EITC Funders Network *e*Newsletter

Promoting Work
Reducing Poverty
Building Financial Security

Issue 25 | December 2014

INSIDE THIS ISSUE

ABOUT THE NETWORK

The EITC Funders Network brings together funders interested in the Earned Income Tax Credit, free- and low-cost tax preparation, and asset building. The Network seeks to increase awareness of EITC-related projects, foster collaboration, share information about the current status of EITC-related work, and help shape the future of the field.

The Network is generously funded by:
The Annie E. Casey Foundation
The W.K. Kellogg Foundation
The C.S. Mott Foundation
The Piton Foundation

A Note From the Coordinator

Dear EITC Funders Network,

The EITC—and the millions of Americans who rely on this vital earnings supplement—is at grave risk.

As you may know, Congress is now debating whether to extend a number of tax credits including some that benefit charitable entities. However, Congress is considering not extending the EITC as part of this action.

An article on page 2 of this newsletter provides some additional details about the need to extend important provisions of the EITC and the Child Tax Credit (CTC). If left to expire, more than 16 million people, including nearly 8 million children, would fall into—or deeper into—poverty.

This is your opportunity to let your member of Congress know just how important the EITC is to the low-income families your grantees serve. Each of you has stories of how your grantees have used the EITC to build financial stability in low-income communities and how the credits have helped individual families make ends meet.

If you would like more information on how to raise your voice as a charitable institution, please contact me.

Sincerely,

Ami Nagle
Network Coordinator

Check Out Our Recent Events!

In October and September we hosted well attended webinars focused on the intersections of savings opportunities and ACA implementation with tax time!

Click here to go to our Recent Events page and check them out!

Interview with a Researcher

Michal Grinstein-Weiss

Associate Professor at the Brown School of Social Work at Washington University in St. Louis & Associate Director of the Center for Social Development

Tell us about your background and what led up to your research related to building financial capacity at tax time for working families.

I have worked in the asset-building field for many years, beginning with my work on Individual Development Accounts (IDAs). Some key lessons from the IDA demonstrations and research led me to establish and lead collaborative projects to build financial capacity. Tax time is an ideal time to encourage people to save because they are reviewing their financial year, asking "Where did it all go?" Tax-time savings programs are important for two primary reasons. First, people need unrestricted liquidity or emergency savings in addition to savings for asset accumulation and long-term goals such as homeownership, education, and retirement. Second, the infrastructure of the tax system is essential if we are to create programs that successfully support easy saving opportunities at key moments. As others have said, "the plumbing must be in place."

The tax-time moment—what some of us call the "golden moment"—offers a unique opportunity for working families to save. For many lower income families, the tax refund amounts to another month's worth of wages. Most people say they intend to save some of their refund, and the savings rates among Americans do tend to spike during the tax season. Thus, the work we've been doing at the Center for Social Development, in collaboration with Intuit and Duke University, seeks to encourage people to save their refunds for an emergency or for longer-term savings.

What are the key findings of your research?

I have worked with a team of researchers and tax-industry leaders at Inuit to design an experiment within the Freedom Edition of TurboTax. The experiment uses messaging to remind tax filers about reasons why we all need to have "a safety cushion" of savings for emergencies or long-term goals such as college education or retirement. We encourage tax filers to save a portion of their tax refund, and suggest savings targets based on the refund amount. Results from our experiment, Refund to Savings (R2S), show these minor design changes using insights of behavioral economics and woven seamlessly into the tax-filing process can increase both the number of tax filers who deposit a portion of their refund into savings vehicles and the amount saved. The R2S interventions also appear to have longer term effects on levels of savings. Six months after the tax-filing season, we contacted a portion of the participants who had saved part of their tax refund. Most of these "savers" still had the money in savings. We also found these savers were now more confident of their ability to handle a $2,000 emergency.

(Continued on page 4)

Research News

Letting Working Families Tax Credits Expire Will Push More into Poverty

In a recent article from the Center for Budget and Policy Priorities, researchers found that more than 16 million people in low- and modest-income working families, including 8 million children, would fall into—or deeper into—poverty in 2018 if policymakers fail to make permanent key provisions of two important tax credits.

Some 50 million Americans, including 31 million children, would lose part or all of their Child Tax Credit (CTC) or Earned Income Tax Credit (EITC). Both credits have enjoyed bipartisan support, and their underlying provisions are permanent parts of the tax code. Making these features permanent should be a priority for policymakers and deserves bipartisan support.

Outreach & Tax Preparation

More Rural Families Claim the EITC Than Urban Families

A new report from the Center for Rural Affairs Rural Family Economic Security project focuses on the prevalence of EITC recipients in rural America. Nationally, the researchers found that 21.4 percent of rural households claimed the EITC in 2012, compared to 18.7 percent of urban households. In this report, "rural" areas are separated from "micropolitan" areas. The authors define a micropolitan area as a county/parish based around a core city or town with a population of 10,000 to 49,999. Rural areas have fewer than 10,000 residents. Click here to read the full report. For suggested strategies for rural outreach, check out CBPP's EITC outreach online resource.

