Financial Proficiency: Leveraging Individualized Resources

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Overview

To lead sustainably healthy lives, it is important that people have access to employment opportunities and manage their money to prepare economically for the future (1). Resources should be readily available and easily accessible to promote financial capability. The Center for Financial Inclusion defines financial capability as the combination of knowledge, skills, attitudes, and ultimately behaviors that translate into sound financial decisions and appropriate use of financial services (2). Financial capability refers to the understanding of finances and to the ability and opportunity to apply acquired financial knowledge in daily life.

Financial capability plays a large role in determining the success of consumer behaviors including financial decisions that may impact future health outcomes. Healthcare providers should consider the influence of financial situations and understanding of financial information on patient healthcare behaviors. There are significant financial circumstances that prevent individuals from prioritizing health over other basic needs such as food and housing. Those in difficult financial situations might suffer more from negative health experiences such as physical and physiological symptoms caused by stress, a misunderstanding of health maintenance resulting in chronic disease, and a lack of preparation for health emergencies.

Consumers with Poor or Bad Credit

Rural
49.6%

non-Rural
41.7%

Financial credit is defined as the ability to borrow or to purchase goods and services with payment delayed beyond delivery. A person with no credit and a person with bad credit face similar challenges stemming from different issues. No credit means an individual has not yet established any credit and he or she has no credit file with the credit bureaus. Bad credit means an individual can satisfy the requirements to generate a credit score but has poor credit. In the graphic shown, 49.6% of Virginians residing in a rural community have either poor or no credit, compared with 41.7% of individuals residing in a non-rural locality.

Asset Building: Strategies for Financial Security

Asset building emphasizes the value of enabling individuals and families to learn about and use sound budgeting and money management practices to address financial issues, and to plan for long-term success (1).

The Health and Human Services Administration of Children and Families, in partnership with the Office of Community Services and the Office of Head Start, identified six strategies fundamental to the asset building approach. These strategies describe skills and supports that can help families with day-to-day decision making and set goals for the future. (1)

1. **Financial Education**
    - By understanding basic financial concepts to address everyday needs, individuals can plan for the long-term
2. **Savings and Individual Development Accounts**
    - Savings funds are an important building block for financial stability and can help families stay afloat in case of job loss, health crisis, or other emergencies. Special savings accounts known as Individual Development Accounts (IDAs) can be used to save for a long-term goal such as a first home, education, or for small business expenses.
3. **Banking**
    - Trust is essential between communities and credible financial institutions. Entrusting well-regulated financial institutions with banking services can enable families to reduce reliance on check-cashers and other high-cost "fringe" financial outlets that often charge excessive rates for services and loans.
4. **Managing Credit and Debt**
    - Maintaining a positive credit score, credit history and low debt ratio affects a family's financial status. Managing credit and debt can affect employment opportunities, home ownership, and other necessities. By having a strong credit score, a good credit history, and knowing how to borrow and manage debt, financial security is strengthened.
5. **Tax credits and Tax Filing Assistance**
    - Low income families can qualify for substantial financial support in the form of tax credits and tax refunds from the federal government and in some localities, from state and local governments. Individuals can access credits such as Earned Income Tax Credit (EITC), the Child Tax Credit, and the Child and Dependent Care Credit. To qualify for EITC,

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individuals must have a valid social security number, and show proof of income, show investment income below $3,650 in the tax year to claim the credit. Local Head Start programs can offer educational assistance around tax credit eligibility and tax filing.

6. **Accessing Federal and State Benefits**
   - Families who earn a low income are eligible for federal and state benefit programs that can help stretch their income. Accessing federal and state benefits can provide a temporary safety net for families, while other benefits may be available to help families pay down debt, increase savings, and build credit. Helping families identify and obtain benefits like healthcare and healthy food access can be important in achieving family financial goals (1).

These strategies can support family success at navigating financial challenges and create lasting financial security for themselves and future generations.

Leading Practices and Approaches

Whenever possible, examples of leading practices and approaches were taken from rural Virginia communities. Otherwise, examples were gathered from localities with comparable demographic characteristics.

WealthWorks

Need addressed: WealthWorks exists to fuel economic development by analyzing market demands and addressing them with community assets. In Appalachia, WealthWorks recognizes the potential for clean energy market opportunities that emphasize energy efficiency and renewable sources(3).

