



# Financial Empowerment

Improving financial outcomes for low-income households



# 1. WHAT IS FINANCIAL EMPOWERMENT ?

Financial Empowerment is a new approach to poverty reduction that focuses on improving the financial security of low-income people. It is an evidence-driven set of interventions that have proven successful at both eliminating systemic barriers to the full financial inclusion of low-income people and providing enabling supports that help them to acquire and practice the financial skills and behaviours that tangibly improve their financial outcomes and build their financial security.

The Financial Empowerment approach focuses on community level strategies that encompass five main types of interventions that have been identified as both necessary for low-income households to improve their financial outcomes, and effective at helping them to do so. These are set out in figure 1 below.

Financial Empowerment strategies are not designed to replace other important poverty reduction interventions, but to be a complementary set of interventions that, in many cases, can be built into other existing programs to improve their outcomes (e.g. social assistance, employment, housing, settlement...). This has become known as the 'supervitamin' effect – boosting program outcomes by

addressing underlying financial issues that many programs currently ignore or are not equipped to address.<sup>2</sup>

To illustrate, few frontline community or government personnel serving low-income clients are currently trained or supported to address key underlying causes of financial vulnerability. In many cases, however, these problems are a root cause or a significant aggravating factor in relation to the issues that programs aim to address. Consequently, underlying financial problems often prevent clients from successfully achieving their program goals. These problems include:

- Low financial literacy
- Poor access to neutral and relevant financial information
- Inability to afford neutral and relevant financial counselling and advice
- Individual and systemic barriers to accessing mainstream financial services
- Reliance on costly fringe financial services
- Low or nonexistent savings
- High household debt-to-income levels
- No or negative household net worth
- Low credit scores
- Failure to file taxes
- Lack of awareness of –or difficulty accessing – government benefits.

A number of leading edge community organizations in Canada have begun experimenting with more comprehensive financial supports for low-income people that go beyond financial education alone to address these issues. Such interventions are proving successful at a neighbourhood level, but there are few resources or strategies in place to deliver sustainable, scaled approaches.

By contrast, a coalition of 12 major cities led by New York<sup>3</sup> has invested in scaled up, city-wide strategies and programs as part of the rapidly growing Financial Empowerment movement in the US.<sup>4</sup> Evaluation has shown that these strategies and programs are tangibly improving the financial security of low income households.<sup>5</sup> More and more US cities are adopting these approaches in partnership with state and federal governments and community partners.<sup>6</sup> ■

Fig. 1 **Financial Empowerment Framework<sup>1</sup>**

## FINANCIAL EMPOWERMENT FRAMEWORK

1. Financial Information education and counselling	2. Help accessing income boosting benefits and tax credits	3. Safe and affordable financial products and services	4. Access to savings and asset building opportunities	5. Consumer awareness and protection
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## 2. THE CASE FOR FINANCIAL EMPOWERMENT

Financial vulnerability occurs when individuals or households have low, no, or negative net worth and, consequently, are at high risk of going under financially in the event of a drop or interruption in their income, unforeseen expenses, or curtailment of their credit.

Disturbingly, financial vulnerability has been on the rise in Canada for some time:

- Canadians have the highest debt-to-income ratio in the G-7 at over 163 per cent<sup>7</sup>
- Nearly 1 in 6 Canadian families have a net worth that is either \$0 or negative<sup>8</sup>
- Nearly 1 in 4 Canadians have no financial wealth at all (including savings, stocks, bonds, RRSPs)<sup>9</sup>
- Canada's household savings rate, while rising remains very low at 4.4 per cent.<sup>10</sup>

For most households, savings and assets are the critical first line of defense against emergencies, unforeseen expenses, and income interruptions. Families that have adequate savings and assets can often successfully weather such setbacks, but households that lack this security are financially vulnerable and at risk of falling into poverty.

Research has shown conclusively that assets should play a central role in whatever strategies we adopt. Assets not only help to build individuals' hope and confidence in the present, but also hold the promise of future wellbeing.<sup>11</sup> Even when economic, institutional, and other factors are controlled for in analyses, the simple possession of assets has been shown to help.<sup>12</sup>

- Reduce poverty
- Psychologically connect people with a viable, hopeful future
- Increase personal efficacy and social influence
- Improve household stability.

