramer, and Leslie Parrish, "Policy Options to Encourage Savings and Asset Building by Low-Income Americans," available at www.newamerica.net/Download_Docs/pdfs/Pub_File_1464_1.pdf (Washington: New America Foundation, 2004).

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

[51] 2002 Federal IDA Briefing Book: How IDAs Affect Eligibility for Federal Programs, available at www.cfed.org/individual_assets/2002_Federal_IDA_Briefing_Book.pdf (Washington: Corporation for Enterprise Development, 2002).

[52] The Poverty Reduction and Prevention Act (S. 1786), which would reauthorize the Assets for Independence Act IDA 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) on September 17, 2003.

allowable AFIA asset goals to include vehicle purchases would help many low-income participants meet critical transportation needs.

Congress also should pass the federal IDA credit and expand allowable asset goals to include vehicle purchase. The Senate passed the IDA tax credit, also known as the Savings for Working Families Act, as part of the Senate's charitable giving bill.[53] The House version of the charitable giving bill did not include the IDA tax credit, but the conference committee could include the IDA tax credit in the conference report.[54] If approved, the federal IDA tax credit would fund up to 300,000 new Individual Development Accounts through tax credits to financial institutions that contribute IDA matching funds.

C. The Community Reinvestment Act

Congress and regulators should strengthen, not weaken, enforcement of the Community Reinvestment Act, especially the CRA service test used in examination of large banks.[55] Policymakers should reject proposals by banking regulators to dramatically increase the number of banks subject to the small bank exam, which does not include a separate service test.[56] 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.[57]

VII. CONCLUSION

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, replication of 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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[53] The U.S. Senate passed the CARE Act of 2003 (S.476), on April 9, 2003.
[54] The U.S. House passed Charitable Giving Act of 2003 (H.R. 7), on September 17, 2003.
[55] Michael S. Barr, "Banking the Poor."
[56] Notice of Proposed Rulemaking Regarding the Community Reinvestment Act of 1977 available at www.fdic.gov/news/news/press/2004/pr0504.html.
[57] Michael A. Stegman, "Toward a More Performance-Driven Service Test."

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