

# The Importance of Developing a Financial Identity

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Dave Matheis

# Asset Development as an Anti-Poverty Strategy

An increasing part of federal anti-poverty policy involves assisting low-income individuals to build assets as a means of developing economic mobility and security. It is based on the belief that families who can develop financial assets will be more stable and better able to plan for the future.

# What is Asset Development?

- \* The term 'asset development' means a strategy to assist low-income workers and job seekers, including individuals with disabilities, to move toward economic security and greater financial self-sufficiency through income preservation, effective money and credit management, the pursuit of post-secondary education, the purchase of a home, business startup and growth, and the setting aside of resources for longer-term needs and retirement. – Definition used by the federal Assets for Independence (AFI) Individual Development Account (IDA).

# What is Asset Development?

Asset development is a series of strategies to assist low income individuals to obtain economic self-sufficiency and achieve financial empowerment.

Those strategies can include, but are not limited to:

- \* financial education,
- \* building a relationship with a financial institution,
- \* credit rebuilding,
- \* individual development (matched savings) accounts,
- \* low interest loan programs,
- \* free tax assistance,
- \* Earned Income Tax Credit (EITC),
- \* benefits planning.

Specifically for many individuals with disabilities, benefits planning is an important part of asset development and financial empowerment.

# Why do Individuals with Disabilities need a Financial Identity?

- 54% of individuals with disabilities earn < \$20,000 compared to 35% without disabilities (Adjusted Gross Income)
- 22% earn > \$40,000 compared to 42% without disabilities AGI
- In 2010, the poverty rate of individuals with disabilities ages 18 to 64 years living in the community was 27.3%, while the poverty rate of individuals without disabilities ages 16 to 64 years living in the community was 12.8 %—a poverty gap of 14.5 percentage points.

# Why do Individuals with Disabilities need a Financial Identity?

- A Harris Poll from 2010 found that 58 percent of people with disabilities are either living paycheck to paycheck or going into debt as compared to only 34 percent of people without disabilities.
- According to the Office of Disability Employment Policy at the U.S. Department of Labor, individuals with disabilities are 30% more likely to be unbanked.

# Why do Individuals with Disabilities need a Financial Identity?

According to a 2012 FINRA Investor Education Foundation study, only 10% of individuals with disabilities were 'certain' they could come up with \$2,000 in a financial emergency, compared to 36% of individuals with no disabilities. 53% of individuals with disabilities were certain they could not come up with the \$2,000 compared to 23% of individuals with no disabilities.

# Why do Individuals with Disabilities need a Financial Identity?

- The FINRA Study found that 44% of Individuals with disabilities had unpaid medical bills compared to 25% of individuals with no disabilities.
- The same study found 41% of individuals with disabilities had used non-bank methods of borrowing in the last five years compared to 29% of individuals with no disabilities. Those methods included pawn shops, payday loans, rent-to-own stores, auto title loan, or tax refund advance.



Who needs help with asset development and financial education more than people with disabilities!

# Why Asset Development and Vocational Rehabilitation?

- \* Employment alone does not break down the array of barriers clients frequently face in obtaining economic stability.
- \* Economic stability can be a component of counseling and guidance to help more consumers maintain employment and be on a pathway to financial self-sufficiency.
- \* Vocational rehabilitation is beginning to look beyond employment and assist its consumers to join the economic mainstream of American society.

# Kentucky Assistive Technology Loan Corporation (KATLC)

- \* Established in 1998
- \* Made first loan in 2000
- \* Has now loaned more than \$8.5 million
- \* Focuses on individuals with no or poor credit

# Kentucky Assistive Technology Loan Corporation (KATLC)

- \* Kentucky's Alternative Financing Program for Assistive Technology
- \* Individuals with disabilities have limited access to traditional loan programs because of low income, poor or no credit history, large medical debt and other reasons
- \* Borrowing money and successfully repaying it can rebuild credit

# Kentucky Assistive Technology Loan Corporation (KATLC)

- \* Consistently among the top five of the 33 AFPs in the United States annually in terms of applications, loans made and amount of money loaned
- \* Guarantees loans through Fifth Third Bank, currently at 4.75%
- \* About 60% of loans are for hearing aids, 25% for modified vehicles
- \* Loans are from \$500 to \$25,000 – Home Modifications are limited to \$15,000

# Earned Income Tax Credit (EITC)

- The EITC is a refundable tax credit for low to moderate income working individuals and families. It was first introduced in 1975 and expanded in 1986, 1990, 1993, and 2001. The EITC is considered by many to be the largest anti-poverty tool in the United States
- The EITC provides low income individuals and families with cash to pay off debts, start savings, or purchase an asset
- “The Earned Income Tax Credit is the best anti-poverty bill, the best pro-family measure and the best job creation measure to come out of the Congress of the United States.” - *President Ronald Reagan*
- An individual has to claim the EITC to receive it. The IRS estimates 20% of eligible individuals and families do not get the EITC.

# Volunteer Income Tax Assistance (VITA)

Kentuckians have access to nearly **200 free tax preparation sites** across the state where trained and IRS-certified volunteers will assist you with your taxes and help you apply for the Earned Income Tax Credit (EITC).

Kentuckians living in selected counties in the Louisville, Lexington and Northern Kentucky areas can dial 2-1-1 to find information on free tax preparation sites near them. For information about tax preparation sites outside the 2-1-1 calling area, taxpayers may call Community Action Kentucky at (800) 456-3452.

