MASSCAP Asset Formation Initiative

Preliminary Results of Surveys and Interviews

November 1, 2007

Baseline and Follow-up Surveys for Earned Income Tax Credit Recipients

Ten community action agencies (CAAs) participated in a study conducted by the Institute on Assets and Social Policy (IASP) at the request of MASSCAP. A series of surveys were administered during the tax preparation process to:

1. identify the demographics of people receiving free tax preparation and the EITC;
2. provide information of financial patterns and behaviors of EITC recipients; and
3. better understand the role of EITC in people's lives.

The survey results will guide program development for future free tax preparation and other asset formation services, especially financial education.

At all ten first-time VITA centers run by the CAAs, tax filers who did not qualify for the EITC were asked to complete a short survey (Form A) that covered basic demographics and service satisfaction. Tax filers who qualified for the EITC completed a longer survey (Form B) that also included questions on financial indicators and behaviors, and plans for use of the EITC. At VITA centers run by the four CAAs selected for intensive study, EITC recipients completed a more in-depth survey and were asked to participate in a follow-up survey.

<u>Results for Tax Filers not Eligible for EITC:</u> Of tax filers not eligible for EITC, over 90% had incomes under $40,000 and 70% had incomes under $25,000. In areas with newly opened VITA centers, 65% of tax filers used paid services to help with tax preparation last year; thus the VITA centers saved many this expense. At the site that has previously offered VITA services, only one-third of those using tax preparation services last year paid for it, demonstrating the financial impact of regularly providing this service. Participant overall satisfaction with the services was extremely high at 99%.

<u>Results for Tax Filers Eligible for EITC:</u> Of the 677 clients who were eligible for the EITC at the ten sites, 213 completed a survey, yielding a 31.5% completion rate. Of those who completed the survey, almost 80% were between the ages of 24-54 year and 55% were single parent head of household. Although almost all had worked in the past year or received SSI, many also utilized financial assistance: 14% received TAFDC, 32% received Food Stamps, 19% received WIC, and 31% have rental subsidies.

In response to questions inquiring how they would use their tax refund, the most frequently planned use is for everyday expenses at 68%; then to pay down on non-credit card debt (55%) and/or credit card debt (42%). Almost 50% also indicated they plan, or at least hope, to put some of their refund into a savings account. Over 80% of the respondents at the four intensive study sites report owing money with 58% owing on credit cards, 43% owing for utilities and 30% having borrowed from family or friends. Of those who reported owing money, the greatest number owed between $1,000 and $5,000 (39%), but 16% owed $10,000 or more.

Forty percent of the respondents from the four intensive study sites have asked a community organization for help about financial problems in the past year. Almost 60% of respondents from all ten sites indicated they are interested in workshops or other assistance with personal finance management.

<u>Results of EITC Follow-up Survey:</u> Sixty-seven tax filers consented to allow IASP to contact them to follow-up. Of those, 39 completed surveys for a completion rate of 58%. When asked how they actually used their EITC money, 67.5% of respondents said for everyday expenses, 35% to pay down credit card debt, and 52.5% for other debt. Almost the same number of who had planned to put some of their refund into a savings account did, but the additional numbers who had hoped to save, in the end did not. Of the 35% reporting they saved some of their refund, half saved less than $500. Eighty-five percent responded that they would like to save more of their tax refund next year. When asked what would help in reaching this goal, 33% responded financial education, 28% said a savings club, and 28% indicated debt counseling.

Baseline Survey of Financial Education Participants

For clients enrolled in financial literacy education programs, IASP conducted a baseline survey at the beginning of the program. Sixty-four participants completed the survey at the first class, which was held in May and June. The survey gathered data on demographics, as well as financial attitudes, behaviors, and indicators. The survey's purpose was 1) to provide baseline data to compare with a follow-up survey (to be conducted in the second year), and 2) to guide program development, allowing agencies to tailor their financial education programs to specific needs and interests of their students.

The demographic information is valuable to understand and tailor the program to client's lives. Financial education students are 90% female and 80% have children; 90% are working with 60% working full time, 18% more than full time.

The survey identifies participants' reasons for attending and their top financial priorities. Utilizing these responses will help in recruitment and program development. Common responses involved gaining knowledge to take control of finances and manage money better. The majority also have specific goals, most frequently citing saving money and getting out of debt. The top reasons for saving are emergencies, house purchase, child's education, general family needs, vehicle purchase, and retirement. Many clients also attend because it is requirement for the agency's IDA program.

The survey also identifies financial challenges that participants face. While 87% are in debt, only 57% save money regularly and 38% have retirement accounts. When asked about financial barriers to getting ahead, the most common responses were utility bills, housing costs, daily expenses, and not bringing in enough money. Participants reported that assistance with the following can help increase savings: help paying off debts, money management skills, and knowing how to save. Program development may involve structuring classes to address these specific issues.

The survey will help guide how the financial education class can serve as an opportunity for clients to develop or deepen their relationship with the agency. Many clients already utilize agency services such as fuel assistance, housing assistance, WIC, and Head Start. In addition, 70% know someone at the agency with whom they feel comfortable talking about financial issues.

Interviews of Agency Executive and Program Directors

During July and August, IASP interviewed the Executive Directors and program directors of asset formation services at the four CAAs involved in the intensive assessment. The goal was to understand the organizational learning and capacity building that has taken place as a result of offering asset formation opportunities through receipt of EITC and financial education and for some, participation in IDA programs. The interview questions examined program design, outreach plans, staff development, relationships with clients and the community, and organizational strategies.

While retaining a little skepticism, CAA directors and program staff remarked that a focus on asset formation seems like a logical additional dimension for CAA services. The involvement in asset formation activity has led to a shift in thinking to expand financial assistance beyond crisis intervention funds and budget counseling. The focus is now on maximizing income and changing savings behavior with a goal of long-term economic security. Some view this as not only important for every client, but also for CAA staff. But it was also noted that for low-income families to succeed in building assets, workforce development remains a key factor and important role for CAAs.

Recruiting this past year for participation in EITC and financial education often targeted Head Start parents (and staff) and others receiving child care services, and housing assistance, fuel assistance and WIC clients. Next year some of the agencies plan to directly offer these services as a part of the Head Start and housing assistance programs. Some also plan to make services available through more satellite sites and in more communities. All have considered ways to involve the whole family in financial education, teaching children to save and making money management a family affair. There is also recognition of the value in having CAA staff well versed in financial education to both apply to their own lives and to better inform clients. Agency directors have identified different ways to incorporate this into staff development, but are challenged by limited funding and time to devote to staff development.

Agency involvement in asset formation programs has created greater opportunities for local collaboration, especially with banks and other financial institutions. Employees of these institutions have served as trainers for financial education and as volunteers for the VITA centers. Agency directors foresee such collaboration as opening opportunities for future financial support if documented positive impact can be demonstrated. This will enhance the potential to attract additional resources to expand these services to benefit more low-income people.