Building Financial Capability: TANF Bank Accounts

INTRODUCTION

This paper proposes a mechanism that would create automatic, no-fee bank accounts, linked with financial education, for recipients of Temporary Assistance for Needy Families (TANF) to increase their financial capability. Financial capability is the combination of financial knowledge (financial education and coaching) and financial inclusion (bank account). Automatic and no-fee enrollment into a bank account upon entering public assistance would eliminate the common barrier that low-income families experience at mainstream financial institutions as well as create a foundational product for households to begin building a personal financial safety net for emergencies and asset building opportunities. Furthermore, establishing bank accounts as a first-step financial product for TANF parents can have lasting benefits if the adults engage simultaneously with appropriate, evidence-based financial education with a financial coach. Combined, the bank accounts plus financial education / coaching can lead families toward increased financial capability and stability.

PROBLEM STATEMENT

Most Washington State families receiving public assistance leave the TANF system with no savings to weather financial emergencies. A majority of families leaving TANF enter low-wage jobs with no benefits, and a majority of adults in the program averaging 4 re-entry cycles, with each cycle lasting an average of 12 months. This population also lacks access to low-cost financial products. Research identifies that the main reason people are unbanked is they do not have the amount of money banks require to open and maintain an account. Thus, the population is using marginal financial services for their banking needs. Lacking alternatives in emergencies, families return at a high rate to the TANF program, which demonstrates the need for families to build a personal safety net through savings and financial assets.

"Bank Accounts are essentially an on ramp to economic mobility and wealth in this country." (Matt Fellows, Brookings Institute)

"To build financial knowledge, individuals need basic financial education; to build financial inclusion, they need access to affordable, financially attractive products for the opportunity to act." (Margaret Sherraden, Center for Social Development)

SOLUTION

MECHANISM: Automatic enrollment into a no/low fee bank account upon connection to public assistance benefits in the TANF program, integrated with evidence-based financial education and coaching services delivered by community service providers.

TARGET POPULATION: All unbanked TANF participants (only 6% currently use direct deposit).

ACCESS/DIVERSITY: Program design addresses banking barriers: high fees, language/culture, literacy, fear of banking institutions.

INSTITUTIONAL CAPACITY: Builds on existing Electronic Benefit Transfer (EBT) systems and relationships with national financial institutions.

SCALE: 40-60,000 WA families served each month, 40 States currently use the EBT system for TANF, national financial partners already in place.

POLITICAL / REGULATORY LEEWAY: No legislative action required to change contract with financial institution, asset limit public policy change may be needed (state waives asset rules for IDAs). This systemic change may create policy opportunities in future federal TANF reform.

COSTS: System infrastructure needed to support set up and management of bank accounts, capacity building needed with contractors providing implementation at local level (coaching/counseling). Cost savings are expected with this program and will be used to lower the Cost Case Per Month (CCPM) through bank account access.

SUSTAINABILITY: Recent state legislation passed requires TANF program to increase opportunities for bank accounts, increase financial education, and minimize banking costs to public assistance participants.

PROVEN PRACTICE MODELS: First Accounts Program (Chicago); FDIC Model Safe Accounts; AutoSave Program; $aveNYC.

Burst for Prosperity
Karan Gill or Diana Dollar
karang@chs-wa.org or dianad@chs-wa.org
206.527.3886 or 206.527.3885