Proven Financial Empowerment strategies and interventions aimed at helping households to build their financial literacy, set financial goals, grow their incomes, reduce debt, save regularly, and invest in their future are a critical means of building more resilient households and communities, while helping more families move out of poverty. ■

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## 3. SUCCESSFUL FINANCIAL EMPOWERMENT INTERVENTIONS

In this section we provide more details on each of the five pillars of the Financial Empowerment framework, together with American and Canadian examples of high-impact programs with a track record of success.

### 3.1 Financial information, education, and counselling

These interventions are aimed at providing low- and modest-income people with free access to high quality, neutral, and relevant financial information, education and counselling services. This is achieved by integrating these functions into other existing programs

and information sources and making it easier for low-income people who need help with their finances to learn about and access supports in their neighbourhoods or online. Successful interventions include:

- Financial education and counselling networks and referral structures

- Neighbourhood, one-stop financial assistance centres offering financial education, tax filing assistance, help accessing benefits, and one-on-one financial counselling
- Incorporating financial education into municipal social services and employment programs to improve outcomes

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### 3. SUCCESSFUL FINANCIAL EMPOWERMENT INTERVENTIONS

- Clear shared metrics to evaluate individual/household progress toward financial security
- Standardization and credentialing of financial education and counselling services and providers.

Financial Empowerment Centers in New York City provide individualized financial counselling sessions to low-income New Yorkers. Trained financial counsellors, accredited to counsel low-income people, assist clients with debt, budgeting, affordable banking services, and unclaimed benefits. Since 2008, the program has expanded to nearly 30 Centers, helping more than 19,000 people to reduce their debt by over \$9 million and to save nearly \$1 million.<sup>13</sup>

Financial Opportunity Centers serve 64 low-income communities across the US, providing free financial, employment and income support counselling. In 2011 alone, they helped 3,600 people to find employment, 3,100 to obtain public benefits, 3,600 to increase their earnings and 6,300 to create budgets to reach their financial goals.<sup>14</sup> Combining employment counselling with financial counselling has increased employment placement rates from 30 to 40 per cent. When income support is also added, this rate increases to 47 per cent.

The Federal Deposit Insurance Corporation created Money Smart, a free financial education curriculum for people living on low and moderate incomes. Money Smart has reached more than 2.75 million people since 2001. Post-training surveys conducted 6 to 12 months after course completion found significant positive behavioural changes in account opening, achieving saving goals and using spending plans.<sup>15</sup>

In Toronto, St. Christopher House's Financial Advocacy and Problem Solving program provides individualized financial counselling to low-income clients. In 2012, it helped 2,050 people access \$3.9 million in entitlements.<sup>16</sup>

Since 2010, the Canadian Centre for Financial Literacy (CCFL) has trained over 2,000 community workers from over 800 organizations across Canada to deliver tailored financial literacy education to low-income people. Those trained showed significant improvement in financial literacy knowledge, skills, confidence, networks and access to resources. The CCFL continues to build the capacity of trainees through its website, which offers over 100 financial literacy education and evaluation resources in diverse languages.<sup>17</sup>

### 3.2 Help accessing income boosting benefits and tax credits

These interventions are aimed at quickly boosting the incomes of people living in poverty by enabling those who have not done so, to easily file their taxes and to access government benefits to which they are entitled. Successful interventions include:

- Public awareness campaigns to improve tax filing and benefits take-up
- Use of technology-enabled tools to increase public benefits screening and uptake
- Creation of access points for benefits screening in high-need communities
- Establishment of free/low-cost community tax preparation services.

The Benefit Bank<sup>®</sup> is available in 10 different US states and allows case workers to prepare clients' income tax returns and automatically complete applications for state and federal benefits. Clients have received \$1.145 billion in refunds and benefits since 2006.<sup>18</sup>

EarnBenefits is a web-based application, used by more than 80 organizations in 8 US cities, that connects low-wage workers to bank accounts and public benefits such as tax credits, food stamps, and health insurance. EarnBenefits has helped over 214,000 households to access over \$287 million in benefits and income support.<sup>19</sup>

Make Tax Time Pay is offered by E4C, an Edmonton non-profit that provides free income tax preparation and benefit assistance at 26 community sites temporarily set-up during tax-time. In 2012, over 4,422 tax returns were filed, returning more than \$1.7 million to low-income residents.<sup>20</sup>