Policy

Impact of State Tax Policies on Families Living in Poverty

While most policy advocates agree that Americans who work full-time should not live in poverty, a new report from the National Center for Children in Poverty (NCCP), Taxing the Poor: State Income Tax Policies Make a Big Difference to Working Families, highlights that some state policies push working families further into poverty by imposing income tax liabilities on poverty-level earnings. The report highlights how some states utilize the EITC and Child Tax Credits to alleviate the tax burden on the working poor, other states do not. This report is released in conjunction with NCCP's 50-State Policy Tracker, a free online tool for comparing work supports that are critical for the economic security of working families, including the income tax policies discussed in Taxing the Poor.

EITC

Benefits Access

CBPP Offers a State-by-State Comparison of Marketplace Implementation

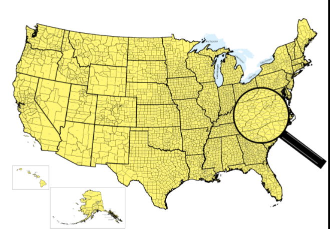
The implementation of the Affordable Care Act remains a critical issue for the upcoming tax season. Because the Affordable Care Act has provided states with significant flexibility in the design and structure of their individual Marketplaces, hundreds of policy and operational decisions had to be addressed during the Marketplace implementation process. CBPP has evaluated both State-based Marketplaces and State Partnership Marketplaces (partnerships between the federal government and states) across a number of Marketplace design questions and compiled the information in an interactive tool.

This tool should be helpful for both advocates and service providers as they strive to better understand each state's implementation of the Affordable Care Act.

Financial Empowerment

Where are the Most Unbanked Places in the US?

An estimated 9 million American households are unbanked, meaning they do not have a checking or savings account. An additional 21 million households are underbanked, meaning they may have an account but instead rely on alternative financial services. New research released by CFED and its partners highlights which communities in America are the most unbanked. Not surprisingly, the rate of being unbanked varies by factors such as race, income and education. The top ten unbanked counties in the US are all located in four states: Texas, Mississippi, Louisiana and South Dakota. The report also highlights Bank On's online data tool for researching census tract level data for communities across the country. Click here to read the article.



Interview with a Researcher (continued from page 2)

Can you highlight 2 or 3 key factors that are critical to using the tax time moment as an opportunity to build financial capacity for working families?

First, for many tax filers, withholding acts as a forced saving mechanism, and a key factor in building financial capacity is converting the refund into actual savings as part of the tax filing process. Second, Dan Ariely, a partner in this research, likes to say that, at the tax time moment, the money is yours but it's not quite in your hands. Using a "just-in-time" message that reminds filers to think about saving can help them act on their intentions to save some of the refund money. In addition, through IRS Form 8888, the filing system has an infrastructure for directing the Treasury to deposit a portion of the tax refund into a savings vehicle, and this infrastructure streamlines the process of saving.

In the past, financial literacy has been a focus of many efforts to build financial capacity with low income and working families. This is based on an assumption that with better information about finances and savings, working families could build their financial capacity. What does your research say about the efficacy of financial literacy training as a tool to build financial capacity with working families?

Providing financial information and increasing literacy is important, but information alone is not enough to change behaviors, especially the way we make financial decisions. Evidence from behavioral economics suggests that financial behaviors are determined by our individual biases; but such behaviors are also highly dependent on and influenced by the larger environment. Financial knowledge can be useful for mitigating our individual bias, but education alone is not sufficient to build financial capability. Institutional mechanisms and supportive policies are also important. For example, helping to overcome individual biases that act as barriers to savings—such as procrastination, short-term time horizons, and overconfidence—requires only small changes in existing programs, such as offering employer-sponsored saving programs that require employees to opt out rather than having to opt in. Behavioral economics shows that more people will follow the default option and become automatic savers. Asset funders and policymakers should prioritize support for efforts to provide saving opportunities that are automatic, integrated into existing financial transactions, and are low hassle for consumers.

What are the significant take-aways (key things to understand and do) for funders focused on building financial capacity of working families?

Financial capability includes both financial literacy and financial inclusion—both the ability to act and the opportunity to act. To ensure that low-income people have the opportunity to accumulate assets and to enhance their financial position, we need universal, inclusive savings policies that provide the same saving opportunities for low- and moderate-income individuals as for middle- and upper-income people. With equitable incentives and institutional supports, people of all income levels will build financial security.

Stay Tuned for 2015

In partnership with the Grantmakers Income Security Taskforce, we will be exploring strategies related to Two Generation Approaches to poverty alleviation.

Stay tuned for upcoming events and information on this front!