EITC

Funders Network

LINKING EITC TO OTHER SUPPORTS FOR LOW-INCOME FAMILIES

Overview

Connecting low-wage workers who qualify for the Earned Income Tax Credit (EITC) to public benefits like health insurance or food stamps and financial services like credit scores and savings accounts is challenging and complex. However, if EITC recipients access and keep the benefits they are eligible for and utilize basic financial services, they are more likely to achieve financial stability, accumulate assets and build long-term economic security.

In order to qualify for the EITC in 2012, a family with two children must make less than $42,000 and an individual without children must make less than $14,000. Fortunately, the EITC is relatively easy to apply for (simply through annual tax filings) and enjoys one of the highest participation rates of any public benefit—approximately 75% of EITC-eligible families receive the credit.

Due to low-levels of income, families eligible for the EITC are often eligible to receive other public benefits like health insurance, food stamps, childcare or housing. However, exact eligibility criteria for each of these benefits are different in each state, those who may qualify to enroll may not even know they are eligible for other public benefits, and applying for the benefits can be complex and burdensome. Even families who receive an EITC may lack access to financial services—checking or savings accounts, educational opportunities to help them better understand how to save and build up good credit, or access to non-predatory lending institutions.

Linking people who file their taxes and receive an EITC refund to other supports—both public benefits as well as financial services—that could improve their financial stability is a crucial opportunity not to be missed. The field is exploring many forms of "linking" these important domains—linking EITC qualification to screening for public benefits at free tax preparation sites, helping families open checking accounts to deposit their EITC and save for the future, as well as creating relationships during tax time that can be developed into year-long partnerships to build financial security.

Introducing individuals to public benefits and financial services is challenging to do in a way that actually results in long-term wealth accumulation for low-income families. However, some funders and grantees are experimenting with different strategies, approaches and tools to do this very thing and are exploring ways to improve and scale these efforts in other communities. Opportunities exist for funders to expand and deepen this work and to have a positive impact on low-income families' financial well-being.

In 2011, the EITC Funders Network set out to explore these opportunities further by bringing together funders, grantees, experts and researchers to discuss what is working and what needs improvement. The three-part series, consisting of a meeting and two webinars, was broken into three sections: public benefits, financial services and savings. This report summarizes our main findings on each of these sub-topics, as well as a resources section to equip funders further to connect the EITC to other important financial supports for low-wage workers.

Links Between EITC and Public Benefits

What is the Problem?

- Nearly one in four jobs – 29.4 million – in the U.S. do not pay enough wages to keep a family of four out of poverty. Approximately 28 percent of working families fall below the federal poverty level.
- In an attempt to support low-wage workers, government, nonprofit and philanthropic leaders have worked to provide various public benefits like healthcare, food stamps, and childcare to low-wage workers and families. However, approximately $65 billion worth of government services and supports go unclaimed.
- The system to apply for and maintain benefits is fragmented and complex, administered by different government agencies with specific eligibility criteria that vary state to state. These benefits are almost always separate from the EITC, which is administered through the federal or state revenue department one time each year.

Linking EITC to Public Benefits

The EITC Funders Network meeting held in Chicago on July 6, 2011 brought together members to discuss the linkages between the EITC tax moment and other public benefits like food stamps and Medicaid. Our presenters included Judy Solomon and Shelby Gonzales, Center on Budget and Policy Priorities, Steven Dow, Community Action Project-Tulsa, Sara Johnson, Baltimore Cash Campaign, Steve Lee, Robin Hood Foundation, Chauncy Lennon, Ford Foundation, Tracy Fischman, AccountabilityMinnesota and Steve Holt, Holt Solutions.
**See page 9 for more information on resources developed for this meeting.

What did we Learn?

The panelists at our 2011 EITC Funders Network meeting presented new and compelling lessons learned and explained the challenges in connecting people to public benefits while they are filing taxes for the EITC.

Eligibility for benefits is complicated and varies significantly by state, benefit and unique individual life situations. There is overlap in the target low-wage worker population we are trying to reach with the EITC and other public benefits. For instance, someone eligible for health insurance or food stamps is almost always eligible for the EITC. However, everyone eligible for the EITC is not necessarily eligible for other benefits. Screening people for different benefits, enrolling them and then ensuring they stay in the benefit program is complex and takes time, usually beyond the period of time it takes to file taxes. Each benefit operates differently and requires different documentation. This makes outreach, messaging and screening difficult, especially in the tax-time moment, as there is no simple overall explanation of which benefits apply to each individual.

The EITC tax moment is a piece of the larger puzzle to increase public benefit coverage. Connecting people to benefits via the EITC is important and possible, but is not a one-time conversation, and it requires significant targeted follow-up. There may be other points of entry, like Head Start programs or financial education, in addition to the tax moment to discuss public benefits with participants. Plus, enrolling in public benefits is challenged by the more general problems of burdensome paperwork, stigma, complicated state systems and various qualifications. Providing an opportunity to enroll in benefits while a person is filing taxes for the EITC is a step in the right direction, but will not overcome barriers to public benefits completely.

