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Building Financial Capability: TANF Bank Accounts

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Abstract

This chapter proposes a highly scalable model for promoting financial education and saving behavior for participants in the Temporary Assistance for Needy Families (TANF) program. In this scenario the default option for new TANF participants would consist of automatic enrollment in a low/no fee bank account, featuring checking and savings components, through which they would access their benefits. Participants who opt out of a bank account would choose either to have their benefits transferred to an Electronic Benefits Transfer (EBT) card or directly deposited into a bank account held by them prior to entering the TANF program. While in the TANF program, participants who have been automatically enrolled in a bank account would engage in ongoing financial education as well as receive savings directives at key transition points. The savings directives would be introduced when entering specific TANF-subsidized employment programs or other points when there is a shift to earned income, which has the potential to encourage saving behavior. The intervention model proposed herein suggests that the critical combination of financial inclusion for TANF recipients is realized through easy access to an affordable bank account and the acquisition of financial knowledge gained through financial education, thus resulting in what economists call financial capability. These interventions will increase the financial stability of TANF recipients, contribute to the development of saving behavior, and lead to a reduction in the rate of return to the TANF system.

Keywords:

TANF, bank account, financial capability, financial inclusion, saving behavior

Introduction

A personal financial safety net of savings is essential to survive turbulent economic times. Without access to a rainy-day fund, families live on an economic fault line that leaves them one crisis away from falling into, or deeper into, poverty. A personal safety net also allows families to seize opportunities to invest in education and other personal assets to advance in a career. One essential part of building a personal safety net for emergency savings is a simple financial product: a bank account. A study of low-income families found that almost 50 percent were able to accumulate enough liquid assets within 12 years of obtaining their first savings product, such as a bank account, to escape asset poverty (McKernan, Ratcliffe, and Williams Shanks 2011).

Unfortunately, low-income and moderate-income families, especially those receiving public assistance benefits, face significant barriers to accessing and sustaining bank accounts at large financial institutions. Nationally, nearly 25 percent of families earning under $18,900 per year are unbanked (Bucks, Kennickell, and Moore 2006). Families need both better access to such services and concrete opportunities to build their financial knowledge and skills. This critical combination of financial knowledge (financial education) and financial inclusion (a bank account) creates what many asset-building researchers and behavioral economists call financial capability. 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 (Sherraden 2010).

This chapter proposes interventions to assist TANF recipients in the development of financial capabilities and long-term saving behaviors. The proposed mechanism connects TANF participants, during the intake process, by default, to a low-fee or no-fee “TANF bank account.” This account would be paired with financial education and coaching, skill building, and savings directives. Such bank accounts would be created via the contractual arrangement between the financial institution and state social service agency that administers the Electronic Benefits

Transfer (EBT) program. The EBT contract would include a provision requiring the contracting financial institution to provide no-fee/low-fee bank accounts to every TANF participant at the time of their connection to public benefits. These bank accounts would be structured to avoid penalizing TANF recipients (and discouraging savings behavior) through overdraft fees, or minimum monthly balances. Participants can choose to opt out of a TANF bank account by electing to receive their benefits via an EBT card or through their own existing bank account. The theoretical premise is that when individuals who receive public assistance have access to mainstream financial products, such as a bank account; financial education in individual and group formats; and supports (coaching and nudges to save, such as the provision of default mechanisms by TANF and Community-Based Organization staff); they are more likely to make informed financial choices and develop the behaviors that lead to the long-term practice of saving and financial stability.

The TANF bank account would be fully liquid, thus available to cover short-term emergency needs, increase inclusion within mainstream financial services, and serve as a building block for longer-term asset accumulation. The bank account would also be portable and owned by the recipient, therefore enabling them to maintain their banking connection following their departure from the TANF system. The pairing of a TANF bank account with financial education will provide families the infrastructure to develop financial literacy, build protective savings, and eventually leave the TANF system with the propensity to maintain the habits that lead to long-term financial stability.

Background

EBT cards are typically administered by each state's TANF program agency, in partnership with a mainstream financial institution. Throughout this chapter, the Washington state TANF program, WorkFirst, will be used as the case example for other TANF programs across the country.

WorkFirst provides assistance to eligible low-income families through cash grants, work services and supports, medical assistance, and child care. As of March 2013, the maximum level of cash assistance provided to participants was $478 per month for a family of three. This assistance, divided by the 32 hours of weekly work activity required for participants to remain eligible for the program, equates to an hourly wage of about $3.73. Parents who are eligible for cash assistance can choose to be issued an EBT card that may be used as a debit card, or they can choose to have the benefits deposited via Electronic Funds Transfer (EFT) into a checking or savings account. For the vast majority of WorkFirst participants, cash assistance is deposited onto an EBT card, not deposited in a bank account. Only 6 percent of participants take advantage of direct deposit (EFT), which suggests a need to improve their access to mainstream banking (Department of Social and Health Services 2012).

The direct deposit (EFT) option provides a substantial benefit to WorkFirst participants. Participants who use this option can avoid costly transaction fees or other penalties solicited by marginal financial services, such as check cashers. EFT allows participants to retain more of their benefits to pay for essential needs such as housing and food. Moreover, it gives participants the opportunity to see firsthand the importance of a bank account, and its direct link to long-term financial stability.