Approach: WealthWorks connects a community's assets to current market demands in order to create lasting economic opportunity. The systematic approach offered by WealthWorks "identifies enterprising opportunities in a region and engages a wide range of partners forming strong business relationships that produce revenue (3). This approach can complement or incorporate traditional economic development methods, but intentionally focuses on creating more value that becomes rooted in local people, places, and firms(3).

Outcome(s): WealthWorks aims to help communities utilize its assets in order to create lasting wealth that results in a more self-reliant economy. A self-reliant economy is supported by local ownership, control, and reinvestments (3). Strong economies allow for an increase in upward mobility for workers, strengthens industry sectors, and creates overall resiliency (3).

Rooftop of Virginia-Community Action Partnership: VITA Program

Need addressed: Lower income individuals often face barriers to optimum tax filing, resulting in poorer economic outcomes. The Rooftop of Virginia-Community Action Partnership: VITA Program offers free income tax preparation to residents earning $66,000 or less annually.

Approach: The Volunteer Income Tax Assistance (VITA) program offers free tax preparation services to people with low incomes, disabilities, or limited English proficiency (4). VITA also provides educational services that inform people about claiming specific tax credits, including the [earned income tax credit] (EITC)(4).

Outcome(s): The VITA program helps to ensure that people maximize annual tax returns. Education about claiming other tax credits … has also been recommended as a strategy to reduce poverty(4).

People Incorporated

Need addressed: People Inc. offers community economic development services in order to strengthen local businesses and aid individuals in need of financial assistance.

Approach: People Incorporated provides financial assistance to businesses and individuals through services and programs such as business development and loan services, technical assistance and training, Virginia Individual Development Accounts (VIDA), consumer loans, Volunteer Income Tax Assistance (VITA), Earned Income Tax Credit Outreach Program (EITC), New Markets Tax Credits, and Ninth District Development Financing (5).

Outcome(s): People Inc. has assisted businesses start and expand by providing loans, training events, and other financial services. Over 1,000 participants have trained in financial literacy, microenterprise, or received one-on-one technical assistance through People Incorporated Financial Services(5).

Opportunities for Growth

1. **Map and Reimage Benefit Cliffs.**

   Benefits cliffs or the cliff effect are hurdles for businesses and workers alike. The cliff effect refers to the sudden and often unexpected decrease in public benefits that can occur with a small increase in earnings. When income increases, families sometimes lose some or all economic support. These can include the Supplemental Nutrition Assistance Program (SNAP), school nutrition programs, health care, child care assistance, Temporary Assistance for Needy Families (TANF), and housing assistance. Wage increases can result in a net loss of income or only a small overall increase. Sometimes the cliff effect acts more like a slope or plateau, but it is still a disincentive to work. When lost benefits outpace a wage increase, many families park or fall off the cliff's edge, stalling progression in their jobs and careers.

   One of the first steps in addressing benefits cliffs is to recognize where and how they happen. States have taken various approaches to understand the interaction between wages and benefit cliffs, including defining a self-sufficiency standard to understand what families need to earn to transition away from benefits altogether.

   - Consider Self-Sufficiency Standards
     - A financial self-sufficiency standard is defined as the income necessary for a family to meet its basic needs without public or private assistance. Some states use 200% of the federal poverty guideline. However, most have taken a more nuanced approach and factor in the varying costs of living by geography, household size, and ages of children. Forty-one states and the District of Columbia have self-sufficiency standards specific to their circumstances. Seven states—California, Indiana, New York, Ohio, Oregon, Washington, and Wyoming—are using self-sufficiency calculators. For a 50-state perspective, the Center for Women's Welfare at the School of Social Work, University of Washington, publishes a self-sufficiency standard for each state that considers the age and composition of the family and includes the costs of all major budget items.
   - Employ Benefits Calculators
     - Benefits calculators help caseworkers and families receiving benefits identify cliffs on an individual or family level and how increases in income could impact benefits. By illuminating how employment-related income impacts public support, benefits calculators help families make informed decisions related to their well-being, especially when paired with career coaching and access to workforce training and education. They also help frontline employees and government officials understand the interplay of benefits and income. The results help identify cliffs, as well as the policy or practice levers that could be pulled to prevent or mitigate the cliff effect.