Collaboration among all stakeholders is imperative. Social service providers often operate in silos. Private financial institutions have their own bottom lines. Tax time volunteers are limited in what they can accomplish on tax day. School, health and housing public employees may not know there are connections to other public benefits. Each stakeholder has potential to help the process along, but no one can do it alone. In order to reach larger populations of low-income families, there is a great need to mainstream and integrate the enrollment and retention process across agencies, organizations and programs.

Gaps in Our Knowledge

While the discussion at the annual meeting generated much interest and debate, we also discovered several areas that need further exploration as we move forward in this work.

Retention: While we know some general reasons why low-income families drop out of benefit programs, we lack specific knowledge that would help us retool benefit programs in individual states or localities. Reasons why people do not retain benefits include not knowing they needed to complete forms or that they needed to re-enroll after a certain period of time. There are a host of reasonable causes, but retention has proven a tricky problem to address. Plus, few states track retention so the data is sparse. Enrolling people in benefits is only the first step. Strategies for keeping them in programs as long as they remain eligible represent a large unknown, but are incredibly important in achieving long-term financial stability for families.

Cliff Effect: A family must make less than a certain income to qualify for various benefits. If they make over this amount, they lose eligibility or fall off the benefit "cliff." For example, take children's health insurance. If a family begins to earn just enough income over the threshold, this may cause them to drop off and lose access to the insurance, sometimes causing a net loss if the extra income is less than the value of the insurance. The goal of public benefits is to help raise people's income and build wealth, but it is unclear what happens to them once their incomes are high enough to make them ineligible. They are likely still far from financial security and could use some type of support, but there is very little in place to help them.

Technology: States are looking at ways to do more effective screening using technology to improve the process for a family unit rather than focusing on just each individual. Some states are also exploring online applications for benefits, but these come with their own challenges. There is space to develop and test technology for tracking and following up with EITC clients.

Links Between EITC and Financial Services

What is the Problem?

- Nearly eight percent of American households do not have a bank account, according to a 2009 FDIC study—otherwise known as "unbanked." This does not include the people who may have an account, but do not know how to use it effectively, otherwise known as the "under-banked."
- Unbanked people cited not having enough money, not having a reason to write a check or not understanding the value of a bank account as some reasons why they do not have an account.
- Research shows that the unbanked and under-banked resort to expensive and unstable alternatives to support their financial needs. As a result, these families—often headed by low-wage workers—often end up paying unnecessary fees and additional costs at predatory lending institutions, have a harder time maintaining a good credit score and do not learn about new and helpful financial products.

Links between EITC and Financial Services

The EITC Funders Network held a webinar on September 29, 2011 to hear ways the EITC tax moment can connect low-wage workers to financial services. Our presenters included Wynne Lum, Bank of America Foundation, Donna Taglianette, Co-Opportunity, Inc, Carol Heller, Bank of America Connecticut, and Jessica Ho, Nashville Alliance for Financial Independence.

You may listen to the webinar here: http://www.eitcfunders.org/recentevents.html

What did we Learn?

The presenters highlighted several key components, developments and challenges in financial services for us to consider as we explore this area further in our own EITC work.

The EITC refund is a resource *and* an entry point for low-wage workers to access financial services. The actual tax refund coupled with one-on-one coaching, a variety of services and products and follow-up can increase the number of individuals who are banked. Services and products can include debit cards and checking accounts, a free credit score report, foreclosure prevention assistance, individual development accounts (IDAs), savings bonds, and debt consolidation information. Traditionally, families may go to commercial banks or credit unions for many of these services, but low-income workers often feel intimidated by these institutions or believe products are not suited to their needs. Nonprofits often provide access to financial education classes like budgeting or debt consolidation. Organizations that have explored connecting the EITC to financial services on-site report that services that are too complicated, not tailored or don't include personal interaction during the tax moment can have lower uptake rates. We learned that efforts to raise awareness have mostly been successful – people know that financial services exist. Now it is about connecting the EITC participant and their refund to a person who can counsel them through the process of opening a bank account, consolidating debt, or retrieving a credit score and discuss ways to use the EITC to build financial independence.

Integrating EITC with other financial services year-round is key, but can be expensive and needs to become more efficient. The year-round connection is important since tax time can be chaotic and overwhelming. Becoming financially stable and then empowered does not happen in a day, but requires follow-up and counseling. At the same time, funders need to evaluate the rate of return on an investment in year-round financial services support and measure outcomes and impact for year-round programs.

Gaps in Our Knowledge

Our presenters also pointed out ways we can learn more in order to connect EITC participants to financial services that will help them grow their wealth and assets.

Evaluation: We are offering a variety of financial services and products for people to use with their tax refund and throughout the year, but it is difficult to determine what kind of impact this is having on low-wage workers' actual wealth. We know face-to-face contact and guidance is important for the EITC participant, but we do not know our return on investment. Measuring impact and evaluating outcomes is crucial to help us improve and target our efforts.

Links Between EITC and Savings

What is the Problem?