Background of the EBT Partnership

In Washington state, the Department of Social and Health Services (DSHS) partners with JP Morgan Chase via a contract created through a Request for Proposals (RFP) process, which was distributed to financial institutions by the Western State Electronic Benefit Alliance

(WSEA). The WSEA procures EBT benefits for nine states and one territory (Alaska, Arizona, Colorado, Guam, Hawaii, Idaho, Nebraska, Nevada, Washington, and Wyoming) (Western States EBT Alliance 2011). JP Morgan Chase also contracts with twenty-five other states to disburse benefits electronically (USDA 2013). Other financial institutions that contract with TANF administrators throughout the nation include US Bank, Xerox (ACS), Evertec, and FIS Global.

In Washington state, JP Morgan Chase was chosen as the contracting financial institution in 1995. The contract was scheduled to terminate in 2014, but the latest renegotiation completed in August of 2012 extended the contract until 2019. Distributing TANF benefits electronically is now common practice in forty other states because it is less expensive than printing and mailing checks and has decreased the potential for fraud by eliminating paper coupons that can be more easily bought and sold in exchange for cash. EBT cards have also provided a cost benefit to states by lowering the cost of administering paper checks.

Families on TANF have benefited from the use of EBT cards. Participants can now access their money more efficiently and at multiple access points. The EBT card has also helped alleviate the social stigma participants experience when they are visibly associated with accessing public benefits through paper coupons. In each state, the EBT card varies in its own unique set of benefits to the recipient. For example, each state has its own cost per case month (CPCM) structure and each state provides different services in transferring benefits (USDA 2013). Families benefit when state costs are lowered, allowing more TANF funds to be directed to services and benefits.

Yet, there are disadvantages to electronic benefits for both families and states. For the family, the EBT card does not permit direct deposit of other sources of income. Additionally, the cards are owned by the state, not the recipient, and they are not portable, nor can they be used for any other purpose when recipients exit the TANF system. Lastly, no formal banking or savings components are tied to EBT cards. The EBT card in its current state does not encourage the self-sufficiency and financial behavior required to remain off public benefits, permanently.

Although Washington state has recently taken successful action to eliminate costly institutional fees for WorkFirst families, such as the $0.85-per-transaction automated teller fee (ATM) (which resulted in more than $1.2 million in revenue per year for Chase), ATM-related fees remain (Department of Social and Health Services 2012). The charges incurred by WorkFirst families at non-Chase ATM machines totaled more than $890,000 in the first four months of 2011 (Jenkins 2011). Participants can only avoid this transaction fee if their benefits are deposited directly into a bank account with that particular financial institution. However, as previously mentioned, up to 94 percent of TANF families do not take advantage of direct deposit, which is indicative of the need to streamline their access to a bank account (Department of Social and Health Services 2012).

Problem to be Addressed

Families on public assistance usually leave the system without savings to sustain them in future financial emergencies. The high return rate of families on welfare is one of the most compelling factors underscoring the need to help families access mainstream financial banking services and build a personal safety net through developing saving behavior and financial assets. The majority of families leaving welfare enter low-wage jobs with no benefits, and only 13 percent of them reach earnings above 200 percent of the federal poverty level 36 months after leaving WorkFirst (OFM WorkFirst Performance Team 2008).

Without any emergency financial savings, families holding low-wage jobs with little or no benefits are just one health emergency or vehicle repair from falling back into the public safety net and stuck in a cycle of poverty. WorkFirst data are consistent with data from other state welfare programs. The data reveal that:

- Approximately 41 percent of the State Fiscal Year 2007 adults receiving TANF benefits cycled off and back on TANF at least once during a three-year follow-up period (WorkFirst Subcabinet 2011).
- From 1997 to the present, many families have experienced multiple cycles in the program. About 65 percent of adult entrants each month previously received TANF (OFM WorkFirst Performance Team 2008).
- An adult averages a total of four re-entry cycles, with the average length of each cycle about 12 months long (OFM WorkFirst Performance Team 2008).
- The average and median length of TANF spells have changed very little over time, while the average number of lifetime months (28.8) on TANF has steadily increased over time (OFM WorkFirst Performance Team 2008).

A bank account with a pool of savings is a critical tool on the pathway out of poverty, increasing the resilience of families during financial emergencies. “Bank accounts are essentially an on-ramp to economic mobility and wealth in this country,” explains Matt Fellowes, an expert on consumer finance with the Brookings Institution. “Without access to that on-ramp, people are basically living in a cash economy where there’s no opportunity to convert that into wealth” (Buchanan 2007). The data also support the positive association between bank accounts and financial security. “Controlling for income and other factors, lower-income individuals with bank accounts are 43 percent more likely than those who are unbanked to have positive net financial assets of any kind," per Michael Stegman, Marta Rocha, and Walter Davis (2004) in *The Role of Technology in Serving the Unbanked*. Furthermore, federal data indicate that while more than three-quarters (77 percent) of banked households have some savings, this is true of just one-third (32 percent) of all unbanked respondents (Stegman, Rocha, and Davis 2004).

Unfortunately, bank accounts are difficult for many low-income families to attain, especially those accessing public benefits. There is a large unbanked population within the TANF program: other things equal, in one state TANF families are 70 percent less likely than other low-income families to have a bank account (Stegman and Faris 2005). In Washington state, only 6 percent of recipients use direct deposit to receive public assistance benefits in a personal bank account, indicating that most families are not using a mainstream checking or savings account to meet their monthly expenses. Such findings are consistent with research that shows people with low incomes frequently lack access to mainstream financial institutions, and are significantly more likely to use marginal financial services like payday loans to meet day to day expenses (Pew 2012). As well, even the TANF families with bank accounts may not have access to the financial coaching and supports to learn how to effectively manage their financial services.

