Increasing Family Financial Security through Financial Capability Services

Family Well-Being and Financial Security Resource Series

This document is part of a series of resources focused on increasing family well-being and financial security through financial capability strategies.

Financial security is important for both parents and children to thrive and succeed. Financial security refers to having control over day-to-day and month-to-month finances and having the capacity to absorb a financial shock.[1]

As a War on Poverty program initiated in 1965, Head Start has long recognized the influence of family financial security on children's learning and development. In the Improving Head Start for School Readiness Act of 2007, the definition of "family literacy services" was amended to include "financial literacy." In 2011, the Office of Head Start developed an outcomes-based Parent, Family and Community Engagement Framework. The first of the seven outcomes is family well-being, which is achieved when all "families are safe, healthy, and have increased financial security." Recognizing that financial literacy activities alone will not achieve family financial well-being, the Office of Head Start encourages programs to use strategies and provide services that build and support financial security.

Overview

This document describes a broader set of strategies known as *financial capability services* — which include but are not limited to financial education — that Head Start and Early Head Start (HS/EHS) programs can use to help families build financial security. The document covers four topics:

1. What is financial capability and how does it impact financial security?
2. How can HS/EHS programs support families in building their financial security?
3. Why do family savings matter for child outcomes?
4. What resources are available to learn more?

[1] Definition adapted from the Consumer Financial Protection Bureau's financial well-being definition. To learn more, see www.consumerfinance.gov/reports/financial-well-being-scale.

Partnering with Families to Build Financial Security

Keep in mind that HS/EHS families are highly resourceful at managing their finances. They are familiar with community resources, they can stretch their money through the end of the month, and they know how to weigh the trade-offs they might have to make to save money (e.g., paying for gas to drive the extra distance to a cheaper grocery store). When staff partner with parents, they should remember to leverage these strengths.

What is Financial Capability and How Does it Impact Financial Security?

Financial capability is defined as "the capacity, based on knowledge, skills, and access, to manage financial resources effectively."[2] Financial capability is a critical step toward financial security, and many people (regardless of socioeconomic background) may lack one or more factors of the financial capability equation illustrated in Figure 1.

Figure 1. Financial Capability Components

Some people may lack the *knowledge* (e.g., understanding the terms of their credit card account) or the *skills* (e.g., calculating the total costs of using credit) needed to manage their financial lives effectively. Others may not have the *access to resources* necessary for managing their finances well (e.g., access to a low-cost checking account). Challenges in any of these areas will negatively affect *financial capability*.

Families' financial capability is closely tied to family financial security. Without the knowledge, skills, and access needed to effectively manage their finances, families cannot reach their financial goals. Building financial capability is a key step toward meeting those goals and achieving financial security.

How Can HS/EHS Support Families in Building their Financial Security?

Most HS/EHS programs already offer some financial literacy activities, but HS/EHS programs can also provide a range of other activities that can increase families' financial security. Preliminary but promising evidence indicates that bundling multiple services can improve families' financial outcomes. For example, one study found that individuals who received

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[2] *Amended Charter: President's Advisory Council on Financial Capability* (Washington, DC: U.S. Department of the Treasury, 2010). Available at http://www.treasury.gov/resource-center/financial-education/Documents/PACFC%202010%20Amended%20Charter.pdf.

multiple integrated services were three to four times more likely to achieve a major positive economic outcome—such as getting out of debt, attaining a job, or completing a training or education program—than those families who only received one.[3] Bundling financial literacy activities with other financial capability services gives parents the opportunity to apply the lessons they learn in the classroom to real-life situations.

Financial capability services that can be offered to Head Start families include:

- **Access to Safe and Affordable Financial Products** – Access to or encouraging the use of financial products—such as checking accounts, savings accounts, and loans—that are low-cost, convenient, and transparent.
- **Asset Ownership Programs** – Support participants to build and/or maintain assets such as retirement savings, a small business, a home, a vehicle, or postsecondary education for themselves or their children.[4]
- **Credit Counseling** – Assistance organizing, prioritizing, or repaying debt; helps participants monitor and manage credit.
- **Credit Building** – Access to products or programs that help participants build or re-build credit.
- **Financial Education** – Workshops and classes on financial topics, offered in a series or in standalone sessions.
- **Free Tax Preparation Assistance** – Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) programs; often includes promoting the Earned Income Tax Credit (EITC).
- **Financial Coaching** – Ongoing one-on-one interactions that focus on achieving financial goals.
- **Financial Counseling** – One-on-one interactions that focus on solving immediate financial issues.
- **Incentivized Savings Programs** – Work with participants to save toward goals and provide savings incentives that they can use for an asset purchase or another expense.

