

MONEYUP

FINANCIAL COACHING: THE NEED AND OPPORTUNITY FOR MONEYUP CUSTOMERS

One of a series of field reports from United Way of New York City's MoneyUP Initiative
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What is “MoneyUP”? What can it tell us about the financial security of working poor New Yorkers? What are the research and policy implications of combining free tax preparation services with financial coaching?

MoneyUP, an initiative of the United Way of New York City and The Financial Clinic, brings financial development services to working poor families in New York City by seizing the opportunity presented by the filing of one's tax return. In the report that follows, we describe MoneyUP's programmatic elements, future directions for MoneyUP, and the potential longer-term policy implications of this work.

MoneyUP rests on three core principles:

- ▶ There is an underlying need of low-income workers and families for comprehensive financial development services;
- ▶ Tax preparation presents an excellent opportunity during which to focus on financial planning; and
- ▶ A year-round program offers the sustained support necessary to achieve meaningful results.

MoneyUP customers are offered one-on-one financial coaching to help them achieve financial goals that they set themselves. We do this with a full spectrum of tools and expertise, and as such, our customers work on issues ranging from budgeting and savings to foreclosure and tax advocacy. We improve customers' financial security by moving beyond the presenting issue and creating sustainable, customized solutions for financial mobility.

THE NEED AMONG MONEYUP TAX FILERS

Trained financial coaches provide free financial education tax preparation sites. In offering these services, we learned that MoneyUP filers typically have budget difficulties and an extraordinary high rate of financial insecurity:

- ▶ **Basic struggle to make ends meet.** The economic downturn has only increased our customers' difficulty in making ends meet. The overwhelming majority (94%) of filers who expected a refund knew how they expected to spend their refund dollars. Many of our customers (78%) report household bills and essential personal purchases among their top two uses of their refunds. Indeed, nearly three in five (59%) receive public assistance such as Food Stamps, Medicaid, and rental assistance.

MoneyUP filers have extraordinary high rates of financial insecurity, but there is evidence of an immediate benefit to on-site financial coaching.



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- ▶ **Very low saving rate.** The low savings rates and amounts among our MoneyUP filers is the clearest indication of need for our services. One in five identify saving for a particular goal as one of their top two uses of refund money, but many feel that they are unable to save. An overwhelming number—70 percent—of the filers surveyed reported having \$500 or less for use as an emergency reserve. Of those, 83 percent reported having less than \$100 in emergency savings.
- ▶ **High use of fringe financial services.** Thirty percent of filers report using check cashers, payday loans, and other non-bank financial services to cover their expenses. Forty percent of those who use these services do so at least once a month. Moreover, half of the filers (49%) previously used paid tax preparers.

These figures paint a bleak picture, but they also point to an opportunity for MoneyUP to have substantial impact on our customers' financial security. In fact, there is evidence of the immediate impact of the coaching services at the tax site: Of the MoneyUp 2008 customers who discussed an interest in using a Retirement Savers Tax Credit with their financial coach, 5.5 percent claimed the credit, compared to only 2.2 percent of customers who declined to discuss the credit. As such, the financial coaches were able to double the uptake rate of the credit in just 10 to 15 minutes of coaching.

MONEYUP 2010

The first years of MoneyUP have offered enormous insight into the characteristics of working poor tax filers, but it also points to additional areas for research to improve practice and explore policy implications. Some highlights of what we are focusing on include:

- ▶ Thirty percent of filers that use tax refund anticipation loans, and other expensive financial services do so to cover month-to-month expenses. Because the Advance Earned Income Tax Credit distributes a portion of the EITC to a filer throughout the year, it is an excellent means of increasing monthly income and reducing the need for expensive financial services. By focusing on improving customers' cashflow, we hope to reduce their need for fringe financial services.
- ▶ Seventy-eight percent of our filers report household bills and essential personal purchases among their top two uses of their refund, while less than one in three (29%) identify saving for a financial goal. For those filers who want to save, but end up spending money on consumer purchases, we want to capitalize on their initial instinct by making a wide range of savings products more accessible on site.
- ▶ A significant portion (56%) of the filers do not wish to be screened for employer and government supports. Because these benefits would increase their monthly income, we aim to learn more about why they are disinterested: Are they already receiving benefits? Ineligible? Influenced by the possible stigma? Our learning about filer preferences will help us provide the most relevant income-enhancing services in subsequent tax seasons.