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### 3. SUCCESSFUL FINANCIAL EMPOWERMENT INTERVENTIONS

United Way Calgary's Benefits Navigator is a simple online tool that helps people to identify benefits they may be eligible for. Depending on their personal situation, individuals can directly access application forms and/or the websites of the benefit programs that are relevant to them.<sup>21</sup>

#### 3.3 Safe and affordable financial products and services

These interventions are aimed at improving access to safe and affordable mainstream financial services and products that meet the needs of low-income people and reduce their reliance on fringe and predatory financial services. Successful interventions include:

- Establishing basic financial services in underserved neighbourhoods
- Creating and promoting low-cost transaction and savings products in partnership with, or independently of, financial institutions
- Providing affordable credit products to reduce reliance on fringe lenders — e.g., small dollar, refund anticipation, or auto refinance loans
- Encouraging employers to use direct deposit to nudge people to open bank accounts and reduce reliance on costly cheque-cashers.

Bank On USA, an initiative to promote banking among unbanked populations, started in San Francisco and has been replicated in over 100 communities across the US. In four years, San Francisco opened more than 78,000 chequing accounts. Once opened, 80 per cent of accounts remain active with an average savings balance of \$980. Other cities have seen similar successes. Over two years, Los Angeles opened 57,000 accounts, Sacramento 36,000, Seattle-King County 43,000, and California as a whole 214,000.<sup>23</sup>

San Francisco created Payday Plus SF, a safe and lower cost alternative to payday loans that provides opportunities to build credit history and disburses more than 300 safe payday loans annually.<sup>24</sup>

Mutual Assistance Funds, a program offered by the Desjardins financial cooperative, provides budgeting consultations and small loans for people in financial difficulty. The average loan is \$500 with free interest. Over 64,000 people have received financial counseling and over \$3.4 million in loans have been granted, with an average repayment rate over 85 per cent.<sup>25</sup>

The Immigrant Access Fund (IAF) provides safe and affordable micro-loans for internationally trained immigrants in Alberta and Saskatchewan who need Canadian accreditation to find employment. IAF has made over \$5 million in loans, at an average amount of \$6,500. After attending training and finding a new job, participants improved their income, with the percentage of borrowers earning \$40,000 or more increasing from 16 per cent to 68 per cent in Alberta.<sup>26</sup>

The Saint John Community Loan Fund provides business, employment, and affordable housing loans to help individuals attain greater self-reliance. Since 1999, the loan fund has provided training in financial literacy and other life skills to 3,400 people. Through its 231 loans totaling \$400,000, 108 people were newly employed, 84 people started a business, 77 people were better housed, and 69 people returned to school.<sup>27</sup>

Pigeon Park Savings, a branch of VanCity Credit Union, offers affordable savings accounts to low-income and previously unbanked clients. Pigeon Park Staff provide financial advice and encourage their 5,000 active members to decrease their reliance on fringe financial services such as cheque-cashers.<sup>28</sup>

#### 3.4 Access to savings and asset building opportunities

These interventions are aimed at enabling low-income households to build their human capital and other assets that can help them to move out of poverty. This is achieved through policies that encourage and support low-income people to save and programs that help connect them to appropriate savings supports and opportunities. Successful interventions include:

- Short-term and emergency savings products
- Incentivized savings accounts — e.g., Individual Development Accounts (IDAs), post-secondary education savings accounts, and other accounts for uses such as buying a home or a vehicle
- Promotion of federally registered savings vehicles that support the saving of low income people — e.g., Registered Education Savings Plans (RESPs) and Registered Disability Savings Plans (RDSPs)
- Incorporating financial education into municipal social services and employment programs to improve outcomes — e.g., information on savings and earning exemptions for those on social assistance and disability income support.