While all of these activities are valuable, **HS/EHS programs do not need to offer all of them to their families**. HS/EHS programs should choose the activities that best match families' financial goals, needs, interests, and strengths. A helpful resource to identify families' goals, needs, interests and strengths is Tool 1 of ***Building Financial Capability: A Planning Guide for Integrated Services*** (http://1.usa.gov/1FxrLnE). (For more information about the *Guide,* see the Resource Section on page 6.) Tool 1 of the Guide walks programs through a series of

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[3] *A Successful Strategy for Promoting Financial Stability* (Working Families Success Network, 2013). Available at http://workingfamiliessuccess.com/wp-content/uploads/2013/10/WFSN-Overview-Case-Making-Document-101013-FINAL.pdf.

[4] Asset building emerged as a strategy to help families escape poverty following the release of Michael Sherraden's ground-breaking work, *Assets and the Poor,* in the early 1990s. The essential insight from Sherraden's work is that income alone does not reduce poverty. More recent research has reinforced this insight and demonstrated that financial assets are essential to achieving long-term financial stability and economic mobility. For more information, see *Why Assets Matter: An Overview of Research on Assets and their Effect on Financial Stability and Economic Opportunity* (Washington, DC: CFED, 2013). Available at http://cfed.org/assets/pdfs/WhyAssetsMatter_2013updates.pdf.

questions to uncover how families are managing financially now and provides suggestions for how to collect information about questions programs cannot immediately answer.

Depending on the needs, goals, and interests of families, some ways to integrate financial capability services into HS/EHS might include:

- Building financial capability goals into existing Family Partnership Agreements.
- Training family service workers to serve as financial coaches.
- Partnering with a local university or community-based financial educator to host workshops on financial topics of interest to parents.
- Reserving time and space for informal parent meet-ups where they can share community resources and budgeting tips with each other.
- Reviewing a credit report during a meeting with a family service worker.
- Referring a parent who wants to improve his/her credit to a local credit counseling agency.
- Connecting parents to free tax preparation sites that help avoid costly tax preparation fees and access tax credits for which parents are eligible.

In addition, **programs do not necessarily need to provide these activities in-house for families to benefit**. HS/EHS programs can also connect families to services that build financial capability through:

- **Referrals**: Find organizations that provide services families need and set up a process for referring families to those organizations. For example, Head Start parents who dream of buying their own home one day, but are not eligible for a loan because of poor credit, can be referred to a local credit counseling agency.
- **Partnerships**: Develop partnerships with other organizations to deliver financial capability services in one convenient location. For example, a community action agency that administers a Head Start program as well as a financial coaching program in the same community may send its financial coaches to Head Start sites once a week to meet with parents.

Why Does Family Savings Matter for Child Outcomes?

A growing body of research indicates that family savings can result in better outcomes for children. Key findings include:

- **Children of parents with savings — especially those from families with low incomes — are significantly more likely to climb up the income ladder**. Nearly three-quarters (71%) of children born to low-income but high-saving parents move up from the bottom income quartile over a generation, compared to only 50% of children of low-saving, low-income parents.[5]

[5] Reid Cramer, Rourke O'Brien, Daniel Cooper and Maria Luengo-Prado, *A Penny Saved is Mobility Earned: Advancing Economic Mobility through Savings* (Washington, DC: The Pew Charitable Trusts, 2009). Available at http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2009/EMPSavingsReportpdf.pdf.

- **Savings in early childhood increase aspirations of parents for their children's futures, especially with regard to postsecondary education.** Parents' expectations and beliefs have a powerful impact on their children's aspirations and academic achievement. One longitudinal study found that children whose mothers had high expectations for them were more likely to have higher grade-point averages and to graduate from high school.[6] Interviews with mothers of young children with college savings accounts suggest that establishing savings accounts in the early years can help parents of young children to perceive college as a tangible goal for their child.[7]

- **Having college savings increases a child's expectation that he or she will attend college.[8]** Establishing savings accounts in early childhood can help children set early goals for college and motivate them to work toward those goals. Even modest amounts of savings can produce these effects. One study found that children with savings of as little as $1 to $499 are three times more likely to attend college and four times more likely to graduate.[9]

- **With proper support, families with young children can save and begin to accumulate assets**. Research demonstrates that low-income parents of young children can and do save. A national demonstration of children's savings accounts,[10] which included a Head Start site, found that despite significant economic and social barriers, families saved an average of between $7 and $10 per month.[11]

The implications from this research are clear: Helping families with low-incomes and with children build savings can have long-term positive effects. HS/EHS programs are well-positioned to partner with families to support them as they build savings. In order to build savings, families need to have knowledge, skills, and access to products and services that help them build wealth over time.