Research indicates that the main reason people are unbanked is they do not have the amount of money banks require to open and maintain an account (Chan 2011). Fifty-nine percent of unbanked people cite banking fees and minimum balance requirements as reasons why they have not opened a bank account (Sherraden 2010). The most common account products typically require $25-$100 for an opening deposit, and they require either a minimum balance of $300 or direct deposits of $25 each month from a checking account at the same institution to avoid paying a $5 or more monthly fee for the account. These fees are significant barriers considering only 8 percent of people making under $25,000 annually have enough money in their bank accounts to meet minimum balance requirements (Chan 2011).

The 2011 National Survey of Unbanked and Underbanked Households showed that banks have affordable checking and savings products, but they appear to avoid marketing these products to underserved populations (Rhine and Robbins 2012). Furthermore, the use of marginal financial services is one of the many factors keeping families stuck in a cycle of poverty. As explained in *Welfare, Work and Banking: The Use of Consumer Credit by Current and Former TANF Recipients in Charlotte, North Carolina*, seventy-five percent of current welfare customers have become chronically dependent upon payday loans, drawing at least one loan a month over the past two years (Stegman and Faris 2005). As well, more than half of TANF families borrow at least biweekly. Continually relying on payday loans to make up deficits makes the pathway to work from welfare difficult (Stegman and Faris 2005). This barrier can be better remedied with streamlined access to a mainstream financial institution.

Behavioral economists also reveal multiple barriers for low-income families in accessing products in mainstream institutions. They address a vivid scenario for many families: "to the extent that the poor find themselves in situations (e.g., filling out an application at a bank) that are somewhat unfamiliar, threatening, or stigmatizing (all of which can consume cognitive resources), fewer resources will remain available to process the information that is relevant to the decision at hand," explains Marianne Bertrand, Sendhil Mullainathan, and Eldar Shafir (2006) in *Behavioral Economics and Marketing in Aid of Decision Making Among the Poor*. To alleviate this, behavioral economists recommend making the task of meeting with the bank more appealing, such as is done in the First Accounts Program with automatic enrollments (see "Evidence of Effectiveness" section).

Furthermore, behavioral economists identify various financial behaviors that impact participation in the financial mainstream (Bertrand, Mullainathan, and Shafir 2006), noting that:

1) Low-income employers often do not require or propose paying employees electronically, which prevents a direct deposit option. As a result, many low-wage workers cash their paychecks (often after hours) at alternative financial institutions, at relatively high interest and cost.
2) Multiple alternatives at mainstream institutions that are provided without the appropriate financial education further dissuade the unbanked.
3) Mainstream banking institutions are not typically situated in high-poverty neighborhoods, making them difficult to access physically, if regular transportation is unavailable.
4) Low-income people believe that banking is for those with wealth and not for those with lesser means. They may not identify with the persona of being banked.

Such factors emphasize the importance of connecting every public assistance participant to a bank account and financial education to build their financial capability.

Regardless of income, all families need to improve their financial skills in order to save and build assets for the future. Although some financial training may increase saving behaviors in the short-term, research has found that it does not affect people's long-term financial behavior unless training is combined with the opportunity to act (Sherraden 2010). The ability to act is critical when learning any new skill, and is especially true of budgeting, saving, and investing.

One of the pioneers of asset building, Margaret Sherraden (2010), summarizes this need: "if low-income families are to have the opportunity to act in their own best financial interests [be financially capable], they need access to quality financial products, including, at a minimum, a transaction account, a savings account, affordable and small dollar credit, simple insurance products, and if possible, low-cost investment and emergency savings products." A comprehensive approach to asset building that combines opportunities to save with financial education shows the strongest potential for generating real upward economic mobility towards financial security.

In *Nudge: Improving Decisions About Health, Wealth, and Happiness,* Richard Thaler and Cass Sunstein (2009) explain that people often choose options that require the least amount of effort. If, for any given choice, there is a default option – "an option that will [be selected] if the chooser does nothing," it is then expected "a large number of people to end up with that option…" (Thaler and Sunstein 2009, 85). Additionally, the "tendency to do nothing is reinforced if the default option comes with an implicit or explicit suggestion that it represents the normal or even the recommended course of action" (Thaler and Sunstein 2009, 85). Given the challenges of the low-income population to connect to mainstream banking services and engage in saving behavior, the design of a supportive infrastructure is crucial to encouraging the development of assets and long-term financial stability.

Bertrand, Mullainathan, and Shafir (2004) propose that using behavioral tools, such as defaults, can provide several routes to improve banking and saving choices among the low-income population. First, policies that establish better default options should be explored; recipients of public benefits may find it easier to open a bank account to which their benefits are electronically deposited (Bertrand, Mullainathan, and Shafir 2004). Additionally, defaults may also help stimulate higher savings (Bertrand, Mullainathan, and Shafir 2004). Lastly, policies that encourage connecting the low-income population to bank accounts may lead to improved savings and budgeting, in general. The opening of a checking account can provide access to services such as automatic payments to aid in reducing the occurrence of late bills and an increased utilization of saving accounts, partially as commitment devices, which can increase savings (Bertrand, Mullainathan, and Shafir 2004).

