FINANCIAL LITERACY AND EDUCATION AS AN ASSET DEVELOPMENT STRATEGY: THE POTENTIAL OF IDA SAVING CLUBS AT COMMUNITY ACTION AGENCIES

By
Jonas Parker
May 2010

PREVIEW

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In Partial Fulfillment of the Requirement of the Degree
Doctor of Philosophy

Thomas Shapiro, Ph.D., Pokross Professor of Law and Social Policy, The Heller School for Social Policy and Management, Brandeis University, Chairperson

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DOCTOR OF PHILOSOPHY

Lisa M. Lynch, Ph.D.
Dean, The Heller School for
Social Policy and Management

May 2010

Dissertation Committee:

Thomas Shapiro, Ph.D., Chair

Carmen Sirianni, Ph.D.

Sarita Bhalotra, MD, Ph.D.

Jeanne M. Hogarth, Ph.D., Program Manager, Consumer Education and Research Section, Division of Consumer and Community Affairs, Federal Reserve Board

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Financial Literacy and Education as an Asset Development Strategy: The Potential of IDA Saving Clubs at Community Action Agencies

A Dissertation Defense Presented to the Faculty of The Heller School for Social Policy and Management, Brandeis University, Waltham, Massachusetts

By
Jonas Parker

In the past two decades, the financial education movement has rapidly grown into a set of policies and programs that aims to empower individuals and families with financial literacy – the attitudes, knowledge, and skills necessary to make and act on informed financial decisions. For low- and moderate-income families in the U.S., this development has taken place in the context of increased individual responsibility for financial decisions in the most complex financial system in the world, the explosion of predatory lending, and the emergence of the asset framework for understanding and alleviating poverty.

This dissertation is motivated by the central research question, "How can financial education serve as an effective asset development strategy for poor families?" In the asset development field, financial education is most frequently a core component of Individual Development Account (IDA) programs. The IDA research demonstrates that financial education can work iteratively with a matched savings account to assist poor adults to save for an asset. However, saving is only an intermediate step towards the goals of achieving sustainable homeownership, starting a profitable small business, pursuing higher education, or investing in a retirement accounts. Further, as we have seen with the foreclosure crisis, the acquisition of an asset does not guarantee economic mobility, or

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even economic stability. Given the range of psychological, sociological, and economic factors that influence financial behaviors; the limited evidence that financial education results in long-term behavior change; and the recent foreclosure crisis that has disproportionately impacted the very communities that IDA programs target; this dissertation asks the following, secondary research questions: 1) What are the potential and limits of financial education as an asset development strategy? and 2) How can financial education be designed and delivered in combination with other programs and policies to maximize its potential while accounting for its limits?

These questions were engaged through a four-year community-based participatory research project based at the Heller School's Institute on Assets and Social Policy (IASP), carried out in collaboration with the Massachusetts Association for Community Action (MASSCAP) and nine of its member Community Action Agencies (CAAs). Theory was utilized from adult and empowering education, the financial capability framework, behavioral economics, and the trans-theoretical model of behavior change to guide the research design, analysis, and interpretation.

This research utilized a mixed-methods design that attempted to account for the inter-connections among financial attitudes, knowledge, and behaviors in the context of social and structural factors. The quantitative data consisted of a baseline survey (N=94) and a six-month follow-up survey (n=45) for clients in financial education programs at collaborating CAAs. The qualitative data consisted of interviews with CAA staff and focus groups at IDA programs monthly meetings.

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The data demonstrate that the monthly IDA meeting, in various configurations, serves as a saving club that provides sustained, experiential financial education. The saving club facilitates both formal and informal learning, primarily through regular, supportive conversations about money. The saving club format works in synergy with case management and the institutional features of the IDA program to promote the use of four psychological and behavioral saving strategies. The saving club fosters commitment and accountability to oneself and the IDA coordinator, inculcating and reinforcing "taking money seriously". However, coordinators and clients also reported challenges to commitment and accountability to the saving club and, by extension, to the saving strategies it promotes.

Given the challenge of utilizing one-on-one case management to enforce behavioral goals and the potential of the saving club to develop and leverage social support and peer pressure, this dissertation recommends democratizing the saving clubs by shifting more responsibility and ownership of the saving club meetings, and of the financial education process, to clients. This would place greater emphasis on peer learning and accountability, and would have the twin benefits of increasing program effectiveness and scalability. This would also advance the Community Action mission to foster meaningful client participation as a strategy for reducing poverty.