- Assets help increase household economic stability, educational attainment and economic mobility. However, 27 percent of households with children live in asset poverty—they do not have sufficient resources to subsist at poverty level for three months if income is interrupted. That number nearly doubles to 47 percent for minority households with children.
- Approximately 64 percent of households with incomes below $25,000 have less than $500 in emergency savings. However, these households report needing around $1,500 to cover emergencies that arise.
- The good news is that EITC-filers are twice as likely as non-EITC filers to have savings.

What did we Learn?

The presenters provided some surprising and encouraging data on the positive impact savings have on low-income families and ways in which the EITC can be leveraged to support people in making this significant step towards financial security.

Low-income families want to and do save when given the right opportunity and incentives, but the savings product must be conducive to their unique needs, simple and convenient. Low-income families often prioritize saving for emergencies first and then things like houses, small businesses or education second. Matching programs and U.S. savings bonds directly linked to the tax form incentivize filers and make it easy for them to access products. SaveNYC/SaveUSA, a program that tries to encourage savings among EITC recipients, saw 80 percent of those that opened a savings account with their EITC refund actually save for the entire year and receive matched funds at the end as a result. Participants were more likely to have enough funds to survive one month without income and had overall higher amounts of savings than non-participants. Low-income children with a savings account in their name have higher test scores and are seven times more likely to attend and complete college than similar youth without an account.

The EITC tax moment is an effective time to work with filers to establish savings accounts and habits. We all know when tax season occurs, that it will always occur and that it applies to just about everyone. This consistency provides steady and anticipated opportunities to work with filers. Plus, filers know they will receive a lump sum of money from their tax refund and have immediate options like splitting the refund or purchasing a bond to begin saving.

Even still, changing behavior and supporting filers to save is complicated and a long-term process. It requires significant preparation, research and adjusting to start and scale a savings program. Though we have seen uptake rates of savings programs improve over the years, rates may still be as low as ten percent. It isn't enough to present a filer with savings options when they walk in the door. They may have already mentally spent the money. We must reach filers before they arrive with excellent outreach and messaging and then support them through the process year after year. Partnering with financial institutions to offer appropriate

Link between EITC and Savings

The EITC Funders Network held a webinar on December 1, 2011 to better understand how building wealth and assets is crucial for low-income families and how connecting savings to the tax moment is an effective way to start the accumulation process. We looked at IDAs, matching savings accounts, refund splitting and savings bonds as effective products that can be linked to the EITC tax moment to encourage savings. Our presenters included Carl Rist, Corporation for Enterprise Development, Cathie Mahon and Janelle Richardson, NYC Office of Financial Empowerment, SaveNYC/SaveUSA and Joanna Smith-Ramani, Doorways to Dreams Fund.

You may listen to the webinar here: http://www.eitcfunders.org/recentevents.html savings products is necessary, but complicated. Matching the money people save is effective, but costly and should be done in partnership with other funders, whether they are financial institutions, the government or foundations.

Savings programs may be leading towards a shift in national policy. Capturing data and evaluating outcomes is crucial to understanding the needs of low-income workers, as well as for scaling, replicating and documenting the success of savings programs. Current wealth building policies do not favor low-income workers, but rather middle and upper wealth brackets. Designing data-driven programs could lay the groundwork for establishing national policy that incentivizes low-income workers to save at tax time.

Gaps in Our Knowledge

While we know it is possible to get people to save and that we have some effective tools to do so, there is still a lot of mystery around why people do and do not save. Our presenters helped us think through these challenges.

Incentivizing savings has a lot do with behavior, preferences and habits, things we know less about and have less control over. Everyone has a unique set of circumstances that influence their choices, making it difficult to know what exactly goes into decisions around savings. We still do not fully understand how or why people make the choices they do with savings, but existing incentive-based programs are getting at these behavior and psychological components.

Conclusion

Charitable foundations play a key role in supporting links between the EITC and public benefits, financial services and savings products and they have many opportunities to strengthen these connections. While there is great promise, the road forward is challenging and clearly there is no “silver bullet.” Creating connections between the EITC and other supports for low-wage workers will require long-term commitment and coordination with other funders, local partners, financial institutions and policy makers.

Many funders are in a unique position to initiate conversations with community partners and financial institutions, important partners in all of these approaches. Funders should be aware of the complexity of public benefits, financial services, incentivizing savings and the variation in need among diverse populations. To strengthen understanding of these dynamics, funders should reach out to local organizations already working in this field in your geographical area.

Resources: Taking the Next Step

EITC and Public Benefits

Improving Access to Public Benefits: Helping Individuals and Families Get the Income Supports They Need
Ford Foundation, Open Society Institute and Annie E. Casey Foundation

Work Supports and Public Benefits
National League of Cities

EITC 2011 Annual Meeting on Public Benefits, Chicago, agenda and list of speakers

EITC and Financial Services

Community Action Project – Tulsa

Baltimore Cash Campaign

Nashville Alliance for Financial Independence

EITC Funders Network and Financial Services

EITC and Savings

CFED Asset Building

SaveUSA/SaveNYC

EITC Funders Network and Savings

Webinars

Links between EITC and Financial Services

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