Proposed Intervention

To ensure that public assistance systems encourage recipients to gain financial capability, and develop long-term saving behavior, state contracts with EBT-administering financial institutions should also include the provision that the institution provide no-fee or low-fee bank accounts (financial inclusion) to all public assistance participants, at the time they first connect to public benefits. The provision of bank accounts would serve as the default option for new TANF participants to receive their benefits. After intake into the TANF system, benefits would be directly deposited into the checking accounts of the newly banked. Participants who opt out of this option would access their benefits via an EBT card, or their own pre-existing bank account. Bank accounts should be combined with best-practice financial education and coaching, including savings directives at key transition points during the TANF program.

Goals

A Bank Account – Financial Inclusion

The default option to become connected to a no-fee or low-fee a bank account upon entering public assistance would eliminate the common barrier that low-income families experience at mainstream financial institutions. This intervention provides a foundational product for households to begin building a personal financial safety net for emergencies and developing asset-building opportunities. This intervention also seeks to preserve personal choice in the receipt of public benefits and access to mainstream banking services.

Studies show that liquid assets, such as emergency savings funds, can play a greater role than income in protecting families against hardship and preventing them from falling back on the government safety net (Gill, Kinne, and Watts 2011). The National Bureau of Economic Research released a study in 2011 that showed approximately one-quarter of Americans lack the capacity to cover an unexpected expense by coming up with $2,000 within thirty days. In addition, a piloted demonstration project that tracked the economic state of low-income families over a period of time revealed they experienced an average of one financial hardship every eight months (Lusardi, Schneider, and Tufano 2011). The frequency of hardships provides insight into high return rates for government assistance. It also demonstrates the need for tools such as bank accounts that can help families build a personal safety net to sustain them during financial emergencies. This sentiment is echoed by leading researchers in the asset-building field; Bertrand, Mullainathan, and Shafir (2006), who suggest that permitting families to retain EBT-issued bank accounts, after existing the TANF program, could be important to their financial stability.

Financial Education and Coaching – Financial Knowledge and Stability

Encouraging bank account access as a first-step financial product could have longer lasting benefits if the adult has the opportunity to engage with evidence-based financial education and a financial coach who can promote successful money management and long-lasting saving behavior. Financial coaching is a practice model that focuses on both the nature of the client-worker relationship and practical development of financial knowledge and skills. This approach to asset building affirms that all people, regardless of their existing financial situation, have the personal strengths and capabilities to engage in purposeful action to build financial assets. The coaching model places the client in the driver’s seat while setting personal goals, making informed choices, and working to develop concrete knowledge, skills, and abilities to achieve financial stability.

In the proposed intervention, recipients of TANF who choose not to opt out of a bank account upon program intake would receive targeted financial education and coaching by a state-level agency case manager at three specific transition points within the TANF lifecycle:

Financial Decision Point 1 – On-Ramp to Savings

Upon intake into the TANF system, participants will be enrolled into a Chase bank account to receive their benefits, by default. At which time, a DSHS Case Manager provides an overview of the mechanics of having a bank account, such as the difference between a checking and savings account, where their benefits will be held, and how to access their benefits. Participants who opt out of receiving a bank account will have their funds transferred to an EBT card, or their own pre-existing bank account. The provision of a bank account as the default mechanism allows for an infrastructure where families can develop the financial literacy required to begin the process of developing savings.

Financial Decision Point 2 – Building Savings

Following intake into the TANF system, TANF recipients typically embark on one of many parallel job readiness pathways, such as Community Jobs. (In this paper, the Community Jobs pathway will serve as an illustration of the functionality of this particular savings decision point, within the TANF lifecycle). Community Jobs is a full-time WorkFirst activity that provides participants with paid, temporary employment for up to six months. Within this pathway, the participant's employer, a Community-Based Organization (CBO), will provide the employee wages via state funds, in place of their TANF cash grant. When a TANF recipient obtains employment through Community Jobs, they will receive additional financial education and financial coaching from a trained case manager at their work site; they will engage in a discussion regarding their increased wages and learn further how to utilize a bank account with checking and savings components.

Also at this juncture, by default, two percent of the TANF participants' wages will be deposited into their new savings account, at each pay period, unless they opt out of this mechanism, or indicate a preference to increase the amount of savings withheld. Participants who choose not to save will have their full wages deposited into their checking account. The inclusion of an automatic savings mechanism will further empower families to build assets and also develop the habit to associate payday with saving.

Financial Decision Point 3 – Maintaining Savings

TANF recipients who obtain permanent employment following participation in Community Jobs will prepare to transition out of the system. At this juncture, they will receive financial education from a state-level agency case manager, which aims to support and continue the savings behaviors established while in the system. They will be encouraged to keep saving a percent of their income while gainfully employed, as well as educated on the benefits of building a savings account. Lastly, participants will be provided the tools to access their bank account and other available community financial literacy resources following their transition from the TANF system.

TANF recipients who do not receive employment following participation in Community Jobs will continue to receive TANF benefits through their bank account. The continuation of their savings behavior will be encouraged by a state-level agency case manager with the expectation that clients will determine the amount of savings set aside as they receive TANF benefits each month. The recipient may likely reduce the amount of money directed into their savings due to a reduction in their income.