Although financial education programs can promote critical financial knowledge and skills, and the individual responsibility and motivation to apply them, in order to promote

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sustainable asset development, such programs must be situated within a larger policy agenda that ensures a fair financial system and connects financial education to meaningful opportunities for its participants.

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Chapter 1: Financial Literacy and Education in the Asset Development Context

The Rise of The Financial Literacy and Education Movement

In the past twenty years, structural transformations – including the rise of the alternative financial services sector and the greater availability of credit – made the U.S. financial system increasingly complex and potentially dangerous for American consumers, as demonstrated by the rise in bankruptcies and, more prominently, the foreclosure crisis. At the same time, responsibility for critical retirement and health care financial decisions has shifted from the government and employers to individuals (Braunstein and Welch 2002; Greenspan 2002; National Endowment for Financial Education 2005; Parrish and Servon 2006; Vitt et al. 2005). In this context, financial literacy and education has emerged as a major social policy.

The basic logic of financial education programs is to develop the financial literacy of its participants, empowering them with the financial knowledge and skills necessary to make and act on informed financial decisions (Braunstein and Welch 2002; Jeanne M. Hogarth 2006; Vitt et al. 2005). Financial education programs are considered particularly important for low-income families, who both score lower on tests of financial literacy and benefit the most from such programs (Anderson, Min Zhan, and Scott 2004; Jacob, Hudson, and Bush 2000; Angela C. Lyons, Chang, and Scherpf 2005). Public benefits –

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such as the Earned Income Tax Credit, child care subsidies, food stamps, and Medicaid – that are targeted to low-income families are often underused, in part because of lack of knowledge (Anderson 2002). The limited access many low-income families traditionally have had to banks and credit unions not only reduces the experiential learning that occurs from using mainstream financial services, but also creates susceptibility to predatory financial practices (Greenspan 2002; Rhine et al. 2001). As a response, in the late 1990s and early 2000s, major financial institutions, government agencies, local community-based organizations, extension agencies, faith-based institutions and others began developing financial education programs in combination with asset building and basic financial services initiatives for low-income families (Braunstein and Welch 2002; Vitt et al. 2005).

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Financial Education as an Asset Development Strategy

The growth of the financial literacy and education "movement" has taken place in the context of the asset framework for understanding and alleviating poverty. While traditional anti-poverty approaches have focused primarily on lack of income, the asset framework emphasizes the importance of wealth – such as a savings account, a house, a small business, or post-secondary education – to provide economic security and launch social mobility (Oliver and Shapiro 1995; Michael Sherraden 1991).[1]

To be economically secure, families need both income and assets: regular income

[1] Most broadly, assets can be understood as a combination of resources that enable people to take control of their lives and participate in society in meaningful ways. Assets are investments in various forms that hold value over time. They include financial resources (e.g. savings, 401k accounts, individual retirement accounts, equities), material possessions that have monetary value (e.g. a house, an automobile, or a small business), and investments in non-tangible assets (e.g. such as education, training, and development of social networks).

helps families pay for their daily living expenses, while assets allow them to weather financial hardships and get ahead (Oliver and Shapiro 1995; Michael Sherraden 1991). Assets help families build wealth and plan for the future, and provide a safety net for coping with unanticipated expenses and emergencies – such as unemployment, accidents, and illnesses – that could otherwise cause significant financial hardship (Brown, Kuttner, and Shapiro 2005; Oliver and Shapiro 1995; Shapiro and Wolff 2005; Michael Sherraden 1991). Assets can be transformative, allowing parents and families to transfer wealth and other opportunities to their children and the next generation (Shapiro 2004; Shapiro and Wolff 2005; Michael Sherraden 1991; Oliver and Shapiro 1995).

Asset development policy and programs offer the real possibility to break the cycle of poverty. Accumulation of assets changes lives and can be transformative for poor families, lifting them up into the middle class (Miller-Adams 2002; Shapiro and Wolff 2005). This dissertation is motivated by the central research question, "How can financial education serve as an effective asset development strategy for poor families?"