# VITA

VITA sites in Kentucky can be found at:

<http://www.assistance.ky.gov/>



# Benefits Planning

Benefits planners can assist beneficiaries of government benefits, particularly Social Security benefits, in understanding their work options so that they may make more informed choices regarding work. Benefits planners can provide information about Federal, state, and local work incentive programs and related issues. The Social Security Administration has a certification for Community Partner Work Incentives Counselors (CWICs) to insure accurate and current information is being provided.

# Benefits Planning Resources

The Social Security Administration funds Work Incentives Planning and Assistance (WIPA) programs around the country to provide benefits planning at no charge. The WIPA Programs have CWICs on staff. The WIPA Programs in Kentucky are at:

- \* Center for Accessible Living

(502) 589-6620 / 1-888-813-8497

<http://www.calky.org/services/working-while-on-benefits/>

- \* Goodwill Industries of Kentucky

(859) 231-8394

# KYOVR'S Benefits Planning Service Fee

- Instituted in 2011 and expanded in the summer of 2012 when WIPA Programs were defunded
- Pays \$450 for a Benefits Analysis by a CWIC
- The response from Vocational Rehabilitation Counselors was that getting the report directly provided them with a valuable counseling tool
- Further emphasis on Benefits Planning in WIOA passed during the summer of 2014 – OVR will need to build even more capacity

# Data from KYOVR'S Benefits Planning Service Fee

- Have spent \$1,090,250 on 1.842 services for 1,820 consumers
- Pays \$450 for a Benefits Analysis by a CWIC
- The rate of closing cases before a plan is written among SSA recipients who receive an analysis (21.2%) is half that of SSA recipients who have not received an analysis (42.8%)

# Data from KYOVR'S Benefits Planning Service Fee

- The rate of employment among SSA recipients who receive an analysis (49.7%) is two and a half times greater than that of SSA recipients who have not received an analysis (20.8%)
- The rehabilitation rate among SSA recipients who receive an analysis (64.4%) is 50% greater than that of SSA recipients who have not received an analysis (42.9%)

# The ICI SGA Project

- \* Kentucky is one of two states (along with Minnesota) to participate in a research study to provide enhanced services to 500 individuals who are SSDI recipients funded by Institute on Community Inclusion at the University of Massachusetts
- \* As part of model being tested, VR counselor, benefits planner (CWIC) and job placement provider must work as a team to provide just-in-time services
- \* Financial education and planning will be a vital part of the service model
- \* Will have enrolled 500 participants by May 31<sup>st</sup>

# Bank On

*Bank On programs negotiate with banks and credit unions in local communities to reduce barriers to banking and increase access to the financial mainstream. Typically led by local government or state public officials, Bank On programs are voluntary, public/private partnerships between local or state government, financial institutions, and community-based organizations that provide low-income un- and underbanked people with free or low-cost starter or “second chance” bank accounts and access to financial education.*

# Financial Empowerment Collaborative

- \* Participated in a year-long project led by Louisville Metro Community Services Advocacy and Empowerment Division
- \* Funded and facilitated by the National Disability Institute
- \* Built upon community existing knowledge, capacity and experience in providing a range of financial capability services to extend services to low-income individuals with disabilities
- \* Group is continuing after the end of the year



# Individual Development Accounts (IDAs)

Individual Development Accounts (IDAs) are matched savings accounts that help people with low income save towards the purchase of an asset, such as a home. Participants receive the match when they have reached their savings goal.

# Assets for Independence (AFI) Individual Development Accounts (IDAs)

- \* Federal IDA Program
- \* Participants can save for one of three things
  - \* Self-Employment
  - \* Post-Secondary Education
  - \* Home Ownership
- \* Savings are exempt from Social Security Asset Limitations
- \* Grants awarded to non-profit organizations
- \* Match ratios differ from program to program from 1:1 to as high as 1:8.

# AFI IDAs in Kentucky

- \* The **Kentucky Coalition Against Domestic Violence** is a Network grantee with 16 subgrantees. The organization emphasizes homeownership, postsecondary education, and business capitalization, with the goals of illustrating the value of asset building as a way to reduce and eliminate poverty, encouraging self-sufficiency among IDA participants, and teaching individual financial skills. KCADV targets eligible low-income domestic violence victims throughout Kentucky who receive services through its centers, but serves other low interest individuals through some of its subgrantees.

# Kentucky Coalition Against Domestic Violence (KCADV) State-Funded Car IDA

- \* KDVA operates a state funded IDA for domestic violence survivors;
- \* Participants must earn less than 200% of federal poverty level;
- \* Unlike the AFI IDA, earned income is not required;
- \* The savings match is 1:1 – participants save up to \$2,000 and \$2,000 will be earned in match;

# Kentucky Coalition Against Domestic Violence (KCADV) State-Funded Car IDA

- \* Participants are required to complete 'Car Maintenance 101' and a Car-IDA workbook;
- \* Financial education and case management for participants are required;
- \* Cars can be purchased outright or money can be used as down payment for a loan;

# OVR and SILC's Experience with a Car IDA

- \* In partnership with the Kentucky Office of Vocational Rehabilitation, KCADV expanded its Car IDA to individuals with disabilities in 2014 and 2015. Ashland and Murray were targeted as the pilot sites for the program. The Car IDA was part of the State Plan for Independent Living (SPIL). The original goal was to help 10 individuals save for cars, later expanded to 13. To date, five individuals have received cars.

# The ABLE Act

A new opportunity for individuals with disabilities to establish a financial identity.

# Questions

Contact:

Dave Matheis

(800) 372-7172

daves.matheis@insightbb.com

Resource Directory:

<http://katlc.ky.gov/KATLC%20Documents/financialdirectory.pdf>