\$ave USA is a tax time matched savings program operated through free tax clinics in New York City, Newark, San Antonio and Tulsa. In 2012, over 1600 savings accounts were opened, with \$1 million saved.<sup>29</sup>

In San Francisco, Kindergarten to College is a universal matched education savings account. Launched in 2012, it establishes a college savings account with a \$50 deposit for every incoming kindergarten student and offers additional matched-saving incentives to encourage families to save for their college education. More than 8,000 accounts have been opened to date.<sup>30</sup>

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### 3. SUCCESSFUL FINANCIAL EMPOWERMENT INTERVENTIONS

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In Calgary, Momentum provides skills training, business development, and financial literacy to help clients build their assets in five key areas: social, physical, personal, human and financial. One thousand eight hundred participants have invested \$2 million dollars in the acquisition of 1,900 assets (such as: education, housing, and business ownership) since 1999.<sup>31</sup>

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SEED Winnipeg's asset building programs help low-income people meet their savings goals through money management and matched savings credits. One thousand five hundred and thirty-six participants have saved over \$1 million with matched funds of over \$1.7 million.<sup>32</sup>

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The Omega Foundation's SmartSAVER marketing campaign promoted the Registered Education Savings Plan the Canada Education Savings Grant and the Canada Learning Bond. Engaging almost 1,000 service providers, as well as local government and school boards, the campaign resulted in significantly

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increased take-up rates – e.g. Canada Learning Bond enrollments in Toronto tripled to over 7,000 families in 90 days.<sup>33</sup>

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#### 3.5 Consumer awareness and protection

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These interventions are aimed at increasing consumer awareness of predatory and fraudulent financial and business practices and ensuring adequate consumer protection policies and regulations are in place and enforced. Successful interventions include:

- Consumer education and awareness initiatives to prevent fraud and financial abuse
- Regulation, licensing and zoning to contain fringe financial services and limit their proliferation
- Local disclosure law enforcement and litigation to curb predatory lending
- Foreclosure prevention strategies,

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including foreclosure counselling, forgivable emergency loans, and encouraging lender workouts and assistance to tenants in foreclosed properties.

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New York City's Department of Consumer Affairs (DCA) enforces regulation of Refund Anticipation Loans, which are high-interest loans on expected tax refunds offered by tax preparation businesses. The DCA inspected 800 businesses and issued 2,010 violations for illegal advertising in 2010 alone.<sup>34</sup>

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Since 2008, NeighborWorks America has provided foreclosure counselling to 1.4 million homeowners. In 2008 and 2009, the program helped save governments, lenders, and homeowners \$920 million.<sup>35</sup> ■

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## 4. FOR MORE INFORMATION

Prosper Canada is actively exploring diverse Financial Empowerment interventions in order to:

- Share information on successful programs
- Adapt and test the most promising ideas in Canada with local, regional and national partners
- Extract relevant learning and best practices for practitioners, funders and policy makers
- Develop relevant training and resources

Organizations that are interested in learning more, would like to take part in piloting interventions, or want to help build Financial Empowerment capacity in Canada, should contact:

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# REFERENCES

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- <sup>2</sup>The Office of Financial Empowerment in New York City has documented the “supervitamin” effect it produced by integrating financial empowerment interventions into New York’s municipal social service delivery system, radically improving the impact of its services. For research and evaluation reports, please visit: <http://www.nyc.gov/html/ofe/html/publications/research.shtml>
- <sup>3</sup>Ibid
- <sup>4</sup>For more information, please visit the website of the Cities for Financial Empowerment Coalition at: <http://cfefund.org/info/cfe-coalition>
- <sup>5</sup>For more information, please visit the website of the Office of Financial Empowerment in New York City: <http://www.nyc.gov/html/ofe/html/publications/research.shtml>
- <sup>6</sup>For information on knowledge exchange activities and initiatives to support replication of effective strategies in other cities, please visit: <http://cfefund.org/>
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- <sup>17</sup>For more information on services provided by the Canadian Centre for Financial Literacy: <http://www.theccfl.ca/>
- <sup>18</sup>For information on The Benefit Bank: <http://www.thebenefitbank.org/>
- <sup>19</sup>For information about the EarnBenefit solution: <http://www.seedco.org/programs/work-and-family-supports/earnbenefits/>
- <sup>20</sup>For information on the Make Tax Time Pay program in Edmonton: <http://e4calberta.org/2013/07/volunteers-make-tax-time-pay/#.UmCu45TTVfQ>
- <sup>21</sup>To review the Benefits Navigator offered by the United Way Calgary: <http://www.calgaryunitedway.org/main/benefits/>
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