The research base demonstrates that building assets strengthens both families and communities, as asset ownership improves future orientation, academic achievement of children, civic engagement, and increased security in retirement, while reducing domestic violence, marital dissolution, and residential mobility (Meschede, Shapiro, and Wheary 2009; Page-Adams and M. Sherraden 1997; Rice 2005; Margaret Sherraden, A.M. McBride, and Hanson 2005; Yunju and Huang 2008).

Building assets strengthens families and communities. Assets contribute to an improved future orientation by increasing individuals' confidence in their abilities to save and intentions to save that promote longer-term investments and more careful planning of

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resources. Children achieve better in school, there is greater civic engagement in communities, increased security in retirement, and decreased family violence in low-income families accumulating assets. Asset-holding appears to have positive effects on individuals' physical and mental health by helping individuals manage unanticipated health costs and encouraging them to seek diagnoses and treatment and by reducing stress that can bring on, or exacerbate, health issues.

The distribution of assets is profoundly unequal, producing an increasing wealth gap that is significantly more severe than the income gap. For example, in 2004 the top fifth of households held 84.7% of all wealth, while the middle fifth held a mere 3.8%, and the bottom fifth actually had negative net wealth—they *owed* 0.5% of all wealth (Mishel, Bernstein, and Allegretto 2006). Wealth inequality passes along enduring advantages and disadvantages across generations, perpetuating and sedimenting further inequality (Oliver and Shapiro 1995; Michael Sherraden 1991; Trina Williams 2000).

Asset inequality is perpetuated through a system that disproportionately benefits families who already have wealth (Howard 1999; Trina Williams 2000; Beverly et al. 2008; Brown, Kuttner, and Shapiro 2005; Michael Sherraden 1991). While policies and programs that support asset development operate largely through the tax system, most low-income families have limited tax liabilities and are therefore excluded from or have low participation rates in these programs (Beverly et al. 2008; Cramer, O'Brien, and Lopez-Fernandini 2008; Lind and Pamela2006 Friedman 2006; Michael Sherraden 1991). Indeed, of the $335 billion in the federal government's 2003 budget for asset development, over a third goes to the wealthiest 1%, while less than 5% goes to the bottom 60% (Woo, Schweke, and Buchholz 2004).

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All asset development efforts for low-income groups require that participants engage in the financial services infrastructure as active and informed consumers (Bell and Lerman 2005; SEDI 2004). Financial education has become a core asset development strategy for poor families, traditionally as part of Individual Development Account (IDA) programs (Baker and Dylla 2007; Clancy, Grinstein-Weiss, and Schreiner 2001; Parrish and Servon 2006). Conceived as a way to incentivize saving for an asset, IDA programs provide a savings account and matched funds – typically at a ratio of 3:1 or 4:1 – to accelerate the savings of low-income households toward an asset, typically a home, a small business, or postsecondary education (Michael Sherraden 1991).

The IDA research demonstrates that financial education can work iteratively with a matched savings account and other institutional supports to assist poor adults to save and acquire an asset. However it remains unclear how to best to combine financial education with saving accounts and other opportunities to maximize positive outcomes (Clancy, Grinstein-Weiss, and Schreiner 2001; Baker and Dylla 2007). Further, for IDA programs, saving is only an intermediate step towards asset development: achieving sustainable homeownership, starting a profitable small business, pursuing a higher education, or investing in a retirement accounts.[2] Given the range of psychological, sociological, and economic factors that influence the financial decisions and behaviors of low-income families (Beverly et al. 2008; Mullainathan and Thaler 2000); the limited evidence that financial education results in long-term behavior change (Financial Literacy and Education Commission 2008; Angela C Lyons et al. 2006); and the continued decline in the economic security of the very communities that IDA programs target (CFED 2008; Wheary et al. 2009); this dissertation asks the following, secondary research questions:

[2] I prefer the term *asset development* over *asset building* because development denotes a

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1. Do financial education programs promote positive changes in financial behaviors and outcomes?
2. What program components promote or inhibit changes and how do they do so?
3. What are the potential and limits of financial literacy and education as an asset development strategy?
4. How can financial education be designed and delivered in combination with other programs and policies to maximize its potential while accounting for its limits?