Target Population

The proposed intervention targets public assistance recipients in the TANF program, who are primarily single mothers with children. In Washington state, eligibility for TANF benefits means the family must not hold more than $1,000 in liquid assets and vehicle equity cannot exceed $5,000. For a family of three, the maximum earned monthly income limit is $955. Such eligibility requirements and asset limits reinforce that TANF recipients are among the most economically vulnerable populations in the community.

According to the FDIC, 28.2 percent of US households earning less than $15,000 a year (versus 0.4 percent of households earning more than $75,000 a year) and 25.8 percent of households without a high school diploma are unbanked (Kim 2012). Furthermore, in a national survey to assess the financial capability of adults, the US Department of the Treasury found only 49 percent of respondents had set aside funds sufficient to cover expenses for three months in case of sickness, job loss, or other emergency (Financial Industry Regulatory Authority 2009).

North Carolina also surveyed its TANF population to understand their banking needs, and found that nearly 40 percent of TANF households in North Carolina are unbanked (Stegman, Rocha, and Davis 2004). This same survey revealed that children who grew up in low-income families that were banked were over six times more likely to be banked as adult householders than children who grew up in low-income families that were not banked (Stegman and Faris 2005). These results support the idea that many families are one emergency away from falling on or back onto the public assistance system, underscoring the need for a bank account as a vehicle to build emergency savings.

Scale

Forty states (including Washington) disburse TANF benefits electronically. Achieving statewide scale for this proposed intervention would require renegotiating Washington state's contract or establishing new requirements for future financial institution contractors during the next round of RFPs (not due until 2016). More viable opportunities to achieve statewide scale include proposing a policy change to establish a statutory requirement, or creating a separate collaboration between the financial institution and the state that is an extension of the existing relationship. Washington state's experience brokering such an arrangement could provide a model for other states to adopt, and provide key insights into important considerations in the process. Maximum scale (national adoption) of a TANF bank accounts program as proposed would require each state to negotiate the establishment of accounts through their existing contracts with the financial institutions that provide those services, or require a federal policy change in the TANF program. Furthermore, the established TANF bank accounts could connect to other federal public benefit programs, such as the Supplemental Nutrition Assistance Program (SNAP), thereby increasing the number of people who would have the opportunity to build their financial capabilities.

In Washington state, statewide scale would impact a large, economically vulnerable population. The welfare (WorkFirst) program typically serves approximately 40,000 to 60,000 low-income families each month, presenting the opportunity to achieve significant scale. As stated in the problem statement section, behavioral economics point to the administrative ease of enrollment as a significant factor in increasing the take-up rate of financial tools. More streamlined enrollment is also supported by piloted projects and research that shows savings works best as a default (Bertrand, Mullainathan, and Shafir 2006). Scaling up the program would create the ability to study families who enroll in a bank account based on their location, and/or utilize automatic savings mechanisms. It would also allow researchers to learn about the value of default enrollment and its positive impact on savings, access to liquidity, and personal financial capabilities.

Institutional Capacity

The proposed mechanism builds on pre-existing relationships. One of the greatest benefits to this approach is that the necessary partners are already in place due to the existing contractual arrangement between the financial institutions and the state social service agencies. Additional infrastructure is required to develop financial training for DSHS staff, state-level agency staff, participants, and community-based partners, along with the mechanism for delivering it.

Also, the TANF population is diverse in Washington state, where 15 to 20 percent of the caseload is Hispanic and Asian (Department of Social and Health Services 2010). Therefore, the financial education component would need to be made available in a number of languages, with awareness toward the cultural differences of the caseload. Consideration must also be given to participants' levels of literacy and basic education and other personal factors which may influence their engagement in the process.

Furthermore, financial coaching would need to be integrated into the system to help parents achieve true financial capability. A study commissioned by The Prosperity Agenda, a Washington state-based research and policy institute, assessed the financial capabilities of more than 130 service providers throughout the state and found critical gaps in financial knowledge and skills used in their work with low-income adults. The study also indicated that in some key content areas, staff showed lower financial capabilities than those of the general population, based on a national survey (Loke 2011). This suggests that it may be important for service providers to be trained on the theoretical importance of using behavioral economics principles, such as choice architecture and decision points, to encourage long-term saving behaviors, in TANF recipients. As well, it may be important to conduct periodic and objective assessments of staff financial capabilities, along with the development of a comprehensive training plan, so that service providers can improve their effectiveness in helping families break out of the cycle of poverty and get on the path of wealth creation.

Finally, the basic structure of the TANF bank accounts allows for the additional integration of behaviorally-informed tools that increase the consistency of savings behaviors. The accounts represent a foundation on which other promising interventions can be built, such as savings targets, the use of anchors to encourage automatic savings, technological nudges, reminders to save, and the timing of bills and deposits. Further capacity building and program structure may be necessary if these enhancements are adopted at a later date.

Political/Regulatory Leeway

The proposed mechanism has multiple options to become administratively and politically feasible for implementation. The state agencies that administer the contract with the financial institution may adopt a provision for bank accounts within the state's EBT contract without legislative action. This may require a renegotiation with the financial institution or a separate agreement to provide bank accounts for the population receiving benefits electronically. The option that would provide the greatest protection against having a bank account provision negotiated away at a later date is a statutory change to require the inclusion of bank account access in future contracts between the state and a financial institution.