What Resources are Available to Learn More?

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[6] Michael Sherraden and Min Zhan, "Assets, Expectations, and Children's Educational Achievement in Female-headed Households," *Social Service Review* 77, no. 2 (2003): 191-211.
[7] Karen Gray, Margaret Clancy, Margaret Sherraden, Kristen Wagner and Julie Miller-Cribbbs, *Interviews with Mothers of Young Children in the SEED for Oklahoma Kids College Savings Experiment (CSD Research Report No. 12-53)* (St. Louis, MO: Center for Social Development, Washington University in St. Louis, 2012). Available at http://csd.wustl.edu/Publications/Documents/RP12-53.pdf.
[8] William Elliott III, Margaret Sherraden, Lissa Johnson, Suzanne Johnson and Signe Peterson, C*ollege Expectations among Young Children: The Potential Role of Savings (Working Paper No. 07-06)* (St. Louis, MO: Center for Social Development, Washington University in St. Louis, 2007). Available at http://csd.wustl.edu/Publications/Documents/WP07-06.pdf.
[9] "Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education." In William Elliott III (Ed.), *Biannual Report on the Assets and Education Field* (Lawrence, KS: Assets and Education Initiative, University of Kansas, 2013). Available at http://aedi.ku.edu/sites/aedi.ku.edu/files/docs/ publication/CSA/reports/Full-Report.pdf.
[10] Children savings accounts, also known as children development accounts, are long-term accounts, established for children as early as birth and allowed to grow over their lifetime.
[11] See, for example, Sondra G. Beverly and Jared Barton, *Barriers to Asset Accumulation for Families in the SEED Pre-School Demonstration and Impact Assessment* (Lawrence, KS: School of Social Welfare, University of Kansas School, 2006).

The following resources can help HS/EHS programs expand or improve the integration of financial capability services into their programs.

Resources from the Administration for Children and Families:

- **Family Well-Being and Financial Security Resource Series** — This series provides HS/EHS programs with tips to expand or deepen the impact of financial capabilty sevices offered to parents. In addition to this document, the series includes:
    - *Strategies for Increasing Parent Participation in Financial Education Activities* (http://eclkc.ohs.acf.hhs.gov/hslc/tta-system/ehsnrc/btt/docs/c4-practice-brief-financial-education.pdf) — This tip sheet provides strategies for improving financial education so that it is effective in meeting families' interests, needs, and goals. The tips are organized across three main themes: (1) tailoring activities to parents' needs; (2) supporting family connections to peers and community; and (3) using technology, incentives, and marketing to engage families.
    - *Family Service Workers and Financial Capability: Steps and Resources* (http://eclkc.ohs.acf.hhs.gov/hslc/tta-system/ehsnrc/btt/docs/c4-family-service-workers-financial-empowerment.pdf) — This tip sheet describes how to build staff capacity to engage parents on financial topics and provides additional resources for staff and families.

- ***Building Financial Capability: A Planning Guide for Integrated Services*** (http://1.usa.gov/1FxrLnE) — This interactive guide helps organizations, such as HS/EHS providers, to develop a plan to integrate financial capability services into their programs. The Guide includes 13 tools that walk organizations through:
    - Assessing families' financial strengths and needs.
    - Deciding which financial capability services will help families reach their financial goals.
    - Evaluating internal capacity to provide financial capability services.
    - Identifying and assessing community service providers' potential to serve as partners or referral organizations for financial capability services.
    - Developing a "do-it-yourself" plan, referral plan, or partnership plan to implement financial capability services.
    - Making the case for financial capability services to key stakeholders.

- **Parent, Family & Community Engagement Resources and Guides** (http://eclkc.ohs.acf.hhs.gov/hslc/tta-system/family/family/family-financial-stability) — The National Center on Parent, Family & Community Engagement offers resources on building family financial stability.

Resources from non-federal partners:

- **CFED's Financial Capability Integration Website** (http://cfed.org/programs/integrating_financial_capability) — CFED is a national nonprofit organization that supports community-based organizations in integrating financial capability services into their programs. The organization's website includes a section with "how to" documents, research, and information about CFED's integration projects.