Overview of Chapters 2-5

Chapter 2 integrates several theoretical frameworks with the empirical research in order to begin organizing a systematic critique of the dominant model financial literacy and education, with a particular focus on adult financial education programs that have an asset development agenda.

Chapter 3 describes the Community-Based Participatory Research (CBPR) methodology utilized for this research, and explains how it was operationalized over the course of a four-year collaborative research and policy project called the Asset Formation Initiative.

Chapter 4 presents, analyzes, and interprets the data. This chapter is organized around the core finding that the IDA monthly meeting serves as a saving club that provides sustained, experiential financial education. Chapter 4 then holds the saving club model back up against the systematic critique developed in Chapter 2, discussing how the saving club has the potential to resolve and transcend some of the limitations of the short-term,

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stand-alone model of financial education.

Chapter 5 proposes recommendations for practice and research around democratizing saving clubs so as to increase accountability and commitment through peer pressure and social capital, and to ground the clubs within an empowering education-CBPR methodology. The dissertation concludes with a discussion of financial literacy and education as a social policy.

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Chapter 2: The Potential and Limits of Financial Literacy and Education

A Constructive Critique of the Dominant Model

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The purpose of this chapter is to organize a constructive critique of financial literacy and education research, practice, and policy, with a particular emphasis on the dominant model of adult financial education programs that have an anti-poverty, asset development agenda. The critique will provide the context for the case that is the focus of this dissertation: financial education and saving clubs in IDA programs at community action agencies in Massachusetts.

The critique attempts to integrate the empirical research with the following theoretical frameworks:

- Financial Capability
- Adult Education
- Experiential Education
- Empowering Education
- Behavioral Economics
- Transtheoretical Model of Behavior Change

Each one of these theoretical frameworks bolsters and expands the critique of the dominant model of financial literacy and education, logically laying out the argument that

a more evidence-based, effective, and robust model of financial education can and needs to be developed. Further, by identifying the potential and limits of the dominant model of financial literacy and education, these theoretical frameworks set up the case of IDA programs as an alternative approach to financial education that can expand the critique and suggest improvements to practice, research, and policy.

By organizing a constructive critique, this chapter establishes an integrated theoretical framework with which to analyze my core finding: that the IDA monthly meeting serves as a saving club that provides sustained, experiential financial education.

The chapter begins with a discussion of literacy – its evolving conceptualization, how we attempt to instill and inculcate literacy, and the nature of literacy's relationship to social and economic development. The theory and evidence demonstrate that, because financial literacy is a social and context-dependent practice, its development and benefits derive through personal experience and interaction with opportunities and institutions in the external environment. This launches the critique of the dominant model of financial literacy and education. Financial education in IDA programs is framed as an alternative approach that holds potential to expand the chapter's critique. I then review the theory and evidence on financial education in IDA programs, setting up the research design. The chapter concludes with a discussion of the potential of community action agencies to provide financial education and IDA programs as an asset development strategy.

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Literacy and its Benefits

Financial literacy is an active and social practice, not an abstract set of knowledge or information. Its development and benefits derive through its use, and through interaction with opportunities and institutions in the external environment. This section grounds the discussion of financial literacy in an understanding of the evolving concept of literacy as a tool for economic development and poverty alleviation.

The United Nations Educational, Scientific and Cultural Organization (UNESCO) defines literacy as

> The ability to identify, understand, interpret, create, communicate, compute and use printed and written materials associated with varying contexts. Literacy involves a continuum of learning in enabling individuals to achieve their goals, to develop their knowledge and potential, and to participate fully in their community and wider society. (UNESCO 2004)

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In a position paper inaugurating the United Nations Literacy Decade (2003-2010), UNESCO (2004) traces the evolving concept of literacy in terms of human rights, poverty, and economic development. Starting in the mid-1960s, we began to evolve beyond a simple conceptualization of literacy as a set of technical skills to acquire "irrespective of the contents and methods of their provision" (UNESCO 2004, 8). The paper explains

> This conception [of literacy as technical skills] led to mass literacy campaigns aimed at the "eradication of illiteracy" within a few years. Contrary to their intention, such campaigns – whose influence is still felt – revealed that *literacy cannot be sustained by short-term operations or by top-down and unisectoral actions primarily directed towards the acquisition of technical skills that do not give due consideration to the*