Though the savings directives illustrated in this paper may not result in TANF recipients exceeding the $1,000 liquid asset limit, the state may need to consider statutory changes that allow for the accumulation of adequate savings to support families to transition off of public benefits permanently. Although many states have strict limits for amount of countable assets that public assistance recipients are permitted to remain eligible for benefits, some states are beginning to eliminate these limits altogether. Washington state continues to enforce one of the most restrictive asset limit policies in the nation, despite evidence that states without asset limits demonstrate reduced administrative costs and no increase in caseloads due to increased assets among participants (Rand 2007).

In Washington state, stakeholders and advocates of asset building strategies have already opened some policy windows to make the statutory changes that would be necessary to implement the program. During the 2011 State legislative session, Senate Bill 5921 was signed into law to revise social services within the WorkFirst program, and included a request to develop “strategies to increase opportunities for public assistance recipients to maintain bank accounts, increase financial education and management skills that will help minimize recipients’ costs associated with banking fees and automated teller machine (ATM) transaction fees” (Department of Social and Health Services 2011). The strategies included ways DSHS would enhance financial education opportunities, deliver financial training for frontline staff, and partner with community-based organizations and financial institutions. Specific to bank accounts, the strategies in the bill included “collaborating with for-profit financial institutions that offer incentives to open bank accounts” and “offering low-cost checking and/or savings accounts that restrict over-expenditures and waivers to monthly banking fees and ATM surcharges or transaction fees” (Department of Social and Health Services 2011).

This legislation provides a public policy opportunity to connect WorkFirst participants directly to bank accounts during the redesign process. In 2012, the efforts of many stakeholders, including The Prosperity Agenda and the Service Employees International Union (SEIU), played a significant role in working with DSHS to eliminate ATM fees associated with the last contract renegotiation. The stakeholders worked with over thirty bipartisan lawmakers to support DSHS in improving this contract. Thus, in addition to the momentum, stakeholders feel uniquely positioned to work with key players to incorporate bank accounts into the WorkFirst program.

With respect to national policy, the proposed mechanism suggests that issues regarding banking, financial education, and savings to low-income households should play a more significant role in congressional deliberations around reauthorization in the next generation of welfare reform.

Costs and Sustainability

The cost of this proposed mechanism could be minimal given Washington state's success in renegotiating its agreement with JP Morgan Chase, which resulted in a cost savings of $4.5 million. This level of cost savings could open the way for investment in the building of an appropriate infrastructure that automatically connects participants to a bank account when they apply for public benefits. This means that states which renegotiate terms of their EBT contract must clearly stipulate in the Request for Proposal that it is a requirement of the financial institution to provide bank accounts for each TANF recipient (unless the recipient chooses to opt out). The potential additional cost of offering bank accounts, which would likely be passed onto the state, could then be covered by any cost savings realized in the renegotiation process.

Another option may require that some costs be borne by the TANF participant. This is clearly not an ideal situation given that participants already receive a low cash assistance grant.

However, strong financial education coupled with the account would allow TANF participants to avoid the bank account costs that consumers face in the financial mainstream. If fee structures are kept low enough, the cost should result in a net financial benefit to recipients. This underscores the importance of having fair and sustainable accounts offered by the contracting financial institution to facilitate low-income consumers' access to and maintenance of these bank accounts. Electronic transfers of benefits directly to no-fee or low-fee accounts at financial institutions can promote individual savings and banking, while reducing costs of delivering and accessing benefits.

In addition to the related infrastructure costs of the program, investment will be needed at the to promote effective capacity building for staff delivering the financial education and coaching services. High quality workshops and training support for staff and community-based organizations should not only be made available, but also offered on a continuous basis given the high level of turnover of frontline staff in the social and human services industry.

Evidence of Effectiveness

According to research and piloted programs, four essential elements are needed when designing a low-cost and high-quality bank account for low-income consumers: minimal fees, direct deposit ability, convenient features, and incentives (Chan 2011). The creation of a TANF bank account program would offer participants the convenience of and access to a no-fee or low-fee account, along with minimal fees and the ability to directly deposit their benefits and any earnings they gain from employment as they transition into the workforce. Four programs that have integrated these components into their design on a smaller scale than the proposed mechanism have shown great promise: First Accounts, FDIC Model Safe Accounts, AutoSave, and $aveNYC.

The First Accounts program was a 2002 initiative of the US Department of the Treasury to expand access to traditional financial institutions for the "unbanked." The program in Chicago partnered with community organizations and financial institutions to provide low-fee or no-fee checking accounts. The program offered accounts with low fees or no fees that had no strict balance requirements to attract the unbanked. In the pilot of the program, 1,428 accounts were opened, and over 89 percent of these accounts carried an average balance of $134.92. Other savings came as program participants used fewer alternative financial service providers. About 72 percent of participants used check cashing services an average of 3.8 times a month prior to entering the program, but only 18 percent of participants surveyed who opened an account are still using check cashing. The accounts also had a significant impact on financial behavior. Ninety-two percent of accounts had positive balances in the month surveyed, and 34 percent of these accounts had a balance of $100 or more. More importantly, 88.6 percent said the checking account changed the way they managed their finances (Marzahl, Owen, Neumann, and Harriman 2006).

The FDIC Model Safe Accounts program reduces the opening deposit and minimum balance requirements to $5 and eliminates monthly fees when the minimum balance is met (Marzahl et al. 2006). The national pilot, launched in January 2011, includes nine financial institutions that volunteered to offer unbanked and low-income consumers deposit accounts with core features for safe, low-cost transactions and basic savings account products. As with the EBT system, the accounts are predominately electronic and card-based, which allows withdrawal through automated means. Additionally, as recommended for the automatic enrollment for TANF participants, there are no overdraft or insufficient funds fees associated with the transactional accounts. Outcomes will be available in the early part of this year, but according to the FDIC early results are promising.

The AutoSave program is set up at the workplace by partnerships with financial institutions and employers to create an automatic savings program for employees. The AutoSave program streamlines account opening and minimizes the need for consumer decision-making and paperwork. Once initiated, savings deposits are made automatically by the employer in each pay period, until the employee either decides to stop the deposits or separates from the employer. It is worth monitoring this program to see if this innovative idea improves job performance, retention, or pursuit of education and creates an effective working relationship between low-income consumers, mainstream financial institutions, and employers and to gauge. It is also worth learning what account balance participants can accumulate in lower-wage employment (Schultz 2012).

The $aveNYC program partners with banks and credit unions to establish savings accounts at free tax preparation sites to allow a portion of their tax refunds to be directly deposited into an account with a match to reward those savings. For example, if participants save for one year, the administrator provides a 50 percent match, up to $500. Allowing a portion of tax refunds to go directly into an account can be an attractive feature and incentive for welfare participants to find work and increase their account balances. From 2008 to 2010, participants with an average income of $17,504 opened 2,675 accounts with an average savings of $531. Furthermore, like the TANF population, 50 percent of the participants had no prior bank account and only 67 percent were working full time or part time.

The evidence from these programs not only dismisses the perception that low-income families cannot save, it also shows the promise of building personal safety nets with a simple foundational product of a bank account as a vehicle. The four pilot programs mentioned and other research have consistently proven that low-income families have the ability to save at low rates and still pay for essential needs if given access to banking services (Sherraden 1991).

A bank account for TANF participants that includes the key elements shown to be effective in these pilot programs and in other research could help families on public assistance attain financial capability on a large scale.

Limitations

Potential limitations will surface with the implementation of this proposed mechanism. The first limitation lies in the EBT contracts that states have with financial institutions. The social service agencies and financial institutions must be willing to enter into renegotiations of their existing contracts. The agencies must believe that providing bank accounts to TANF participants is as important for participants' financial well-being as connecting TANF participants with work.

The second limitation comes with the knowledge and skill base of service providers. Staff may not be at a competency or comfort level needed to support effective transfer of financial knowledge to the TANF recipient, making it necessary to provide ongoing high quality service provider training. This training should provide staff with the right level of knowledge and skills needed to implement a new benefits vehicle and engage recipients in a financial education framework that encourages saving behavior. Service providers should also have sufficient knowledge of the mainstream banking system, the mechanics of traditional bank accounts, and the theoretical importance of a behaviorally-informed education plan. This will require time and resources on the part of the state and engagement by service providers, who may already be strained by their current client responsibilities, or apprehensive in learning a new approach to support their clients on the path to stability. Training and support for staff should also be offered on a continuous basis, given the high level of turnover of frontline staff in the social and human services industry.

A third limitation may surface if states have no economic incentive for EBT contractors to provide bank accounts for TANF participants. Under some state EBT contracts, the financial institutions are paid a lower fee cost per case month for clients who receive cash benefits via direct deposit than for those who receive benefits via EBT (Stegman, Lobenhofer, and Quinterno 2003). But evidence shows that direct deposit to a bank account has lower costs than a deposit onto an EBT card. For example, Missouri reported that a direct deposit account costs about $0.10 per month to maintain, compared to $0.58 per month for an EBT cash account. (Stegman, Lobenhofer, and Quinterno 2003). The move towards promoting direct deposit into a bank account established at application could equate to substantial savings for the state.

Finally, one limitation that may be corrected within the contract agreement itself pertains to banks hesitating to open accounts with customers listed in the Chex Systems. Chex Systems is a private clearinghouse that many banks use as a source to examine an individual's prior banking history, and can be used to determine whether an account will be granted to the individual. To avoid this formal barring, states would have to establish that every TANF participant, regardless of banking history, has an opportunity to connect to a TANF bank account with the contracting financial institution.

Evaluation

The evaluation will assess the effectiveness of a bank account, financial education and automatic savings as drivers to move TANF families toward the intended goal of achieving sustainable financial capability upon exiting the system. The evaluation focuses on measuring individual-level behavior change and systems-level changes. Individual behavior change will be measured by evidence of financial capability defined as making decisions, taking action, and maintaining specific financial behaviors while demonstrating understanding of financial and asset building opportunities. At the systems level, the impacts to the public assistance system will be evaluated, such as a potential reduction to the return rate onto TANF or an extended duration from the point of exit from TANF and a future return onto TANF, attributed to the use of savings from the proposed mechanism of a TANF bank account. Any integration of financial capability training materials and related strategies into the TANF program professional development practices will also be evaluated.

At the individual level, the evaluation measures the effectiveness of the proposed mechanism as it contributes to:

- Participant demonstration of financial capabilities evident in financial self-efficacy and knowledge of financial habits measured through participant questionnaires and post-education session assessments;
- The number of TANF participants who have savings and checking accounts and who save money regularly; and
- The amounts of money families have in emergency and opportunity savings as they transition off assistance.

At the systems level, the long-term goal is to assess the effectiveness of the mechanism by comparing the numbers of clients who exit TANF and remain off TANF or who have an extended delay before returning to TANF.

The evaluation should answer the question as to what is more effective to increase the saving behavior of TANF participants, the combination of a bank account, financial education, with automated savings, or the dual focus on financial education and an account or EBT, or the single components of financial education, EBT, or a bank account.

To assess for the mechanism effect, the evaluation answers these additional questions:

1) To what extent does the financial mechanism – the combination of a new bank account, financial education, and automatic savings – contribute to changes in financial behavior for TANF participants that are evident in regularly saving money and creating assets?
2) To what extent does the combination of the features of the financial mechanism in comparison to single components – a new or existing bank account alone, the EBT card, or financial education – lead to changes in TANF participants' financial capability?
3) What are the effects of the financial mechanism on TANF participants as measured in two financial outcomes: the total amount saved, amount saved in emergency savings and in opportunity savings?
4) What are the comparative financial results, measured in accumulated savings amounts, for each of the groups of the TANF participants, those who engaged in the full financial mechanism, or who received only financial education, the EBT and financial education, or only the EBT?
5) What are the system effects as measured by the numbers of TANF participants who exit and remain off TANF who had completed the financial mechanism or other education or financial components?
6) To what extent does engagement in the financial mechanism or just the components contribute to the duration that TANF participants remain self-sufficient before returning to TANF?

The evaluation would be a randomized multi-group design implemented in matched sites to compare the outcomes of groups of TANF participants and the effectiveness of the financial mechanism. The program (mechanism) group of TANF participants starts a bank account, receives financial education, and is offered automated savings. The four comparison groups of individuals have some combination of the typical DSHS services which are either the participant's own bank account for direct deposit of benefits or the EBT, along with the addition of the enhanced component of financial education provided at the defined financial decision points.

Group	**Financial option**	**Financial education**	**Optional service**
Program group	New bank account	Yes – at decision points 1-3	Automatic savings offered when engaged in employment program
Comparison 1	Existing bank account	Yes – at decision points 1-3	None
Comparison 2	Existing bank account	None – except intake financial overview on direct deposit	None
Comparison 3	EBT card	Yes – at decision points 1-3	None
Comparison 4	EBT card	None – except intake financial overview on benefits to EBT	None

The design allows for assessing the results of the full mechanism in relation to the components in order to identify what is the most effective approach to bring about the TANF participants' savings behavior that will lead to financial stability and decreased TANF return rates. The analysis would include logistic regression techniques for each of the outcome variables such as having emergency savings or remaining off of TANF for a certain length of time. This analysis would use the intervention assignment (bank account, financial education, automated savings, and combinations of these components) as the predictors. The evaluation will initially be conducted in one state where the cooperation of selected DSHS offices will be procured. The offices will be selected after the analysis of de-identified client level data to select intervention sites which can be paired with comparison sites where the client populations are most similar in demographic characteristics, including age, gender, ethnicity, household size, education level, employment history, and languages spoken.

The assignment to either the program or the comparison group is done at the site level so that all of the eligible clients in one office are in a group that receives financial education or does not receive financial education. At selected sites there is no enhanced financial education offered by the DSHS case managers or through the CBO staff. This approach will reduce a potential contamination effect that would be more likely to occur with random individual level assignment to one of the groups within the same office. While random individual assignment to one of the program or comparison groups would be a preferred design, there would be many logistic challenges to implementing and consistently maintaining accurate individual random assignment when carried out by many different staff members in multiple sites. The designation of offices as a program or as a comparison site is also more acceptable to the cooperating study site regional administrators at the DSHS.

Conclusion

The proposed mechanism to build financial capability contends that giving families who receive public benefits the opportunity to establish a bank account supported by a savings directive can serve as a tool to build a personal safety net. Establishing a default bank account, supported by financial education and savings directives, can be critical methods for promoting long-term asset development. The TANF bank account product and model outlined in this chapter is one such instrument.

To promote successful saving outcomes, it is recommended that the appropriate state agency emphasize outcome-based accountability that measures two key objectives:

1) Families with TANF bank accounts create and grow their personal savings; and
2) TANF families with bank accounts return to public assistance at a reduced rate.

In measuring this first outcome, the state is assured that participants leaving TANF have acquired the financial literacy to develop and maintain a personal savings account, which can increase their potential for financial self-sufficiency. Measurement of this outcome also indicates the level of quality education and support provided by state-level agency case managers. The second outcome will measure any change that occurs at the systems level, thus revealing a possible connection between providing TANF families bank accounts and a resulting decreased rate of their return to the system.

This single systemic change to the EBT structure could represent a starting point for an asset-building opportunity with the most economically vulnerable families. The creation, maintenance, and protection of TANF bank accounts would take involvement and effort from all parties – the public assistance systems, the financial institutions, and most importantly, the families. Public assistance systems that allow and promote asset-building opportunities with this model will not only improve access to bank accounts, but also create greater opportunities for financial education. The chosen financial institution that offers a low-cost product as part of its return for profitable contracts with the state can show value in a financial institution's stake and effort in the community. Finally, families who are committed to building assets in pursuit of a pathway towards financial security improve their chances of leaving the system with an infrastructure that supports their movement toward financial self-sufficiency and well-being.

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